

Principles of Macroeconomics

Homework 6

Instruction: Log in GeorgiaView and submit your answers

Multiple Choice

- _____ 1. The natural rate of unemployment is the
- unemployment rate that would prevail with zero inflation.
 - rate associated with the size of the labor force.
 - amount of unemployment that the economy normally experiences.
 - difference between the long-run and short-run unemployment rates.
- _____ 2. Cyclical unemployment refers to
- the relation between the probability of unemployment and a worker's changing level of experience.
 - how often a worker is likely to be employed during her lifetime.
 - long-term trends in unemployment.
 - fluctuations of unemployment around its natural rate.
- _____ 3. Meredith is looking for work as a computer programmer. Although her prospects are good she hasn't yet taken a job. John is looking for work in a steel mill, but there aren't many job ads for steel workers and every time he shows up for an interview, there are many more people than openings.
- Meredith and John are both frictionally unemployed.
 - Meredith is frictionally unemployed, and John is structurally unemployed.
 - Meredith and John are both structurally unemployed.
 - Meredith is structurally unemployed, and John is frictionally unemployed.
- _____ 4. Jack is a full-time unpaid homemaker not currently searching for other work. Jill is a full-time student who is not looking for a job. Who does the BLS count in the labor force?
- only Jill
 - only Jack
 - both Jack and Jill
 - neither Jack nor Jill
- _____ 5. Who of the following would be counted as unemployed according to official statistics?
- Karen, who worked only 35 hours last week
 - Mary, who is waiting for her new job to start next month
 - Shasta, who neither has a job nor is looking for one
 - None of the above would be counted as unemployed.
- _____ 6. Who would be included in the labor force?
- Maggie, who does not have a job, but is looking for work
 - Dakota, an unpaid homemaker not looking for other work
 - Brad, a full-time student not looking for work
 - None of the above is included in the labor force.
- _____ 7. Sarai is searching for a job that suits her tastes as to where to live and the people with whom she works. Edith is looking for a job that makes best use of her skills.
- Sarai and Edith are both frictionally unemployed.
 - Sarai and Edith are both structurally unemployed.
 - Sarai is frictionally unemployed, and Edith is structurally unemployed.
 - Sarai is structurally unemployed, and Edith is frictionally unemployed.

The data below shows people ages 16 and over in the imaginary country Coffeeland.

1. Not in the labor force = 85 million
2. Unemployed = 11 million
3. Employed = 170 million

- ___ 8. Refer to the data. What is the adult population in Coffeeland?
- a. 96 million
 - b. 181 million
 - c. 240 million
 - d. 266 million
- ___ 9. Refer to the data. What is the adult labor force in Coffeeland?
- a. 96 million
 - b. 181 million
 - c. 240 million
 - d. 266 million
- ___ 10. Refer to the data. What is the adult unemployment rate in Coffeeland?
- a. 6.08%
 - b. 6.25%
 - c. 11.11%
 - d. None of the above is correct.
- ___ 11. The CPI is a measure of the overall cost of
- a. inputs purchased by a typical producer.
 - b. stocks on the New York Stock Exchange.
 - c. goods and services bought by a typical consumer.
 - d. goods and services produced in the economy.
- ___ 12. The CPI is calculated
- a. quarterly by the Department of Commerce.
 - b. quarterly by the Bureau of Labor Statistics.
 - c. monthly by the Department of Commerce.
 - d. monthly by the Bureau of Labor Statistics.
- ___ 13. The steps involved in calculating the consumer price index, in order, are as follows:
- a. Choose a base year, fix the basket, compute the inflation rate, compute the basket's cost, and compute the index.
 - b. Fix the basket, find the prices, compute the basket's cost, choose a base year and compute the index.
 - c. Choose a base year, find the prices, fix the basket, compute the basket's cost, and compute the index.
 - d. Fix the basket, find the prices, compute the inflation rate, choose a base year and compute the index.

Table 6-2

Year	Price of pork	Price of corn
2005	\$20	\$12
2006	\$25	\$18

- ___ 14. **Refer to Table 6-2.** Suppose the basket of goods in the CPI consisted of 3 units of pork and 4 units of corn. What is the consumer price index for 2006 if the base year is 2005?

- a. 73.47
 - b. 109.22
 - c. 136.11
 - d. 150.00
- _____ 15. **Refer to Table 6-2.** Suppose the basket of goods in the CPI consisted of 3 units of pork and 4 units of corn. What is the inflation rate for 2006 if the base year is 2005?
- a. 21.33 percent
 - b. 25.00 percent
 - c. 28.89 percent
 - d. 36.11 percent
- _____ 16. The price index in 2006 is 120, and in 2007 it is 127.2. What is the inflation rate?
- a. 6.0 percent
 - b. 1.06 percent
 - c. 126.2 percent
 - d. The inflation rate is impossible to determine without knowing the base year.
- _____ 17. One of the widely-acknowledged problems with the consumer price index (CPI) as a measure of the cost of living is that the CPI
- a. fails to account for consumer spending on housing.
 - b. accounts only for consumer spending on food, clothing, and energy.
 - c. fails to account for the improvement of quality.
 - d. fails to account for the fact that consumers spend larger percentages of their incomes on some goods and smaller percentages of their incomes on other goods.
- _____ 18. To which of the problems in the construction of the CPI is the invention of the Apple Watch most relevant?
- a. substitution bias
 - b. income bias
 - c. unmeasured quality improvement
 - d. excluding new goods
- _____ 19. Samantha goes to the grocery store to make her monthly purchase of ginger ale. As she enters the soft drink section, she notices that the price of ginger ale has increased 15 percent, so she decides to buy some peppermint tea instead. To which problem in the construction of the CPI is this situation most relevant?
- a. introduction of new goods
 - b. substitution bias
 - c. unmeasured quality change
 - d. income effect
- _____ 20. Which of the following is what Phillip's curve describes as the relationship between inflation and unemployment?
- a. In the short run, falling inflation is associated with rising unemployment.
 - b. In the short run, falling inflation is associated with falling unemployment.
 - c. In the long run, falling inflation is associated with falling unemployment.
 - d. In the long run, falling inflation is associated with rising unemployment.