Macroeconomics: Policy and Practice, 2e, Global Edition (Mishkin)
Chapter 2 Measuring Macroeconomic Data

2.1 Measuring Economic Activity: National Income Accounting

1) The fundamental identity of national income accounting implies _____.
A) Expenditure = Production + Income
B) Expenditure = Production = Income
C) Income = Expenditure - Production
D) Income = Expenditure / Production
E) None of the above
Answer: B
Topic: 2.1 Measuring Economic Activity: National Income Accounting

2) Who helps calculate GDP in the United States?
A) the Bureau of Economic Analysis
B) the Census Bureau
C) the Bureau of Labor Statistics
D) all of the above
E) none of the above
Answer: D
Topic: 2.1 Measuring Economic Activity: National Income Accounting

3) Which government entity calculates GDP in the United States on a quarterly basis?
A) the Treasury Department
B) the Commerce Department
C) the Federal Reserve
D) all of the above
E) none of the above
Answer: B
Topic: 2.1 Measuring Economic Activity: National Income Accounting

4) The statistic most often used by economists to measure the value of economic activity is _____.
A) GDP
B) the CPI
C) labor-force participation rate
D) the nominal interest rate
E) the real interest rate
Answer: A
Topic: 2.1 Measuring Economic Activity: National Income Accounting

2.2 Measuring GDP: The Production Approach

1) The production approach to measuring GDP requires _____.
A) that the market value of a given good is a reasonable approximation of its economic value
B) that all goods and services be added up before assigning a market value
C) that no good or service rendered outside the market be included in GDP
D) all of the above
E) none of the above
Answer: A
Topic: 2.2 Measuring GDP: The Production Approach
AACSB: Reflective Thinking

2) Which of the following is typically *not* counted in GDP?
A) any nonmarket good and services
B) income generated from apartment rentals
C) illegal drug sales
D) all of the above
E) none of the above
Answer: C
Topic: 2.2 Measuring GDP: The Production Approach

3) The reason only newly produced goods and services are counted in GDP is that _____.
A) it is very difficult to impute a value to used goods
B) most expenditures on used goods and services take place outside the market
C) it does not help economists make better economic predictions because second-hand goods rarely have any residual value
D) it allows economists to avoid double counting the production of goods and services
E) none of the above
Answer: D
Topic: 2.2 Measuring GDP: The Production Approach
AACSB: Analytical Thinking

4) To avoid double counting in the calculation of GDP, which types of goods are typically excluded from the calculation?
A) intermediate goods
B) capital goods
C) inventory goods
D) nonmarket goods
E) value-added goods
Answer: A
Topic: 2.2 Measuring GDP: The Production Approach

5) Capital goods are typically purchased to _____. They get included in GDP _____.
A) replace raw materials; in the year they are produced
B) enable the investor to produce other goods and services; in each year they are utilized
C) enable the investor to consume less in the current period; as they are used up in the stages of production
D) enable the investor to produce other goods and services; in the year they are produced
E) none of the above
Answer: D
Topic: 2.2 Measuring GDP: The Production Approach
AACSB: Analytical Thinking

6) The difference between *inventories* and *inventory investment* is that typically _____.
A) the first one is a stock of unfinished or unsold goods; the second one is a flow that indicates productive activity
B) the first one denotes the change in holdings of capital; the second one includes most final goods
C) the first one is measured at the beginning of the year; the second one is measured at the end of the year
D) all of the above
E) none of the above
Answer: A
Topic: 2.2 Measuring GDP: The Production Approach
AACSB: Analytical Thinking

7) In a two-good economy, the price of video games is $40 and the price of energy drinks is $2. If the annual output of this economy is 100 video games and 500 drinks, the GDP is _____.
A) $50,080
B) $25,200
C) $5,000
D) $20,200
E) none of the above
Answer: C
Topic: 2.2 Measuring GDP: The Production Approach
AACSB: Analytical Thinking

