

Unit 2 Practice Questions – Actual questions from previous years....

2. Which of the following groups would most likely gain from unanticipated inflation?

- (A) Landlords who own apartments in cities with rent controls
- (B) Individuals who have fixed retirement incomes
- (C) Individuals who earn high incomes
- (D) Individuals who have borrowed money at fixed interest rates
- (E) Banks that have loaned all excess reserves at a fixed interest rate

17. Which of the following will be counted as unemployed by the United States Bureau of Labor Statistics?

- (A) Persons who quit their previous jobs to stay at home to care for sick parents
- (B) Persons who were laid off from their previous jobs and have not applied for a job in two years
- (C) Persons who were fired from their previous jobs and are actively applying for work
- (D) Persons who have given up looking for jobs after long searches
- (E) Persons who quit their previous jobs to start their own businesses

21. When the average price level increases by 10 percent in a given year, which of the following must increase by 10 percent for real output to remain constant?

- (A) Real national income
- (B) Nominal national income
- (C) The international value of the currency
- (D) Real interest rates
- (E) Nominal interest rates

28. Assume that the nominal interest rate is 10 percent. If the expected inflation rate is 5 percent, the real interest rate is

- (A) 0.5%
- (B) 2%
- (C) 5%
- (D) 10%
- (E) 15%

29. Which of the following will lead to an increase in the United States gross domestic product?

- (A) More individuals prepare their own personal income tax forms.
- (B) Some citizens begin working abroad as computer programmers.
- (C) The government prohibits the sale of alcoholic beverages.
- (D) Foreign companies build new assembly plants in the United States.
- (E) A million United States households sell their used cars to their children.

37. Which type of unemployment would increase if workers lost their jobs because of a recession?

- (A) Cyclical
- (B) Frictional
- (C) Seasonal
- (D) Search
- (E) Structural

41. In one year, spending on consumption, investment, and government purchases was equal to 103 percent of a country's gross domestic product. This would be possible only if

- (A) the money supply increased
- (B) net exports were positive
- (C) net exports were negative
- (D) the government ran a budget surplus
- (E) the government had a balanced budget

Labor Market Data for Country X  
(in millions of persons)

|                    |     |
|--------------------|-----|
| Population         | 180 |
| Employed           | 94  |
| Unemployed         | 6   |
| Not in labor force | 80  |

→ labor force

46. Based on the information in the table above, what is the unemployment rate for Country X?

- (A) 3.3%
- (B) 4.0%
- (C) 6.0%
- (D) 6.38%
- (E) 7.5%

56. Which of the following household purchases will be counted as part of gross private investment in a country's gross domestic product?

- (A) Government bonds
- (B) Shares of a company stock
- (C) Corporate bonds
- (D) A new car for personal use
- (E) A newly constructed home — Capital, new housing, and inventory counts as I

1. A country's government runs a budget deficit when which of the following occurs in a given year?

- (A) The amount of new loans to developing nations exceeds the amount of loans paid off by developing nations.
- (B) Government spending exceeds tax revenues.
- (C) The debt owed to foreigners exceeds the debt owed to the country's citizens.
- (D) The amount borrowed exceeds the interest payment on the national debt.
- (E) Interest payments on the national debt exceed spending on goods and services.

9. The official unemployment rate understates the unemployment level in the economy because the official unemployment rate

- (A) ignores the duration of unemployment
- (B) ignores underemployed and discouraged workers
- (C) includes jobs created by the underground economy
- (D) excludes all unemployed teenagers
- (E) excludes frictionally unemployed workers

27. Which of the following individuals is considered officially unemployed?

- (A) Chris, who has not worked for more than three years and has given up looking for work
- (B) Kim, who is going to school full-time and is waiting until graduation before looking for a job
- (C) Pat, who recently left a job to look for a different job in another town *Frictional*
- (D) Leslie, who retired after turning 65 only five months ago
- (E) Lee, who is working 20 hours per week and is seeking full-time employment

34. Which of the following statements is true of unanticipated inflation?

- (A) It decreases the economic well-being of all members of society proportionately.
- (B) It decreases the economic well-being of all members of society equally.
- (C) It increases the economic well-being of net creditors.
- (D) It increases the economic well-being of net debtors.
- (E) It increases the economic well-being of workers with long-term labor contracts.

