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 (1 or 3) under the letter K. Also fill out the appropriate bubble corresponding to your section number in column K.
- Go to the columns 0 and P. Enter for this chapter, 0 in the 0 column, and 5 in the P column. Also fill out the appropriate bubbles below in columns 0 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
* = 29, 28, 27, 26, 25, 24
C = 23, 22, 21, 20, 19, 18
* = 17, 16, 15, 14, 13, 12
F = less than 12

Note: All MC quizzes will be discussed in detail in class for each section (1 or 3) 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.
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) A business cycle is the
   A) cyclical change in the nation's balance of trade.
   B) increase in consumer spending that accompanies an increase in disposable income.
   C) pattern of short-run upward and downward movements in production and jobs.
   D) cyclical movement in the interest rates.

2) A popular working definition of a recession is a period with
   A) positive growth rate in real GDP that lasts at least one quarter.
   B) negative growth rate in real GDP that lasts at least one quarter.
   C) negative growth rate in real GDP that lasts at least two quarters.
   D) positive growth rate in real GDP that lasts at least two quarters.

3) A trough is the
   A) upper turning point of a business cycle when a recession begins.
   B) upper turning point of a business cycle when an expansion begins.
   C) lower turning point of a business cycle when an expansion begins.
   D) lower turning point of a business cycle when a recession begins.

4) An expansion occurs when production of goods and services is
   A) decreasing.   B) at a cyclical trough.   C) increasing.   D) at a cyclical peak.

5) Recessions
   A) begin at the trough of the business cycle.
   B) end at the peak of the business cycle.
   C) are an economy-wide decrease in the level of economic activity.
   D) have not occurred in the United States after 1963.
6) In the above figure, a recession begins at point \( \text{d} \) and an expansion begins at point \( \text{c} \).

A) \( d; c \)  
B) \( b; c \)  
C) \( a; b \)  
D) \( b; a \)

7) The working-age population is defined as the number of
   A) people who have a job.
   B) people looking for work.
   C) people working full-time jobs who are over the age of 16.
   D) people over the age of 16 who are not in jail, hospital, or other institution.

8) Suppose the working age population in Tiny Town is 100 people. If 25 of these people are NOT in the labor force, the equals \( \frac{25}{100} \times 100 \).

A) unemployment rate; \( \frac{25}{100} \times 100 \)  
B) labor force; \( \frac{25}{100} \times 100 \)  
C) labor force; 75  
D) unemployment rate; \( \frac{25}{125} \times 100 \)

9) The labor force is defined as the number of people who
   A) would like to have a full-time job but are working part-time.
   B) are employed plus the number of people who are unemployed.
   C) are available and looking for work but are unable to find employment.
   D) would like to have a job but have stopped seeking work.

10) Which of the following people is NOT considered unemployed in the Current Population Survey?
    A) The person has just finished school and has entered the labor force to look for work.
    B) The person is discouraged about finding a job and so does not search for work.
    C) The person has been laid off and is looking for a new job.
    D) The person is looking for work after not doing so for a time.
11) The unemployment rate equals
   A) \( \text{\text{\( (\text{labor force/working age population}) \times 100. \)}} \)
   B) \( \text{\text{\( (\text{number of people employed/number of people age 16 and over}) \times 100. \)}} \)
   C) \( \text{\text{\( (\text{number of people unemployed/labor force}) \times 100. \)}} \)
   D) \( \text{\text{\( (\text{number of people employed/working age population}) \times 100. \)}} \)

\[
\begin{array}{cccc}
\text{Total population} & \text{Currently employed} & \text{Not working and looking for work} & \text{Want to work but no longer looking for work} \\
\text{\( (\text{millions}) \)} & \text{\( (\text{millions}) \)} & \text{\( (\text{millions}) \)} & \text{\( (\text{millions}) \)} \\
80 & 40 & 2 & 4 \\
\end{array}
\]

12) In the table above, the size of the labor force is
   A) 40 million.  
   B) 80 million.  
   C) 42 million.  
   D) 46 million.

13) In the table above, the number of people officially unemployed is
   A) 40 million.  
   B) 4 million.  
   C) 6 million.  
   D) 2 million.

14) In the table above, the unemployment rate is
   A) 15 percent.  
   B) 5 percent.  
   C) 10 percent.  
   D) 50 percent.

15) Suppose the labor force in Tiny Town is 100 people. If the population in Tiny Town is 150 people, the labor force participation rate equals 100 times
   A) number of employed persons; 100 / 250  
   B) number of employed persons; 100/150  
   C) working age population; 100 / 150  
   D) working age population; 100 / 250

16) Over the last 30 years, the labor force participation rates of men
   A) decreased and the labor force participation rates of women increased.  
   B) increased and the labor force participation rates of women decreased.  
   C) decreased and the labor force participation rates of women decreased.  
   D) increased and the labor force participation rates of women increased.