8) Consider a firm whose final output (and sales) in a particular year has a value of $1,200. To produce these goods, the firm used $500 worth of intermediate goods it had purchased in previous years plus $200 worth of newly-purchased intermediate goods. In the subsequent year, this same firm again sells $1,200 worth of final goods, but in this year has purchased $700 worth of intermediate goods, of which $100 is not used in current production but, rather, added to the firm's inventory. For each of these two years, calculate the value added by this firm. For each of these two years, calculate the contribution of this firm to the economy's GDP.
Answer: Value added in year one equals $1,200 final goods minus $200 purchased intermediates equals $1,000. Value added in year two equals $1,200 final goods minus $700 purchased intermediates equals $500. Contribution to GDP in year one equals $1,000 value added minus $500 decrease in inventory equals $500. Contribution to GDP in year two equals $500 value added plus $100 inventory increase equals $600.
Topic: 2.2 Measuring GDP: The Production Approach
AACSB: Analytical Thinking

9) State the fundamental identity of national income accounting. Why is it not possible for this identity to be violated?
Answer: Total production = Total expenditure = Total income. The national income accounts measure economic activity. Any way it's measured, it's the same thing: economic activity. Each specific activity is a good or service that has been produced, has a market value (actual or imputed), and generates income for someone. An individual who produces ten dollars of market value does so in order to receive ten dollars of income, which arrives as the customer's ten dollar expenditure.
Topic: 2.2 Measuring GDP: The Production Approach
AACSB: Reflective Thinking

2.3 Measuring GDP: The Expenditure Approach

1) If C is consumption, I is investment, G is government purchases and NX is net exports, according to the expenditure approach, Y would stand for _____; and the national income identity could be written as _____.
A) transfers; Y = C + I + G - NX
B) CPI; Y = C + I + G + NX
C) GDP; Y - C - I = G + NX
D) income; Y = C - I - G + NX
E) the real interest rate; Y = C + I + G + NX
Answer: C
Topic: 2.3 Measuring GDP: The Expenditure Approach
AACSB: Analytical Thinking

2) Which of the following will be counted as an expenditure in the measurement of GDP? (Assume that none of the transactions is concealed from the relevant authorities.)
A) the value of a used automobile that remains unsold on the dealer's lot
B) purchase of a lamp at a neighborhood garage sale
C) purchase, using foodstamps, of a loaf of bread
D) payment by a parent to her child for doing household laundry
E) purchase of flour by a bakery
Answer: C
Topic: 2.3 Measuring GDP: The Expenditure Approach
AACSB: Analytical Thinking

3) Which of the following will be counted as an investment expenditure in the measurement of GDP?
A) purchase of a tractor by a farmer from his neighbor
B) purchase of preferred stock in ABC Corporation
C) purchase of a newly built tractor by a college fraternity for hay rides at their charity fair
D) purchase of an apartment in a newly-built building
E) purchase of newly built computers by a municipal government
Answer: D
Topic: 2.3 Measuring GDP: The Expenditure Approach
AACSB: Analytical Thinking

Table 2.1 GDP and its components, 2012

Source: Bureau of Economic Analysis. Table 1.1.5. www.bea.gov/national/nipaweb/SelectTable.asp?Selected=Y

Note: Numbers may not add up to the totals due to rounding.

	Billions of Dollars	Percent of GDP
Personal consumption expenditure (*C*)	**11,286**	**68.7**
Consumer durables	1,231	7.5
Nondurable goods	2,595	15.8
Services	7,459	45.4
Investment (*I*)	**2,500**	**15.2**
Fixed investment	2,018	12.3
Inventory investment	13	0.14
Residential investment	469	2.9
Government purchases (*G*)	**3,151**	**19.2**
Federal	1,275	7.8
State and local	1,875	11.4
Net exports (*NX*)	**−516**	**−3.1**
Exports	2,214	13.5
Minus imports	2,730	16.6
Total = GDP (*Y*)	**16,420**	**100.0**

4) Assuming that the GDP breakdown shown in Table 2.1 is typical of a given year in the U.S. we can say that _____.
A) we spend twice as much on goods consumption as we do on services
B) consumption of durable goods is twice that of nondurables
C) government purchases is the largest main component of GDP
D) all of the above
E) none of the above
Answer: E
Topic: 2.3 Measuring GDP: The Expenditure Approach
AACSB: Analytical Thinking

5) Assuming that the GDP breakdown shown in Table 2.1 is typical of a given year in the U.S. we can say that _____.
A) we spend twice as much on services as we do on goods consumption
B) consumption of nondurable goods is twice that of durables
C) private investment is the smallest of the main domestic components of GDP
D) all of the above
E) none of the above
Answer: D
Topic: 2.3 Measuring GDP: The Expenditure Approach
AACSB: Analytical Thinking

