MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) The diagram above illustrates the pattern of:
   A) Wage movements over time
   B) Price level movements
   C) Economic growth patterns
   D) Business cycles

2) A peak in the business cycle:
   A) Is a temporary minimum point
   B) Occurs when the inflation rate is its lowest
   C) Is a temporary maximum point
   D) Occurs when the unemployment rate is its greatest

3) A trough in the business cycle occurs when:
   A) The natural rate of unemployment is at a minimum point
   B) Employment and output reach their lowest levels
   C) The inflation rate is at its lowest level
   D) Cyclical unemployment is at a minimum point

4) A recession is a decline in:
   A) The unemployment rate that lasts six months or longer
   B) Real GDP that lasts six months or longer
   C) Potential GDP that lasts six months or longer
   D) The inflation rate that lasts six months or longer

5) What has been the range for the duration in months of U.S. recessions between 1950 and 2009?
   A) 2 months to 5 months
   B) 6 months to 18 months
   C) 26 months to 30 months
   D) 19 months to 25 months
6) Most economists agree that the immediate cause of the majority of cyclical changes in the level of real output is unexpected changes in the:
   A) Level of total spending
   B) Rate of inflation
   C) Rate of unemployment
   D) Stock market price indexes

7) Which of the following is the correct way to calculate the unemployment rate?
   A) \[
   \left( \frac{\text{labor force}}{\text{population}} \right) \times 100
   \]
   B) \[
   \left( \frac{\text{unemployed}}{\text{labor force}} \right) \times 100
   \]
   C) \[
   \left( \frac{\text{unemployed}}{\text{population}} \right) \times 100
   \]
   D) \[
   \left( \frac{\text{labor force}}{\text{unemployed}} \right) \times 100
   \]

8) The unemployment rate in an economy is 6%. The total population of the economy is 290 million, and the size of the civilian labor force is 150 million. The number of unemployed workers in this economy is:
   A) 24 million
   B) 6 million
   C) 12 million
   D) 9 million

9) In calculating the unemployment rate, "discouraged" workers who are not actively seeking employment are:
   A) Excluded from the labor force
   B) Included as part of the unemployed
   C) Used to determine the size of the labor force
   D) Treated the same as part-time workers

10) A worker who loses a job at a call center because the company moved the call center operations to another country is an example of:
    A) Disguised unemployment
    B) Cyclical unemployment
    C) Structural unemployment
    D) Frictional unemployment

11) Search and wait unemployment is another way to describe:
    A) Frictional unemployment
    B) Noncyclical unemployment
    C) Cyclical unemployment
    D) Structural unemployment

12) "Full employment" refers to the situation when there is:
    A) 100% employment of the labor force
    B) 0% unemployment rate
    C) No cyclical unemployment
    D) No frictional or structural unemployment

13) The full-employment unemployment rate for the United States economy is now generally considered to be:
    A) 5 to 6 percent of the labor force
    B) 2 percent of the labor force
    C) 4 percent of the labor force
    D) 8 to 9 percent of the labor force

14) Potential GDP is the output that would be produced if the economy was experiencing:
    A) No inflation
    B) No unemployment
    C) Free markets and international trade
    D) Full employment
15) If the GDP gap is positive, then:
   A) The inflation rate is falling
   B) Actual GDP is greater than potential GDP
   C) Potential GDP is greater than actual GDP
   D) The unemployment rate is rising

16) The higher the rate of unemployment:
   A) The smaller is the GDP gap
   B) The larger is the GDP gap
   C) The lower is the level of potential GDP
   D) The higher is the level of actual GDP

17) If the natural rate of unemployment is 4.5 percent and the actual unemployment rate is 6.5 percent, then Okun's law indicates that the GDP gap is:
   A) 2 percent
   B) 4 percent
   C) 3 percent
   D) 6 percent

18) The inflation rate measures the percentage growth rate of:
   A) The CPI from one year to the next
   B) The CPI from the base period 1982-84 to a given year
   C) Real GDP from the base period 1982-84 to a given year
   D) Real GDP from one year to the next

19) If the Consumer Price Index was 170 in one year and 180 in the next year, then the rate of inflation is approximately:
   A) 6.3 percent
   B) 5.5 percent
   C) 7.2 percent
   D) 5.9 percent

20) If the CPI declines from one year to the next, then the following statements are true, except:
    A) The CPI turns negative in the next year
    B) The average price level is decreasing
    C) There is deflation
    D) The inflation rate is negative

21) The economy has an annual inflation rate of 3.5%. It will take approximately how many years for the price level to double?
    A) 10 years
    B) 30 years
    C) 25 years
    D) 20 years

22) Inflation that occurs when total spending is greater than the economy's ability to produce output at the existing price level is:
    A) Anticipated inflation
    B) Cost-push inflation
    C) Unanticipated inflation
    D) Demand-pull inflation

23) Core inflation refers to the inflation picture after stripping away the:
    A) Food and energy prices
    B) Capital goods prices
    C) Government-regulated prices
    D) Service-sector prices
24) Real income will rise from one year to the next if nominal income:
   A) Rises and the price level rises faster
   B) Falls and the price level rises
   C) Falls faster than the price level
   D) Falls and the price level falls faster

25) For a person to keep his real income steady at a certain level from one year to the next, his nominal income must:
   A) Stay the same as the price index rises
   B) Rise as fast as the price index
   C) Fall if the price index rises
   D) Rise if the price index falls

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

26) Anyone who is not employed is classified as unemployed in the Bureau of Labor Statistics data on the labor force.

27) A recession is defined as a situation where the average price level in the economy is increasing.

28) If the CPI rises from 125 to 140 from one year to the next, then the rate of inflation is 15 percent.

29) When there is demand-pull inflation, people's total spending in the economy will be falling.

30) Demand-pull inflation is usually accompanied by low unemployment and higher real output.
1) D
2) C
3) B
4) B
5) B
6) A
7) B
8) D
9) A
10) C
11) A
12) C
13) A
14) D
15) B
16) B
17) B
18) A
19) D
20) A
21) D
22) D
23) A
24) D
25) B
26) FALSE
27) FALSE
28) FALSE
29) FALSE
30) TRUE