1. The rate of economic growth is best defined as the:
   A) percentage increase in real GDP over time.
   B) increase in investment as a percentage of GDP over time.
   C) percentage increase in consumption expenditures over time.
   D) percentage increase in the quality of capital, human, and natural resources which occurs over time.
Answer: A

26. 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.
Answer: D

36. 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
Answer: C

5. If a nation's real GDP increases from 100 billion to 106 billion and its population jumps from 200 million to 212 million, its real GDP per capita will:
   A) remain constant.
   B) fall by 6 percent.
   C) rise by 6 percent.
   D) fall by 12 percent.
Answer: A

Use the following to answer questions 6 -9:

<table>
<thead>
<tr>
<th>Year</th>
<th>Alta (real GDP)</th>
<th>Zorn (real GDP)</th>
<th>Alta (population)</th>
<th>Zorn (population)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$2,000</td>
<td>$150,000</td>
<td>200</td>
<td>500</td>
</tr>
<tr>
<td>2</td>
<td>2,100</td>
<td>152,000</td>
<td>202</td>
<td>505</td>
</tr>
<tr>
<td>3</td>
<td>2,200</td>
<td>154,000</td>
<td>210</td>
<td>508</td>
</tr>
</tbody>
</table>

6. Refer to the above table. Between years 1 and 2, real GDP grew by ________ percent in Alta:
   A) 3 percent.
   B) 4 percent.
   C) 5 percent.
   D) 10 percent.
Answer: C

7. Refer to the above table. Between years 1 and 2, real GDP per capita grew by ________ percent in Alta:
   A) 3
   B) 4
   C) 5
   D) 10
Answer: B

8. Refer to the above table. Between years 2 and 3:
   A) Alta's real GDP grew more rapidly than Zorn's real GDP.
   B) real GDP fell in Zorn.
   C) population growth reduced Alta's real GDP growth to zero.
   D) population fell in Alta.
Answer: A

9. Refer to the above table. Per capita GDP was about:
   A) $105 in year 3 in Alta.
   B) $303 in year 3 in Zorn.
   C) $200 in year 1 in Zorn.
   D) $5 in year 2 in Alta.
Answer: B

10. Given the annual rate of economic growth, the "rule of 70" allows one to:
    A) determine the accompanying rate of inflation.
    B) calculate the size of the GDP gap.
    C) calculate the number of years required for real GDP to double.
    D) determine the growth rate of per capita GDP.
Answer: C

11. 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.
Answer: B

12. 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
Answer: B

13. The phase of the business cycle in which real GDP declines is called:
    A) the peak.
    B) an expansion.
    C) a recession.
    D) the trough.
Answer: C

14. A recession is a period in which:
    A) cost-push inflation is present.
    B) nominal domestic output falls.
    C) demand-pull inflation is present.
    D) real domestic output falls.
Answer: D
   A. In which phase of the business cycle will the economy most likely experience rising real output and falling unemployment rates?
   A) expansion
B) recession
C) peak
D) trough

Answer: A

Use the following to answer questions 15-17:

Answer the next question(s) on the basis of the following information about the hypothetical economy of Scoob. All figures are in millions.

Not in the labor force 45
Unemployed 7
Total population 145
Employed 95
Discouraged workers 3

16. Refer to the above information. The labor force in Scoob is:
   A. 95 million.
   B. 102 million.
   C. 105 million.
   D. 145 million.
   Answer: B

17. Refer to the above information. The unemployment rate in Scoob is:
   B. 2.5 percent.
   C. 3.2 percent.
   D. 5.0 percent.
   E. 6.9 percent.
   Answer: D

18. Refer to the above information. If the natural rate of unemployment in Scoob is 5 percent, then:
   A. structural unemployment is about 3 percent.
   B. frictional unemployment is about 2 percent.
   C. cyclical unemployment is about 2 percent.
   D. hidden unemployment is about 5 percent.
   Answer: C

19. To be officially unemployed a person must:
   A. be in the labor force.
   B. be 21 years of age or older.
   C. have just lost a job.
   D. be waiting to be called back from a layoff.
   Answer: A

20. The natural rate of unemployment is:
   A. higher than the full-employment rate of unemployment.
   B. lower than the full-employment rate of unemployment.
   C. that rate of unemployment occurring when the economy is at its potential output.
   D. found by dividing total unemployment by the size of the labor force.
   Answer: C

21. The labor force includes:
   A. employed workers and persons who are officially unemployed.
   B. employed workers, but excludes persons who are officially unemployed.
   C. full-time workers, but excludes part-time workers.
D. permanent employees, but excludes temporary employees.
Answer: A

22. The unemployment rate of:
   A. women greatly exceeds that of men.
   B. whites is roughly equal to that of African-Americans.
   C. white-collar workers exceeds that of blue-collar workers.
   D. teenagers is much higher than that of adults.
Answer: D

23. Alex works in his own home as a homemaker and full-time caretaker of his children. Officially, he is:
   A. unemployed.
   B. employed.
   C. not in the labor force.
   D. in the labor force.
Answer: C

24. If the unemployment rate is 9 percent and the natural rate of unemployment is 5 percent, then the:
   A. frictional unemployment rate is 5 percent.
   B. cyclical unemployment rate and the frictional unemployment rate together are 5 percent.
   C. cyclical unemployment rate is 4 percent.
   D. natural rate of unemployment will eventually increase.
Answer: C

25. Official unemployment statistics:
   A. understate unemployment because individuals receiving unemployment compensation are counted as employed.
   B. understate unemployment because discouraged workers are not counted as unemployed.
   C. include cyclical and structural unemployment, but not frictional unemployment.
   D. overstate unemployment because workers who are involuntarily working part time are counted as being employed.
Answer: B