6) Assuming that the GDP breakdown shown in Table 2.1 is typical of a given year in the U.S. we can say that _____.
A) federal defense spending is twice that of non-defense spending
B) federal spending is twice as large as that of the states and local governments
C) government spending constitutes about 40% of GDP
D) all of the above
E) none of the above
Answer: E
Topic: 2.3 Measuring GDP: The Expenditure Approach
AACSB: Analytical Thinking

7) Which of the following is a valid characteristic of the U.S. economy over the last sixty years?
A) Investment is more volatile than other components of GDP.
B) Government spending has remained around 20% of GDP over much of the postwar period.
C) The U.S. has, for the most part, been running a trade deficit which has trended upward to over 5% of GDP.
D) all of the above
E) none of the above
Answer: D
Topic: 2.3 Measuring GDP: The Expenditure Approach
AACSB: Reflective Thinking

8) Which of the following is a valid characteristic of the U.S. economy over the last sixty years?
A) Investment is smoother than most of the other components of GDP, especially consumption.
B) Government spending has remained around 20% of GDP over much of the postwar period.
C) The U.S. has, for the most part, been running a trade surplus which has trended upward to over 5% of GDP.
D) all of the above
E) none of the above
Answer: B
Topic: 2.3 Measuring GDP: The Expenditure Approach
AACSB: Reflective Thinking

9) An international comparison of eight major industrialized countries reveals the following about the components of GDP: _____.
A) the U.S. has one of the largest shares of GDP going to investment
B) the U.S. has one of the smallest government share of GDP
C) the U.S. runs one of the largest trade deficits
D) all of the above
E) none of the above
Answer: C
Topic: 2.3 Measuring GDP: The Expenditure Approach
AACSB: Analytical Thinking

10) An international comparison of eight major industrialized countries reveals the following about the components of GDP: _____.
A) China has the highest share of investment among the eight countries
B) India has the largest government share of output
C) the U.S. is the largest consumer as a share of GDP
D) all of the above
E) none of the above
Answer: D
Topic: 2.3 Measuring GDP: The Expenditure Approach
AACSB: Analytical Thinking

11) Over the past half-century, government transfer payments have increased. As a result _____.
A) interest payments on government debt have declined
B) government expenditures have become a larger portion of GDP
C) the volatility of investment expenditures has declined
D) net exports have been positive in most years
E) none of the above
Answer: E
Topic: 2.3 Measuring GDP: The Expenditure Approach

12) A few economies have the interesting characteristic that exports are more than 100 percent of the economy's GDP. How is this possible?
Answer: An economy's exports and imports can vary independently of the economy's GDP, so long as its exports and imports are closely linked to each other. By the national income identity, Y = C + I + G + exports - imports. Rearranging, Y - exports = C + I + G - imports. If exports > Y, then imports must be greater than C + I + G. This occurs if a sufficient portion of imports either leave the economy as exports or are intermediate goods used in the production of exports.
Topic: 2.3 Measuring GDP: The Expenditure Approach
AACSB: Reflective Thinking

13) Describe how the investment component of GDP is distinct from the other components.
Answer: Investment is distinct from consumption in that the goods are not used up in the current period, but rather survive into at least one subsequent period as final goods awaiting sale, as intermediate goods awaiting further processing, as capital goods that will be used in the production of other goods, or as residences. They are purchases by households and businesses, rather than government. Some investments involve purchase of imports, but these are subtracted in the net export component, so that only domestic production is counted in GDP.
Topic: 2.3 Measuring GDP: The Expenditure Approach
AACSB: Reflective Thinking

2.4 Measuring GDP: The Income Approach

1) The income approach to measuring GDP involves adding up the following _____.
A) household income and income generated by firms
B) private spending, tax revenues and government spending
C) transfer payments and income taxes
D) interest income, profits and social security benefits
E) wages, benefits and interest income
Answer: A
Topic: 2.4 Measuring GDP: The Income Approach

2) Which of the following is included in the calculation of national income?
A) compensation of employees
B) rental income
C) indirect business taxes
D) all of the above
E) none of the above
Answer: D
Topic: 2.4 Measuring GDP: The Income Approach

3) In a country with unusually high tax rates, one might expect that _____.
A) GDP might be overstated because the government might avoid running surpluses
B) GDP might be understated because its citizens might avoid reporting some of their income
C) GDP might be overstated because the government might raise its outlays
D) GDP might be understated because its citizens might flee the country
E) after tax income should be much higher than that of countries with lower tax rates
Answer: B
Topic: 2.4 Measuring GDP: The Income Approach
AACSB: Reflective Thinking

