

DO NOT WRITE ON THIS TEST!

Practice Test Unit 4

Multiple Choice

Identify the choice that best completes the statement or answers the question.

1. Consider an economy that only produces two goods: DVDs and DVD players. Last year, 10 DVDs were sold at \$20 each and 5 DVD players were sold at \$100 each, while this year 15 DVDs were sold at \$10 each and 10 DVD players were sold at \$50 each. Nominal GDP this year is:
 - A. \$100.
 - B. \$650.
 - C. \$700.
 - D. \$500
 - E. \$1,350

Product	2008 Output	2008 Prices (base year)	Product	2009 Output	2009 Prices
Peanut Butter	200 units	\$1 per unit	Peanut Butter	250	\$1.10
Jelly	100 units	\$2 per unit	Jelly	100	\$2.50

Table 11-1: Peanut Butter and Jelly Economy

2. Use **Table 11-1**. A simple economy produces only peanut butter and jelly. Using the data in the attached table, from 2008 to 2009 real GDP ____ by ____%.
 - A. increased; 12.5
 - B. decreased; 50
 - C. increased; 43.75
 - D. decreased; 12.5
 - E. increased; 50

The town of York produces two goods, Good A and Good B. The following is information regarding York's production of these two goods and their prices the following three years.

	Year 2006	Year 2007	Year 2008
Quantity of Good A	3	4	5
Price of Goods A	\$500	\$550	\$550
Quantity of Good B	10	10	10
Price of Good B	\$2	\$4	\$5

Scenario 11-1: Good A and Good B

3. Use **Scenario 11-1**. In 2007, nominal GDP is:
 - A. greater than the nominal GDP in 2008.
 - B. greater than the nominal GDP in 2006.
 - C. equal to the nominal GDP in 2008.
 - D. equal to the nominal GDP in 2006.
 - E. less than the nominal GDP in 2006.
4. Use **Scenario 11-1**. Using 2006 as the base year, then one would find that the real GDP in 2006:
 - A. is equal to the real GDP in 2007.
 - B. is equal to the nominal GDP in 2006.
 - C. is greater than the real GDP in 2007.
 - D. is greater than the real GDP in 2008.
 - E. is the same as real GDP in 2007.

5. The unemployment rate is defined as:
- the percent of the labor force that is unemployed.
 - the number of people unemployed.
 - the ratio of the labor force to the number of people unemployed.
 - the average length of time someone is unemployed.
 - the percent of the population that is unemployed.
6. To be classified as unemployed, a person must be:
- not working.
 - not working due to retirement or disability.
 - not working or working part-time when he or she wishes to be working full time.
 - not working and actively looking for a job in the last four weeks or discouraged and not actually looking for a job.
 - not working and actively looking for a job in the last four weeks.
7. A survey reveals that on a small island initially 40 adults have jobs, 10 other adults are looking for jobs, and 30 are neither working nor looking for work. Suppose that 10 of the 30 people who weren't looking for work now begin looking for work. There are now 20 people looking for work and 40 people working. What happens to the unemployment rate?
- It falls to 33.3%.
 - It rises to 50.0%.
 - It falls to 25.0%.
 - It remains the same.
 - It rises to 33.3%.
8. Which one of the following is correct?
- $\text{Unemployment Rate} = \frac{\text{Unemployed}}{\text{Employed}} \cdot 100$
 - $\text{Unemployment Rate} = \frac{\text{Unemployed}}{\text{Population}} \cdot 100$
 - $\text{Unemployment Rate} = \frac{\text{Employed}}{\text{Labor Force}} \cdot 100$
 - $\text{Unemployment Rate} = \frac{\text{Unemployed}}{\text{Labor Force}} \cdot 100$
 - $\text{Unemployment Rate} = \frac{\text{Employed}}{\text{Unemployed}} \cdot 100$
9. In general, for the U. S. economy, the relationship between unemployment and real economic growth is:
- positive.
 - direct.
 - neutral.
 - negative.
 - non-existent.
10. Unemployment that is due to the time workers spend in job search is considered:
- operational unemployment.
 - structural unemployment.
 - cyclical unemployment.
 - natural unemployment.
 - frictional unemployment.
11. Unemployment that occurs because it takes workers and employees time to find each other is called:
- cyclical unemployment
 - structural unemployment
 - frictional unemployment
 - discouraged unemployment
 - natural unemployment
12. Structural unemployment consists of people who are unemployed due to:
- temporary changes in jobs.
 - an excess in the quantity of labor demanded over the quantity of labor supplied.
 - the time it takes for employers and workers to find each other.
 - more people seeking jobs in a labor market than there are jobs available at the current wage rate.
 - downturns in the business cycle.
13. Sam, who is 55 years old and has been a steel worker for 30 years, is unemployed because the steel plant in his town closed and moved to Mexico. Sam is experiencing:
- cyclical unemployment.
 - permanent unemployment.
 - frictional unemployment.
 - structural unemployment.
 - operational unemployment.

