Instructions:

This is the on-line Multiple Choice Quiz for Chapter 5. Please do the following:

Step 1: Go to the special codes section on your score sheet

- Write your section number (4) under the letter K. Also fill out the appropriate bubble corresponding to your section number in column K.
- Go to the columns O and P. Enter for this chapter, 0 in the O column, and 5 in the P column. Also fill out the appropriate bubbles below in columns O and P.

Step 2: Enter your university identification number using numbers and corresponding bubbles.

Step 3: Enter your name, using letters and corresponding bubbles.

Step 4: Answer all 35 questions.

Step 5: Check the important dates link on the class home page for the availability and closing dates for the successive on-line multiple choice quizzes.

Step 6: Hand in your score sheets in class, to your TA’s or to myself, in class, or outside my office, Heady Hall 281, no later than the posted closing date and hour (5 p.m.)

We will use the following grading scale:

- A = 35, 34, 33, 32, 31, 30
- B = 29, 28, 27, 26, 25, 24
- C = 23, 22, 21, 20, 19, 18
- D = 17, 16, 15, 14, 13, 12
- F = less than 12

Note: All MC quizzes will be discussed in detail in class prior to the posted Friday 5 p.m. closing date and hour. Bring your printed test and score sheet to that class session for that purpose.

Reminder: do not forget to take the Chapter 5 on line Aplia quiz on time, i.e. by 5 p.m. Fridays.
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) The term "business cycle" most closely refers to the
   A) alternating periods of expansions and recessions.        B) accounting period used by firms.
   C) fluctuating profits of firms.                          D) fiscal year.

2) The four parts of the business cycle occur in the following order:
   A) expansion, trough, peak, recession.                    B) recession, trough, expansion, peak.
   C) recession, trough, peak, expansion.                    D) expansion, trough, recession, peak.

3) A recession is a time with
   A) a decrease in the unemployment rate.                   B) a decrease in the level of total production.
   C) a decline in the price level.                          D) a decline in interest rates.

4) A recession is popularly defined as
   A) no change in the dollar (money value of economic output over a period of time.
   B) no change in real GDP over a period of time.
   C) at least 6 months during which real GDP decreases.
   D) an increase in real economic output from one period to the next.

5) During a recession, real GDP _______ and unemployment _______.
   A) increases; decreases                                  B) decreases; increases
   C) increases; increases                                   D) decreases; decreases
6) In the above figure, the distance between points S and T represents
   A) a peak.  B) an expansion.  C) a recession.  D) a trough.

7) In the above figure, the letters A, B, and C represent which positions in the business cycle?
   A) recession, expansion, and peak, respectively
   B) expansion, peak, and recession, respectively
   C) peak, expansion, and recession, respectively
   D) peak, recession, and expansion, respectively

8) All people in the working-age population can be divided into
   A) either over-employed or under-employed.
   B) potential employees.
   C) employed, unemployed, or not in the labor force.
   D) labor force participants.
9) The ________ is the total number of people aged 16 years and older (and not in jail, hospital or institutional care while the ________ is the number of people employed and the unemployed.
   A) working-age population; labor force
   B) working-age population; labor force participation rate
   C) labor force; working-age population
   D) labor force participation rate; labor force

10) The labor force includes
   A) discouraged workers.                              B) only the number of people unemployed.
   C) both employed and unemployed workers.            D) only the number of people employed.

11) Which of the following best fits the definition of unemployed?
   A) retired and not working                            B) not working and not looking for work
   C) not working but looking for a job                  D) working less than a full work week

12) The unemployment rate equals 100 times
   A) (the number of unemployed workers)/(the civilian population).
   B) (the number of unemployed workers)/(the U.S. population older than 16 years of age).
   C) (the number of unemployed workers)/(the number of employed + unemployed workers).
   D) (the number of unemployed + employed workers)/(U.S. population older than 16 years of age).

13) In the U.S. in 1996, the population was 265.5 million and the working age population was 200.6 million. There were 133.9 million people in the labor force and 126.7 of them were considered employed. The unemployment rate equalled ________.
   A) 3.6 percent                                      B) 33 percent
   C) 5.4 percent                                      D) 7.2 percent

14) Which of the following pieces of information do you need to calculate the labor force participation rate?
   I. the number of employed persons
   II. the number of unemployed persons
   III. the population
   IV. the working age population
   A) I and III                                         B) I, II and III
   C) I, II and IV                                      D) I and II

15) In the United States, over the past 30 years, the labor force participation rate has ________ for males and ________ for females.
    A) increased; increased                            B) decreased; decreased
    C) decreased; increased                            D) increased; decreased

16) Discouraged workers are
    A) considered unemployed because they are not working.
    B) considered unemployed because they are still in the labor force.
    C) not considered unemployed because they are not actively seeking work.
    D) not considered unemployed because they are not qualified to work.
17) Including discouraged workers in the calculation of the unemployment rate would
A) change the reported rate, but in an unpredictable manner.
B) lower the reported rate.
C) not change the reported rate.
D) increase the reported rate.