4) Net national product + _____ = _____.
A) net interest; gross domestic product
B) depreciation; gross national product
C) depreciation; private disposable income
D) private disposable income; gross national product
E) none of the above
Answer: B
Topic: 2.4 Measuring GDP: The Income Approach
AACSB: Analytical Thinking

5) Which of the following is included in net government income?
A) social security benefits
B) factor income
C) taxes
D) all of the above
E) none of the above
Answer: C
Topic: 2.4 Measuring GDP: The Income Approach
AACSB: Analytical Thinking

6) Which is the largest category of income in the United States?
A) self-employment income
B) corporate profits
C) employee compensation
D) net interest income
E) none of the above
Answer: C
Topic: 2.4 Measuring GDP: The Income Approach

7) Which component of employee compensation has grown most rapidly in recent decades?
A) net interest income
B) benefits
C) transfer payments
D) wages and salaries
E) net factor income
Answer: B
Topic: 2.4 Measuring GDP: The Income Approach

8) Private disposable income equals GDP _____.
A) minus corporate profits and net factor income
B) plus transfer payments and net exports
C) plus depreciation, transfer payments, and interest payments on government debt
D) plus net factor income minus net government income
E) none of the above
Answer: D
Topic: 2.4 Measuring GDP: The Income Approach

9) The total income earned by residents of an economy is known as
A) private disposable income
B) gross national product
C) gross domestic product
D) national income
E) none of the above
Answer: B
Topic: 2.4 Measuring GDP: The Income Approach

10) Subtraction of _____ from Gross National Product yields Gross Domestic Product.
A) net factor income
B) depreciation
C) factor income to the rest of the world
D) net government income
E) none of the above
Answer: A
Topic: 2.4 Measuring GDP: The Income Approach

11) According to the fundamental identity of national income accounting, income and output are identical. Why, then, is national income not equal to GDP?
Answer: National income is net of depreciation, while GDP is a gross measure. National income is earned by residents of the economy, while GDP measures the economic activity that occurs on national territory. Thus, income earned by residents as a result of economic activity abroad is included in national income, but not in GDP. Income arising from domestic production that is paid to foreigners, rather than residents, is included in GDP, but not in national income.
Topic: 2.4 Measuring GDP: The Income Approach
AACSB: Reflective Thinking

2.5 Real Versus Nominal GDP

1) All income, production, and expenditure variables that are measured at current market prices are referred to as _____.
A) real variables
B) nominal variables
C) implicit variables
D) index variables
E) none of the above
Answer: B
Topic: 2.5 Real Versus Nominal GDP
AACSB: Analytical Thinking

2) An example of a nominal variable is _____.
A) income measured at current market prices
B) expenditures in terms of the quantities of actual goods
C) the chain weighted measure of GDP
D) all of the above
E) none of the above
Answer: A
Topic: 2.5 Real Versus Nominal GDP
AACSB: Analytical Thinking

Real and Nominal GDP

	video games	energy drinks
year 1 price	**40**	**2**
year 1 output	**100**	**500**
year 2 price	**40**	**2.5**
year 2 output	**120**	**550**
year 3 price	**45**	**2.5**
year 3 output	**150**	**600**

3) Based on the table "Real and Nominal GDP," if year one is the base year, then the *real* GDP in year *two*, is _____.
A) 5000
B) 5250
C) 5900
D) 6175
E) none of the above
Answer: C
Topic: 2.5 Real Versus Nominal GDP
AACSB: Analytical Thinking

4) Based on the table "Real and Nominal GDP," if year one is the base year, then the *real* GDP in year *three*, is _____.
A) 7200
B) 8250
C) 1050
D) 7500
E) none of the above
Answer: A
Topic: 2.5 Real Versus Nominal GDP
AACSB: Analytical Thinking

5) Based on the table "Real and Nominal GDP," if year one is the base year, then the *nominal* GDP in year *two*, is _____.
A) 8250
B) 5000
C) 7200
D) 7500
E) none of the above
Answer: E
Topic: 2.5 Real Versus Nominal GDP
AACSB: Analytical Thinking

