Pre-Test Chapter 7 ed17

Multiple Choice Questions

1. Real GDP per capita:
A. cannot grow more rapidly than real GDP.
B. cannot grow more slowly than real GDP.
C. necessarily grows more rapidly than real GDP.
D. can grow either more slowly or more rapidly than real GDP.

2. In which of the following industries or sectors of the economy is output likely to be most strongly affected by the business cycle?
A. military goods
B. capital goods
C. textile products
D. agricultural commodities

3. (Last Word) Declines in stock prices measured by the Dow Jones average:
A. are a major cause of recessions.
B. usually reduce saving and increase consumption spending.
C. usually increase investment and reduce net exports.
D. sometimes precede recessions; sometimes do not.

4. If the U.S. unemployment rate is 9 percent, we can infer that:
A. the economy is in the expansion phase of the business cycle.
B. potential GDP is in excess of actual GDP.
C. actual GDP is in excess of potential GDP.
D. actual GDP is equal to potential GDP.

5. If Fred's annual real income rises by 8 percent each year, his annual real income will double in about:
A. 8-9 years.
B. 10-11 years.
C. 5-6 years.
D. 19-20 years.

6. If a nation's real GDP is growing by 5 percent per year, its real GDP will double in approximately:
A. 22 years.
B. 20 years.
C. 14 years.
D. 8 years.
7. Cost-of-living adjustment clauses (COLAs):
A. invalidate the "rule of 70."
B. apply only to demand-pull inflation.
C. increase the gap between nominal and real income.
D. tie wage increases to changes in the price level.

8. In the United States, the rate of unemployment is highest for:
A. white teenagers.
B. African-American teenagers.
C. married women.
D. unmarried women.

9. About ________ of U.S. economic growth comes from improved productivity (as opposed to added inputs).
A. one-fourth.
B. one-third.
C. one-half.
D. two-thirds.

10. Cyclical unemployment results from:
A. a deficiency of aggregate spending.
B. the decreasing relative importance of goods and the increasing relative importance of services in the U.S. economy.
C. the everyday dynamics of a free labor market.
D. technological change.

11. Between 1950 and 2002, U.S. real GDP grew at an average annual rate of about:
A. 1.3 percent.
B. 3.4 percent.
C. 5.1 percent.
D. 8.6 percent.

12. A large negative GDP gap implies:
A. an excess of imports over exports.
B. a low rate of unemployment.
C. a high rate of unemployment.
D. a sharply rising price level.

13. Mild demand-pull inflation:
A. raises the natural rate of unemployment.
B. usually leads to hyperinflation.
C. has an uncertain effect on real output.
D. decreases the natural rate of unemployment.
14. Growth is advantageous to a nation because it:
A. promotes faster population growth.
B. lessens the burden of scarcity.
C. eliminates the economizing problem.
D. slows the growth of wants.

15. If the Consumer Price index rises from 300 to 333 in a particular year, the rate of inflation in that year is:
A. 11 percent.
B. 33 percent.
C. 91 percent.
D. 10 percent.

16. If actual GDP is less than potential GDP:
A. potential GDP will fall.
B. the price level will rise.
C. investment spending will fall.
D. the actual unemployment rate will be higher than the natural unemployment rate.

17. Which of the following formulas is correct? Percentage change in:
A. price level approximates percentage change in real income minus percentage change in nominal income.
B. real income approximates percentage change in nominal income minus percentage change in price level.
C. nominal income approximates percentage change in price level minus percentage change in real income.
D. real income approximates percentage change in price level minus percentage change in nominal income.

18. Recurring upswings and downswings in an economy's real GDP over time are called:
A. recessions.
B. business cycles.
C. output yo-yos.
D. total product oscillations.

19. The relationship between the size of the negative GDP gap and the unemployment rate is:
A. direct.
B. inverse.
C. undefined.
D. direct during recession, but inverse during expansion.

20. Which of the following is correct?
A. The unemployment rates of men and women workers are roughly the same.
B. Unemployment rates for African-American and white workers are approximately the same.
C. Teenagers experience approximately the same unemployment rates as do adults.
D. Laborers are less vulnerable to unemployment than are professional workers.
21. Real income is found by:
A. dividing nominal income by 70.
B. multiplying nominal income by 1.03.
C. dividing the price index (in hundredths) by nominal income.
D. dividing nominal income by the price index (in hundredths).

22. The unemployment rate is the:
A. ratio of unemployed to employed workers.
B. number of employed workers minus the number of workers who are not in the labor force.
C. percentage of the labor force that is unemployed.
D. percentage of the total population that is unemployed.

23. Suppose that a person's nominal income rises by 5 percent and the price level rises from 125 to 130. The person's real income will:
A. fall by about 1 percent.
B. remain constant.
C. rise by about 4 percent.
D. rise by about 1 percent.

24. The production of durable goods varies more than the production of nondurable goods because:
A. durables purchases are nonpostponable.
B. durables purchases are postponable.
C. the producers of nondurables have monopoly power.
D. producers of durables are highly competitive.

25. The government agency responsible for collecting and reporting unemployment data is the:
A. Bureau of Labor Statistics.
B. Bureau of Unemployment.
C. Bureau of Economic Analysis.
D. Bureau of Economic Research.

26. For a nation's real GDP per capita to rise during a year:
A. consumption spending must increase.
B. real GDP must increase more rapidly than population.
C. population must increase more rapidly than real GDP.
D. investment spending must increase.

27. In 2005 Tatum's nominal income rose by 4.6 percent and the price level rose by 1.6 percent. We can conclude that Tatum's real income:
A. may have either increased or decreased.
B. rose by 6.2 percent.
C. rose by 3 percent.
D. fell by 13 percent.
28. Which of the following best measures improvements in the standard of living of a nation?
A. growth of nominal GDP
B. growth of real GDP
C. growth of real GDP per capita
D. growth of national income

29. As it relates to economic growth, the term long-run trend refers to:
A. the long-run increase in the relative importance of durable goods in the U.S. economy.
B. the long-term expansion or contraction of business activity that occurs over 50 or 100 years.
C. fluctuations in business activity that average 40 months in duration.
D. fluctuations in business activity that occur around Christmas, Easter, and so forth.

30. Kara voluntarily quit her job as an insurance agent to return to school full-time to earn an MBA degree. With degree in hand she is now searching for a position in management. Kara presently is:
A. cyclically unemployed.
B. structurally unemployed.
C. frictionally unemployed.
D. not a member of the labor force.

Pre-Test Chapter 7 ed17 Key

1. D
2. B
3. D
4. B
5. A
6. C
7. D
8. B
9. D
10. A
11. B
12. C
13. C
14. B
15. A
16. D
17. B
18. B
19. A
20. A
21. D
22. C
23. D
24. B
25. A
26. B
27. C
28. C
29. B
30. C