18) When an individual who has not been working but has been looking for work decides to terminate the search process, the official unemployment rate
A) will remain unchanged.
B) will rise.
C) will fall.
D) may fall or rise depending on whether or not the individual resumes his education.

19) The employment-to-population ratio equals
A) \((\text{number of people employed})/(\text{working-age population}) \times 100\).
B) \((\text{number of people with full-time jobs})/(\text{labor force}) \times 100\).
C) \((\text{labor force})/(\text{working-age population}) \times 100\).
D) \((\text{number of people employed})/(\text{labor force}) \times 100\).

20) The employment-to-population ratio
A) falls during a recession.
B) has increased over the past 30 years.
C) shows that the U.S. economy has created jobs at a faster rate than the working-age population has grown.
D) All of the above answers are correct.

21) Which of the following is TRUE regarding the number of hours worked in the economy?
I. Since 1960, aggregate hours in the U.S. have increased.
II. Since 1960, average hours per worker have increased.
III. Fluctuations in aggregate hours vary directly with the business cycle, so that they rise during an expansion and fall during a recession.
A) I and III
B) II and III
C) I and II
D) I, II and III

22) Which of the following is TRUE regarding the behavior of the average hourly real wage?
I. Since 1961, the average hourly real wage has increased regardless of the measure used.
II. Since 1961, the average hourly real wage might or might not have increased, depending on the measure used.
III. No matter the measure used, growth in the average hourly real wage rate slowed in the 1970s.
A) I only
B) III only
C) II and III
D) I and III

23) Suppose the money wage rate increases from $10 to $12. If nothing else changes,
A) the real wage increases.
B) the real wage decreases.
C) the quantity of goods and services that an hour of work can buy increases.
D) Both answers A and C are correct.
24) Frictional unemployment is
   A) unemployment associated with declining industries.
   B) long-term unemployment.
   C) unemployment associated with the changing of jobs in a changing economy.
   D) unemployment associated with business cycle recessions.

25) Structural unemployment is
   A) associated with the changing of jobs in a dynamic economy.
   B) associated with changes in technology that change required job skills.
   C) associated with general downturns in the economy.
   D) very short-term unemployment.

26) Unemployment that is the result of recessions is called
   A) cyclical unemployment.          B) frictional unemployment.
   C) downtime unemployment.         D) structural unemployment.

27) Which of the following statements about cyclical unemployment is FALSE?
   A) Cyclical unemployment exists when actual GDP is less than potential GDP.
   B) Cyclical unemployment can be negative when actual GDP exceeds potential GDP.
   C) When there is unemployment in excess of frictional and structural unemployment, it is cyclical unemployment.
   D) None of the above because all the statements are true.

28) The economy is at full employment when
   A) there are more unemployed workers than vacancies.
   B) all unemployment is frictional or structural.
   C) there are no unemployed workers.
   D) All unemployment is cyclical.

29) An estimate of the current natural rate of unemployment is approximately
   A) 1–2 percent.      B) 0 percent.          C) 4–6 percent.      D) 10–12 percent.

30) In any year, real GDP
   A) might be greater or less than potential GDP.
   B) must always be less than potential GDP.
   C) always equals potential GDP.
   D) will always be greater than potential GDP because of the tendency of nations to incur inflation.

31) Cyclical unemployment exists when
   A) real GDP is less than potential GDP.
   B) real GDP exceeds potential GDP.
   C) frictional and structural unemployment is zero.
   D) real national income exceeds potential income.
<table>
<thead>
<tr>
<th>Market basket</th>
<th>2001 price</th>
<th>2002 price</th>
</tr>
</thead>
<tbody>
<tr>
<td>quantity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDs</td>
<td>10 discs</td>
<td>$16 per disc</td>
</tr>
<tr>
<td>Gasoline</td>
<td>200 gallons</td>
<td>$1.00 per gallon</td>
</tr>
</tbody>
</table>

32) If 2001 is the reference base period, what is the price index for a market basket of goods for 2002 in the above table?
   A) 102.8
   B) 97.3
   C) 128.0
   D) Zero because the price of CDs fell and the price of gasoline increased.

33) If the CPI in 2003 is 220 and is 200 in 2002, the annual inflation rate between the two years is
   A) 5 percent.
   B) 20 percent.
   C) 10 percent.
   D) 2 percent.

34) The bias in the CPI is one that
   A) cannot be measured or estimated.
   B) understates inflation.
   C) overstates inflation.
   D) about half the time overstates and about half the time understates the inflation rate.

35) The currently used method for calculating the CPI
   A) probably overstates inflation by about 1 percentage point.
   B) can result in government expenditures to be higher than otherwise.
   C) fails to account for people increasing consumption of a good that falls in relative price.
   D) All of the above answers are correct.