6) Based on the table "Real and Nominal GDP," if year three is the base year, then the *real* GDP in year *two* is _____.
A) 8250
B) 5900
C) 7500
D) 6775
E) none of the above
Answer: D
Topic: 2.5 Real Versus Nominal GDP
AACSB: Analytical Thinking

7) Variables measured at current market prices are *nominal*, rather than *real*. In what sense are nominal variables unreal?
Answer: Nominal variables combine a thing being measured, such as economic activity, and the units of measurement, market prices. When prices change, the nominal variable is affected even if there has been no change in economic activity. Since such changes in nominal variables arise from a change in the units of measurement, rather than any change in whatever is being measured, the change is unreal.
Topic: 2.5 Real Versus Nominal GDP
AACSB: Reflective Thinking

2.6 Measuring Inflation

1) The most frequently reported price index is _____.
A) the consumer price index (CPI)
B) the gross domestic product (GDP) deflator
C) the personal consumption expenditure (PCE) deflator
D) chain weighted GDP
E) the interest income deflator
Answer: A
Topic: 2.6 Measuring Inflation

2) Nominal GDP =_____ where the price level is the _____.
A) Price level ÷ Real GDP; GDP deflator
B) Price level × Real GDP; CPI
C) Price level ÷ Real GDP; CPI
D) Price level × Real GDP; GDP deflator
E) none of the above
Answer: D
Topic: 2.6 Measuring Inflation
AACSB: Analytical Thinking

3) Real GDP =_____ where the price level is the _____.
A) Nominal GDP × Price level; GDP deflator
B) Nominal GDP ÷ Price level; GDP deflator
C) Nominal GDP ÷ Price level; CPI
D) Nominal GDP × Price level; CPI
E) none of the above
Answer: B
Topic: 2.6 Measuring Inflation
AACSB: Analytical Thinking

4) Examples of deflators are the _____ and _____ deflator
A) real; nominal
B) private disposable income; gross national product
C) personal consumption expenditure; gross domestic product
D) gross domestic product; rental income
E) private disposable income; personal consumption expenditure
Answer: C
Topic: 2.6 Measuring Inflation

5) Examples of deflators are the _____ and _____ deflator
A) real; nominal
B) private disposable income; gross national product
C) personal consumption expenditure; rental income
D) gross domestic product; private disposable income
E) none of the above
Answer: E
Topic: 2.6 Measuring Inflation

6) The Bureau of Labor Statistics (BLS) reports the CPI _____.
A) every month
B) every two months
C) every three months
D) every year
E) twice each month
Answer: A
Topic: 2.6 Measuring Inflation

7) The Bureau of Economic Analysis calculates the PCE deflator _____.
A) every month
B) every two months
C) every three months
D) every year
E) twice each month
Answer: A
Topic: 2.6 Measuring Inflation

8) To compute the CPI, the Bureau of Labor Statistics (BLS) compiles a "basket of goods" that _____; each price in the index is weighted by _____.
A) are produced in the United States; an expenditure survey
B) the average farmer produces; how long it takes for the particular good to reach the market
C) the average urban consumer buys; the quantity of the good that goes into the basket
D) only members of congress purchase; a "luxury" score
E) is typical of consumers below the poverty line; the perceived quality of the good
Answer: C
Topic: 2.6 Measuring Inflation
AACSB: Analytical Thinking

9) Computing the CPI is important because it provides _____.
A) a rough measure of the cost of living
B) it is used as a benchmark in labor negotiations
C) government uses it to index entitlements, such as social security benefits, so that beneficiaries do not lose purchasing power in periods of inflation
D) all of the above
E) none of the above
Answer: D
Topic: 2.6 Measuring Inflation
AACSB: Reflective Thinking

10) Computing the CPI is important because _____.
A) it is a very accurate and error-free measure of the cost of living
B) it helps predict spending patterns for particular goods and services
C) government uses it to index entitlements, such as social security benefits, so that beneficiaries do not lose purchasing power in periods of inflation
D) all of the above
E) none of the above
Answer: C
Topic: 2.6 Measuring Inflation
AACSB: Reflective Thinking

11) In 1995, the Boskin commission identified which of the following problems with the computation of the CPI?
A) it does not account for the fact that consumers can substitute away from products as they get more expensive
B) an increase in price could be the result of quality improvements rather than an increase in the cost of living
C) it often does not reflect decreases in the cost of living that occur when new goods are introduced
D) all of the above
E) none of the above
Answer: D
Topic: 2.6 Measuring Inflation
AACSB: Reflective Thinking