17) Which labor market statistic tends to rise during recessions and fall during expansions?
   A) the labor-force participation rate  
   B) the unemployment rate  
   C) the employment-to-population ratio  
   D) aggregate hours

<table>
<thead>
<tr>
<th>Category</th>
<th>Number (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discouraged workers</td>
<td>15</td>
</tr>
<tr>
<td>Unemployed workers</td>
<td>40</td>
</tr>
<tr>
<td>Employed workers</td>
<td>100</td>
</tr>
<tr>
<td>Population (16 years and over)</td>
<td>225</td>
</tr>
</tbody>
</table>

18) In the above table, the working age population is
   A) 155 million.  
   B) 225 million.  
   C) 140 million.  
   D) 100 million.

19) In the above table, the size of the labor force is
   A) 140 million.  
   B) 155 million.  
   C) 100 million.  
   D) 210 million.
20) In the above table, the unemployment rate is
   A) 18 percent.  
   B) 29 percent.  
   C) 24 percent.  
   D) 6 percent. 

21) In the above table, the labor force participation rate is
   A) 62 percent.  
   B) 69 percent.  
   C) 55 percent.  
   D) 44 percent. 

22) In the above table, the employment-to-population ratio is
   A) 44 percent.  
   B) 62 percent.  
   C) 51 percent.  
   D) 42 percent. 

23) Aggregate hours
   A) are the total number of hours worked by people holding full-time jobs. 
   B) are the total number of hours worked by all people age 21 and over. 
   C) are the total number of hours worked by all people employed. 
   D) have decreased over the last thirty years. 

24) The money wage rate equals $10 per hour. If the price level rises and the money wage does not change,
   A) the quantity of goods and services that an hour of work can buy decreases. 
   B) the real wage decreases. 
   C) the real wage increases. 
   D) Both answers A and B are correct. 

25) Over the last 20 years, statistics show that real wages have grown slowly. This slowdown mainly reflects
   A) an increase in the labor force.  
   B) a decrease in the labor force.  
   C) slower productivity growth.  
   D) a decrease in the unemployment rate. 

26) Most unemployed people are unemployed because they are
   A) job losers.  
   B) new entrants into the labor force.  
   C) job leavers.  
   D) reentrants into the labor force. 

27) Which of the following groups has the lowest unemployment rate?
   A) white teenagers  
   B) Whites, 20 years of age or older 
   C) Blacks, 20 years of age or older  
   D) black teenagers 

28) Suppose the country of Tiny Town experienced frictional unemployment. This frictional unemployment would
   A) definitely signal that the country is in a recession. 
   B) signal that the number of discouraged workers is growing. 
   C) signal that there are more job leavers than job losers. 
   D) be considered a natural occurrence in a growing economy. 

29) Structural unemployment is the result of
   A) a slowdown in the rate of economic expansion.  
   B) technological change or foreign competition.  
   C) normal labor market turnover.  
   D) irresponsible workers with poor work habits.
30) Cyclical unemployment
   A) decreases during economic expansions.
   B) is the major part of natural rate of unemployment.
   C) rises as a result of increased international competition.
   D) falls when unemployment compensation payments are increased.

31) Full employment occurs when
   A) frictional unemployment is zero.
   B) cyclical unemployment is zero.
   C) cyclical and frictional unemployment are zero.
   D) structural unemployment is zero.

32) The consumer price index (CPI)
   A) measures the increase in the prices of the goods included in GDP.
   B) compares the cost in the current period to the cost in a reference base period of a basket of goods typically consumed in the base period.
   C) compares the cost of the typical basket of goods consumed in period 1 to the cost of a basket of goods typically consumed in period 2.
   D) is the ratio of the average price of a typical market basket of goods to the cost of producing those goods.

<table>
<thead>
<tr>
<th>Period</th>
<th>Price index</th>
<th>Inflation rate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>117</td>
<td>A</td>
</tr>
<tr>
<td>3</td>
<td>125</td>
<td>B</td>
</tr>
<tr>
<td>4</td>
<td>120</td>
<td>C</td>
</tr>
<tr>
<td>5</td>
<td>D</td>
<td>8.3</td>
</tr>
<tr>
<td>6</td>
<td>150</td>
<td>E</td>
</tr>
</tbody>
</table>

33) In the table above, what inflation rate belongs in space B?
   A) 8.3 percent  B) 6.8 percent  C) -4.0 percent  D) 17.0 percent

34) In the table above, what price level belongs in space D?
   A) 140  B) 125  C) 130  D) 145

35) Substitution bias in the CPI refers to the fact that the CPI
   A) substitutes relative prices for absolute prices of goods.
   B) takes no account of the substitution of goods by consumers when relative prices change.
   C) substitutes quality changes whenever they occur without taking account of the cost of the quality changes.
   D) takes into account the substitution of goods by consumers when relative prices change.