14. If the actual unemployment rate is 7% and the natural rate of unemployment is 5%, then the cyclical unemployment rate is:
- 2%.
 - 5%.
 - 7%.
 - 9%.
 - 12%
15. The rate of unemployment that exists when the economy is at full employment is:
- zero.
 - the natural rate of unemployment.
 - the structural rate of unemployment.
 - less than the full employment rate of unemployment.
 - the cyclical rate of unemployment.
16. Which of the following equations describes the calculation of the natural unemployment rate?
- Natural unemployment = Frictional unemployment + Structural unemployment
 - Natural unemployment = Cyclical unemployment + Structural unemployment
 - Natural unemployment = Frictional unemployment + Cyclical unemployment
 - Natural unemployment = Frictional unemployment + Structural unemployment + Cyclical unemployment
 - Natural unemployment = Actual unemployment - Structural unemployment
17. Increases in the average level of prices is called:
- depreciation.
 - deflation.
 - inflation.
 - expectations.
 - speculation.
18. Over the last year, Eli has been working very hard and his employer has taken notice by giving him a 6% raise in his salary. During this last year, overall prices in the economy have increased by 4%. Given this information, Eli's real wage has:
- stayed constant.
 - increased by 6%.
 - increased by 10%.
 - decreased by 4%.
 - increased by 2%.
19. Deflation is a(n):
- decrease in the purchasing power of a unit of money.
 - appreciation of the nation's currency.
 - decrease in the average level of prices.
 - increase in the average level of prices.
 - problem only for developing nations.
20. Which of the following is true?
- Unexpected inflation benefits lenders and hurts borrowers.
 - Unexpected inflation benefits lenders but does not affect borrowers.
 - Unexpected inflation benefits borrowers but does not affect lenders.
 - Unexpected deflation benefits lenders but does not affect borrowers.
 - Unexpected inflation benefits borrowers and hurts lenders.
21. Which of the following annual rates of inflation would most likely be called hyperinflation?
- 5%
 - 13%
 - 25%
 - 2000%
 - 15%
22. Suppose the real interest rate is 2.1% and the nominal interest rate is 5.4%. Then the expected inflation rate is:
- 7.5%.
 - 3.3%.
 - 3.3%.
 - 2.1%.
 - 5.4%.
23. If the cost of a market basket is \$150 in Year 1 and \$200 in Year 2, the price index for Year 1 with a Year 2 base is:
- 75.
 - 100.
 - 133.
 - 150.
 - 95.
24. Long-run economic growth depends almost entirely on:
- labor productivity growth.
 - population growth.
 - agricultural production growth.
 - average number of weekly hours worked.
 - average weekly wages.

25. Productivity is equal to:
- real GDP divided by number of workers.
 - real GDP divided by number of capital inputs.
 - number of workers per machine.
 - total output produced.
 - real GDP divided by the unemployment rate.
26. The value of real GDP divided by population for a given country:
- cannot be used to compare the standard of living for two nations.
 - is always increasing in value for any country.
 - remains constant for developing countries.
 - is referred to as per capita GDP.
 - is referred to as the real GDP per capita.
27. Human capital is:
- the improvement in labor created by education and knowledge that is embodied in the work force.
 - the machinery and tools that each individual worker owns.
 - robots that can perform tasks that only humans could do in the past.
 - not as important as physical capital.
 - gained from on the job training, but not formal schooling.
28. Technological progress allows workers to produce more:
- because it increases the amount of physical capital available.
 - because it increases the amount of human capital available.
 - even when the amount of physical capital and human capital do not change.
 - only if the amount of physical capital grows at the same rate.
 - only if the amount of human capital grows at the same rate.
29. If technology advances, then:
- more output can be obtained from the same inputs.
 - more inputs are needed to produce the same output.
 - less output can be obtained from the same inputs.
 - less can be obtained even with more inputs.
 - the same amount of output can be obtained from the same inputs.
30. An example of human capital would be:
- the money a person has.
 - the job skills a person has.
 - the capital goods or machines a person owns.
 - the stocks and bonds in an individual's portfolio.
 - the size of the home the person has bought.

Practice Test Unit 4
Answer Section**MULTIPLE CHOICE**

1. ANS: B	PTS: 1	SKL: Analytical Thinking
2. ANS: A	PTS: 1	SKL: Analytical Thinking
3. ANS: B	PTS: 1	SKL: Critical Thinking
4. ANS: B	PTS: 1	SKL: Critical Thinking
5. ANS: A	PTS: 1	SKL: Definitional
6. ANS: E	PTS: 1	SKL: Fact-Based
7. ANS: E	PTS: 1	SKL: Analytical Thinking
8. ANS: D	PTS: 1	SKL: Definitional
9. ANS: D	PTS: 1	SKL: Concept-Based
10. ANS: E	PTS: 1	SKL: Definitional
11. ANS: C	PTS: 1	SKL: Definitional
12. ANS: D	PTS: 1	SKL: Definitional
13. ANS: D	PTS: 1	SKL: Critical Thinking
14. ANS: A	PTS: 1	SKL: Concept-Based
15. ANS: B	PTS: 1	SKL: Concept-Based
16. ANS: A	PTS: 1	SKL: Definitional
17. ANS: C	PTS: 1	SKL: Definitional
18. ANS: E	PTS: 1	SKL: Critical Thinking
19. ANS: C	PTS: 1	SKL: Definitional
20. ANS: E	PTS: 1	SKL: Concept-Based
21. ANS: D	PTS: 1	SKL: Concept-Based
22. ANS: B	PTS: 1	SKL: Concept-Based
23. ANS: A	PTS: 1	SKL: Critical Thinking
24. ANS: A	PTS: 1	SKL: Fact-Based
25. ANS: A	PTS: 1	SKL: Definitional
26. ANS: E	PTS: 1	SKL: Definitional
27. ANS: A	PTS: 1	SKL: Definitional
28. ANS: C	PTS: 1	SKL: Concept-Based
29. ANS: A	PTS: 1	SKL: Concept-Based
30. ANS: B	PTS: 1	SKL: Critical Thinking