12) The inflation rate = _____.
A) nominal GDP - real GDP
B) growth rate in real GDP - growth rate in nominal GDP
C) growth rate in real GDP + growth rate in nominal GDP
D) nominal GDP ÷ real GDP
E) none of the above
Answer: E
Topic: 2.6 Measuring Inflation
AACSB: Analytical Thinking

13) The inflation rate can be obtained by _____.
A) dividing the nominal GDP by the GDP deflator
B) subtracting the real GDP from the nominal GDP
C) multiplying the CPI by GDP
D) subtracting the growth in real GDP from the growth in nominal GDP
E) none of the above
Answer: D
Topic: 2.6 Measuring Inflation
AACSB: Analytical Thinking

Real and Nominal GDP

	video games	**energy drinks**
year 1 price	**40**	**2**
year 1 output	**100**	**500**
year 2 price	**40**	**2.5**
year 2 output	**120**	**550**
year 3 price	**45**	**2.5**
year 3 output	**150**	**600**

14) Based on the table "Real and Nominal GDP," if year one is the base year, then the GDP deflator for year *two* is _____.
A) 95.5
B) 123.5
C) 118
D) 104.7
E) 116.6
Answer: D
Topic: 2.6 Measuring Inflation
AACSB: Analytical Thinking

15) Based on the table "Real and Nominal GDP," if year one is the base year, then the GDP deflator for year *three* is _____.
A) 165
B) 139.8
C) 85.8
D) 133.6
E) 114.6
Answer: E
Topic: 2.6 Measuring Inflation
AACSB: Analytical Thinking

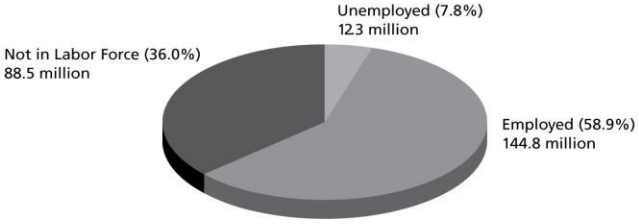
16) Based on the table "Real and Nominal GDP," if year one is the base year, then the inflation rate in year *three* is _____.
A) 14.6%
B) 9.5%
C) 9.9%
D) 11.5%
E) 16.5%
Answer: B
Topic: 2.6 Measuring Inflation
AACSB: Analytical Thinking

17) In relatively poor economies, modest expenditures on public health (immunization of children) can produce large improvements. What does this imply about the accuracy of the growth rate of real GDP as a measure of national well-being? How is the situation different in rich economies?
Answer: Expenditures on public health are included in GDP, but the resulting improvement in health is not. Indeed, improved public health may reduce some medical expenditures. The result is that GDP understates improvement in national well-being. In rich economies, rapidly rising medical expenditures are counted in GDP, though a portion is then deflated by rising prices in the health sector. To the extent that expenditures result from medical conditions such as obesity, it seems unlikely that well-being is improving faster than expenditures. The tendency for the growth rate of real GDP to underestimate the rate of improvement in the health component of national well-being is less prominent in rich economies than in poor economies.
Topic: 2.6 Measuring Inflation
AACSB: Reflective Thinking

2.7 Measuring Unemployment

1) Which of these represents an example of citizens who would *not* typically be counted as unemployed?
A) when your economics professor loses his job and gets a new one at McDonald's
B) when your fourteen-year-old cousin loses her summer job in September
C) when your neighbor has been out of work for so long that he decides to stay at home and write a novel
D) all of the above
E) none of the above
Answer: D
Topic: 2.7 Measuring Unemployment
AACSB: Reflective Thinking

Figure 2.5 Unemployment in the adult civilian population, 2013



2) According to Figure 2.5, the United States civilian *labor force* in June 2013 was _____.
A) 157.1 million
B) 144.8 million
C) 245.6 million
D) 100.8 million
E) none of the above
Answer: A
Topic: 2.7 Measuring Unemployment
AACSB: Analytical Thinking

3) According to Figure 2.5, the United States civilian *unemployment rate* in June 2013 was _____.
A) 5.0%
B) 22.1%
C) 7.8%
D) 8.5%
E) none of the above
Answer: C
Topic: 2.7 Measuring Unemployment
AACSB: Analytical Thinking