National economic  
Figures  
(billions of dollars)

|  |          |
|--|----------|
| Consumption                                | \$ 3,000 |
| Government purchases of goods and services | 1,000    |
| Gross private domestic investment          | 700      |
| Depreciation                               | 300      |
| Exports                                    | 300      |
| Imports                                    | 500      |
| Indirect business taxes                    | 0        |

32. Based on the economic figures in the table above, what is the value of gross domestic product, in billions of dollars?

- (A) \$4,500
- (B) \$4,700
- (C) \$4,900
- (D) \$5,150
- (E) \$5,950

41. The consumer price index (CPI) is designed to measure changes in the

- (A) spending patterns of urban consumers only
- (B) spending patterns of all consumers
- (C) wholesale price of manufactured goods
- (D) prices of all goods and services produced in an economy
- (E) cost of a select market basket of goods and services

4. An increase in which of the following would most likely cause the gross domestic product of a country to decrease in the short run?

- (A) Government spending
- (B) Imports
- (C) Money supply
- (D) Consumption spending by households
- (E) Investment spending by domestic firms

14. The unemployment rate is calculated as the number of people

- (A) not working divided by the population
- (B) not working divided by the number of people working both full-time and part-time
- (C) working part-time but actively seeking full-time employment divided by the number of people in the labor force
- (D) not working but actively seeking employment divided by the number of people in the labor force
- (E) in the labor force divided by the population

→ L.F. Participation Rate

23. The value of which of the following would be included in the United States gross domestic product?

- (A) Time spent volunteering at a local hospital
- (B) A United States savings bond received as a birthday gift
- (C) A movie ticket purchased at a local theater
- (D) A new handbag made in Italy by a United States firm
- (E) A used car sold at the same price paid for it

25. When an economy is in equilibrium at potential gross domestic product, the actual unemployment rate is

- (A) equal to the cyclical rate
- (B) greater than the natural rate
- (C) less than the natural rate
- (D) equal to the natural rate
- (E) equal to zero

26. Structural unemployment is best described as unemployment arising from

- (A) the elimination of jobs as a result of technological change
- (B) an increase in the number of workers searching for better-paying jobs
- (C) an increase in the number of jobs demanding unskilled labor.
- (D) the temporary reduction of jobs during a downturn in the business cycle
- (E) the reduction in jobs due to seasonal changes in demand

29. The recent popularity of job search Web sites that enable job seekers and potential employers to more efficiently contact each other is most likely to cause

- (A) a reduction in the labor force participation rate
- (B) a reduction in structural, but not in frictional, unemployment rates
- (C) a reduction in the frictional unemployment rate
- (D) an increase in the overall unemployment rate
- (E) a reduction in cyclical, but not in frictional unemployment rates

| <u>Period</u> | <u>Real Gross Domestic Product</u> |             | <u>Nominal Gross Domestic Product</u> |
|---------------|------------------------------------|-------------|---------------------------------------|
| Year 1        | \$100 billion                      |             | \$70 billion                          |
| Year 2        | \$120 billion                      | - Base Year | \$120 billion                         |
| Year 3        | \$130 billion                      |             | \$150 billion                         |

36. Which of the following can be concluded from the data above?

- (A) The base year for the price index was year 1.
- (B) The base year for the price index was year 3.
- (C) The economy was producing higher-quality goods and services in years 2 and 3 than in year 1.
- (D) The economy was experiencing inflation during years 2 and 3.
- (E) The economy was experiencing deflation during years 1, 2, and 3.

39. The consumer price index (CPI) measures the

- (A) value of current gross domestic product in base-year dollars
- (B) prices of all consumer goods and services produced in the economy
- (C) prices of selected raw materials purchased by firms
- (D) prices of a specific group of goods and services purchased by consumers
- (E) prices of imports, but not exports

45. Which of the following represents a leakage from the circular flow in an economy?

- (A) Consumption spending
- (B) Government spending
- (C) Investment spending
- (D) Unemployment benefits
- (E) Imports