Week #9 Worksheet – Uses of GDP Data ~ Cost of Inflation

1. During the expansionary phase of the business cycle, economic activity is necessarily
   a. low but rising.
   b. high.
   c. low.
   d. rising.
   e. high but falling.

2. Unemployment rises in ___________ and declines in ___________.
   a. recessions, recessions
   b. expansions, recessions
   c. expansions, expansions.
   d. recessions, expansions

3. If actual real GDP exceeds potential real GDP
   a. the natural unemployment exceeds the actual unemployment.
   b. cyclical unemployment exceeds the natural unemployment.
   c. the natural unemployment is less than the actual unemployment.
   d. the sum of frictional and cyclical unemployment must exceed structural unemployment.

4. A recovery must occur after
   a. a peak in business cycle.
   b. an expansion.
   c. a period of rising prices.
   d. a recession.

5. A sharp, unanticipated increase in inflation will tend to
   a. redistribute income from workers to employers.
   b. redistribute income from employers to workers.
   c. benefit consumers at the expense of sellers.
   d. redistribute wealth from debtors to creditors.

6. Given the nominal interest rate on a loan, inflation will
   a. increase the burden of paying off the loan.
   b. decrease the real value of the outstanding balance.
   c. make the lender better off.
   d. decrease the nominal value of the outstanding balance.

7. Suppose the consumer price index (CPI) in 1983 was 100. In 1994, the CPI was 130. In 1994, a bank teller's annual salary was $20,000. The same job paid $18,000 in 1983. After adjusting for inflation, the real salary of bank tellers
   a. remained the same between 1983 and 1994.
   b. increased between 1983 and 1994.
   c. increased by more than the rate of inflation.
   d. decreased between 1983 and 1994.

8. John's 1994 salary was $30,000 per year. The CPI in 1994 was 150, based on prices prevailing in the 1982-1983 base year period. Which of the following is true?

- **a.** John's real salary in base year dollars was also $30,000.
- **b.** John's 1994 salary purchased fewer goods and services than could have been purchased with a $20,000 annual salary during the 1982-1983 base year period.
- **c.** John's real salary in base year dollars was $45,000.
- **d.** John's 1994 salary purchased the same amount of goods and services than could have been purchased with a $20,000 annual salary during the 1982-83 base year period.

9. If the CPI was 147.3 in 1995 and 143.8 in 1994, what was the rate of inflation between 1994 and 1995?

- **a.** 3.7%
- **b.** 0.432%
- **c.** 0.024%
- **d.** 2.43%
- **e.** 0.24%

10. The CPI is calculated by

- **a.** surveying a group of consumers and asking them about their monthly expenditures on necessities.
- **b.** multiplying the rate of inflation in the economy by the unemployment rate.
- **c.** summing the prices of all consumption goods in the economy.
- **d.** pricing a basket of goods and services purchased by a typical urban household.

11. If nominal GDP is rising faster than real GDP,

- **a.** the economy is experiencing pure inflation.
- **b.** the GDP deflator will be decreasing.
- **c.** the GDP deflator will be increasing.
- **d.** None of the above

12. Assume the current value of the consumer price index (CPI) is 150. Average family income, in current dollars, is $30,000 per year. If average real family income hasn't increased since the base year of 1983, then average family income in 1983 was

- **a.** $10,000
- **b.** $15,000
- **c.** $30,000
- **d.** $20,000

13. If the U.S. economy is at full employment then which of the following is true?

- **a.** The unemployment rate is zero
- **b.** The Unemployment rate is equal to the natural rate of unemployment
- **c.** Equilibrium real GDP is equal to potential real GDP
- **d.** Both B and C