4) According to Figure 2.5, the United States civilian *labor force participation rate* in June 2013 was _____.
A) 59%
B) 43.8%
C) 66.7%
D) 64.0%
E) none of the above
Answer: D
Topic: 2.7 Measuring Unemployment
AACSB: Analytical Thinking

5) According to Figure 2.5, the United States civilian *employment ratio* in June 2013 was _____.
A) 66.7%
B) 43.8%
C) 59%
D) 64.0%
E) none of the above
Answer: C
Topic: 2.7 Measuring Unemployment
AACSB: Analytical Thinking

6) A *discouraged worker* might _____.
A) be counted as *unemployed*
B) have tried to find a job during the month prior to the household survey, but without success
C) have been prevented from working during the week prior to the household survey, due to illness or other temporary circumstances
D) be waiting to return to a job from which he or she has been laid off
E) none of the above
Answer: E
Topic: 2.7 Measuring Unemployment
AACSB: Reflective Thinking

7) If a large number of people were to leave their civilian jobs and join the military, which of the following would *increase*?
A) the civilian labor force
B) the civilian employment ratio
C) the civilian unemployment rate
D) the civilian labor-force participation rate
E) none of the above
Answer: C
Topic: 2.7 Measuring Unemployment
AACSB: Analytical Thinking

8) The unemployment rate is computed by _____.
A) dividing labor force by the adult population
B) dividing the number of unemployed by the adult population
C) multiplying the employment ratio by the adult population
D) dividing the labor force by the number of unemployed
E) none of the above
Answer: E
Topic: 2.7 Measuring Unemployment

9) The unemployment rate that is typically reported in the media is _____.
A) based on a survey from 150,000 business establishments on weekly earnings, number of workers and hours worked
B) computed every three months
C) based on a survey of 60,000 households
D) reported by the Treasury Department
E) none of the above
Answer: C
Topic: 2.7 Measuring Unemployment

10) The unemployment rate that is typically reported in the media is _____.
A) based on a survey from 150,000 business establishments on weekly earnings, number of workers and hours worked
B) reported on a monthly basis by the Bureau of Labor Statistics (BLS)
C) based on a survey of 150,000 households
D) reported by the Federal Reserve
E) none of the above
Answer: B
Topic: 2.7 Measuring Unemployment

11) The household and establishment surveys sometimes differ on the labor market conditions. This is probably because _____.
A) the establishment survey counts a worker who holds two jobs twice and the household survey does not
B) the establishment survey only counts employees of a company and the household survey also counts the self employed
C) the establishment survey covers more workers than the household survey
D) all of the above
E) none of the above
Answer: D
Topic: 2.7 Measuring Unemployment
AACSB: Reflective Thinking

12) The household and establishment surveys sometimes differ on the labor market conditions. This is probably because _____.
A) the household survey counts a worker who holds two jobs twice and the establishment survey does not
B) the household survey only counts employees of a company and the establishment survey also counts the self employed
C) the household survey covers more workers than the establishment survey
D) all of the above
E) none of the above
Answer: E
Topic: 2.7 Measuring Unemployment

13) Assume that a high proportion of recent college graduates decides to stay in school seeking advanced degrees, rather than confront the challenge of landing a good job in the midst of generally high unemployment. What is the direct impact of this behavior on (a) the labor force participation rate, (b) the employment ratio, and (c) the unemployment rate?
Answer: The decision to stay in school makes the labor force smaller than it would be otherwise, so the labor force participation rate is reduced. Fewer employed persons lowers the employment ratio. If all of these individuals would have been counted as unemployed, then the decline in the number of unemployed equals the decrease in the labor force. The percentage decrease in the number of unemployed would then be greater than the percentage decrease in the labor force, so the unemployment rate is reduced. However, to the extent that some of those who stay in school would, otherwise, have found a job, the size of the decline in the unemployment rate is small.
Topic: 2.7 Measuring Unemployment
AACSB: Reflective Thinking

2.8 Measuring Interest Rates

1) There are different interest rates associated with many types of securities. Which of the following statements is correct?
A) they vary depending on the liquidity of the security
B) they vary depending on the risk associated with the security
C) except in very unusual times, most interest rates move together
D) all of the above
E) none of the above
Answer: D
Topic: 2.8 Measuring Interest Rates

