

Week #9 Worksheet Solutions – 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?
- John's real salary in base year dollars was also \$30,000.
 - 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.
 - John's real salary in base year dollars was \$45,000.
 - 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?
- 3.7%
 - 0.432%
 - 0.024%
 - 2.43%
 - 0.24%
10. The CPI is calculated by
- surveying a group of consumers and asking them about their monthly expenditures on necessities.
 - multiplying the rate of inflation in the economy by the unemployment rate.
 - summing the prices of all consumption goods in the economy.
 - pricing a basket of goods and services purchased by a typical urban household.
11. If nominal GDP is rising faster than real GDP,
- the economy is experiencing pure inflation.
 - the GDP deflator will be decreasing.
 - the GDP deflator will be increasing.
 - 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
- \$10,000
 - \$15,000
 - \$30,000
 - \$20,000
13. If the U.S. economy is at full employment then which of the following is true?
- The unemployment rate is zero
 - The Unemployment rate is equal to the natural rate of unemployment
 - Equilibrium real GDP is equal to potential real GDP
 - Both B and C