2) The *Federal Funds Rate* is _____.
A) the rate charged on overnight loans between banks
B) the rate charged on corporate bank loans to healthy "prime" borrowers
C) the rate charged on U.S. Treasury bonds by the Federal Reserve
D) the rate charged on U.S securities with maturities of less than a year
E) none of the above
Answer: A
Topic: 2.8 Measuring Interest Rates

3) The nominal interest rate _____.
A) makes no allowance for inflation
B) is a percentage of the amount borrowed
C) is the rate that most banks advertise
D) all of the above
E) none of the above
Answer: D
Topic: 2.8 Measuring Interest Rates

4) Which of the following is a good indicator of short-term interest rates in international markets?
A) prime rate
B) Treasury bill rate
C) LIBOR
D) Federal funds rate
E) none of the above
Answer: C
Topic: 2.8 Measuring Interest Rates

5) The real interest rate differs from the nominal rate in that _____.
A) it more accurately represents the true cost of borrowing
B) it varies negatively with changes in the rate of inflation
C) it is the better indicator of credit market conditions
D) all of the above
E) none of the above
Answer: D
Topic: 2.8 Measuring Interest Rates
AACSB: Reflective Thinking

6) The Fisher equation implies _____.
A) the nominal interest rate equals the real rate of inflation plus expected inflation
B) the real interest rate equals expected inflation
C) expected inflation equals current inflation
D) the rate of inflation equals the real minus the nominal rates of interest
E) none of the above
Answer: E
Topic: 2.8 Measuring Interest Rates
AACSB: Analytical Thinking

7) The Fisher equation implies that an increase in the nominal rate of interest relative to the real rate indicates that _____.
A) inflation is expected to rise
B) inflation is expected to decrease
C) the real cost of borrowing has increased
D) the real cost of borrowing has decreased
E) none of the above
Answer: A
Topic: 2.8 Measuring Interest Rates
AACSB: Reflective Thinking

8) An increase in the *expected* rate of inflation is most likely to cause an *increase* in _____.
A) the *ex post* real interest rate
B) the *ex ante* real interest rate
C) the nominal interest rate
D) the *expected* real interest rate
E) none of the above
Answer: C
Topic: 2.8 Measuring Interest Rates
AACSB: Reflective Thinking

9) An increase in the *actual* rate of inflation is most likely to cause a *decrease* in _____.
A) the *ex post* real interest rate
B) the *ex ante* real interest rate
C) the nominal interest rate
D) the *expected* real interest rate
E) none of the above
Answer: A
Topic: 2.8 Measuring Interest Rates
AACSB: Reflective Thinking

10) In the 1970s, nominal interest rates in the United States were quite high, while real rates were extremely low. Which group "wins" in this circumstance, lenders or borrowers? What might explain the willingness of the "losers" to accept disadvantageous loan terms?
Answer: Borrowers "win" when the real interest rate is low. The lenders' "generosity" is mostly because lending terms are based on expected inflation. If actual inflation turns out to be higher than expected, the real cost of borrowing is lower than had been expected. Also, most loans are made by financial institutions that are in the business of "selling" money. When expected inflation is high, some lenders might try to attract borrowers by offering a nominal interest rate that does not compensate fully for the expected inflation. That is, the lender accepts a lower real interest rate in order to increase its loan business.
Topic: 2.8 Measuring Interest Rates
AACSB: Reflective Thinking

11) A small business owner has a line of credit from a bank with a nominal interest rate of seven percent. For several years, the price level has been rising at an annual rate of two percent, but the owner has just read in the newspaper that economists expect next year's inflation rate to be four percent or more. Assume that this owner may either continue the line of credit at seven percent, or renegotiate to alter both the size of the credit and the interest rate. What reason might there be for the owner to keep the credit terms as is? What argument might justify changing the credit agreement?
Answer: The expected increase in the inflation rate from two percent to four percent means a decrease in the real interest rate from five percent to three percent. The existing terms of the line of credit have become more favorable to the borrower. Since the bank's loan officers are aware of the change in expected inflation, renegotiation of the agreement must mean an increase in the nominal interest rate. Nonetheless, the bank might consider a new nominal interest rate somewhat lower than nine percent, so the real interest rate would be somewhat lower than five percent. The borrower will renegotiate only if she desires, and the bank is willing, to increase the size of the line of credit.
Topic: 2.8 Measuring Interest Rates
AACSB: Reflective Thinking