26. The presence of discouraged workers:
   A. increases the size of the labor force, but does not affect the unemployment rate.
   B. reduces the size of the labor force, but does not affect the unemployment rate.
   C. may cause the official unemployment rate to understate the amount of unemployment.
   D. may cause the official unemployment rate to overstate the amount of unemployment.
Answer: C

27. Assuming the total population is 100 million, the civilian labor force is 50 million, and 47 million workers are employed, the unemployment rate is:
   A. 3 percent.
   B. 6 percent.
   C. 7 percent.
   D. 53 percent.
Answer: B

28. 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.
29. Unemployment involving a mismatch of the skills of unemployed workers and the skills required for available jobs is called:
   A. frictional unemployment.
   B. structural unemployment.
   C. cyclical unemployment.
   D. compositional unemployment.
   Answer: B

30. Structural unemployment:
   A. is also known as frictional unemployment.
   B. is the main component of cyclical unemployment.
   C. is said to occur when people are waiting to be called back to previous jobs.
   D. may involve a locational mismatch between unemployed workers and job openings.
   Answer: D

31. Dr. Homer Simpson, an economics professor, decided to take a year off from teaching to run a commercial fishing boat in Alaska. That year, Professor Simpson would be officially counted as:
   A. structurally unemployed.
   B. frictionally unemployed.
   C. not in the labor force.
   D. employed.
   Answer: D

32. Which of the following constitute the unemployment occurring at the natural rate of unemployment?
   A. frictional and cyclical unemployment
   B. structural and frictional unemployment
   C. cyclical and structural unemployment
   D. frictional, structural, and cyclical unemployment.
   Answer: B

33. Wait unemployment and search unemployment are both types of:
   A. cyclical unemployment.
   B. hidden unemployment.
   C. frictional unemployment.
   D. structural unemployment.
   E) Answer: C

34. The type of unemployment associated with recessions is called:
   A. frictional unemployment.
   B. structural unemployment.
   C. cyclical unemployment.
   D. seasonal unemployment.
   F) Answer: C

Answer the next question(s) on the basis of the following information about a hypothetical economy:

- Full-time employed = 80
- Part-time employed = 25
- Unemployed = 15
- Discouraged workers = 5
- Members of underground economy = 6
Consumer Price Index = 110

35. Refer to the above information. The unemployment rate is:
   a. 18.8 percent.
   b. 12.5 percent.
   c. 16.7 percent.
   d. 25 percent.
Answer: B

36. Refer to the above information. If the members of the underground economy are presently counted as part of the unemployed when in fact they are employed, the official unemployment rate is overstated by:
   a. 0 percentage points.
   b. 2 percentage points.
   c. 5 percentage points.
   d. 6 percentage points.
Answer: C

37. Refer to the above information. The rate of inflation:
   a. is 110 percent.
   b. is 10 percent.
   c. is 0 percent.
   d. cannot be determined from the data.
Answer: D

38. The GDP gap measures the difference between:
   a. NDP and GDP.
   b. NI and PI.
   c. actual GDP and potential GDP.
   d. nominal GDP and real GDP.
Answer: C

39. 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.
Answer: C

40. If actual GDP is $500 billion and there is a negative GDP gap of $10 billion, potential GDP is:
   a. $510 billion.
   b. $490 billion.
   c. $10 billion.
   d. $990 billion.
Answer: A

41. If actual GDP is $340 billion and there is a positive GDP gap of $20 billion, potential GDP is:
   a. $360 billion.
   b. $660 billion.
   c. $320 billion.
   d. $20 billion.
42. Assume the natural rate of unemployment in the U.S. economy is 5 percent and the actual rate of unemployment is 9 percent. According to Okun's law, the negative GDP gap as a percent of potential GDP is:
   a. 4 percent.
   b. 8 percent.
   c. 10 percent.
   d. 2 percent.
Answer: B

43. Okun's law:
   a. measures the tradeoff between the rate of inflation and the rate of unemployment.
   b. indicates the number of years it will take for a constant rate of inflation to double the price level.
   c. quantifies the relationship between nominal and real incomes.
   d. shows the relationship between the unemployment rate and the size of the negative GDP gap.
Answer: D

44. For every 1 percentage point that the actual unemployment rate exceeds the natural rate, a 2 percentage point negative GDP gap occurs. This is a statement of:
   a. Taylor's rule.
   b. Okun's law.
   c. Say's law.
   d. the Coase theorem.
Answer: B

45. If the consumer price index falls from 120 to 116 in a particular year, the economy has experienced:
   a. inflation of 4 percent.
   b. inflation of 3.33 percent.
   c. deflation of 3.33 percent.
   d. deflation of 4 percent.
Answer: C

46. The consumer price index was 177.1 in 2001 and 179.9 in 2002. Therefore, the rate of inflation in 2002 was about:
   a. 6.7 percent.
   b. 3.4 percent.
   c. 1.6 percent.
   d. 4.1 percent.
Answer: C

47. The rate of inflation can be found by subtracting:
   a. the real income from the nominal income.
   b. last year's price index from this year's price index.
   c. this year's price index from last year's price index and dividing the difference by this year's price index.
   d. last year's price index from this year's price index and dividing the difference by last year's price index.
Answer: D
48. 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.
Answer: A

49. As applied to the price level, the "rule of 70" indicates that the number of years required for the price to double can be found by:
   a. dividing "70" into the annual rate of inflation.
   b. dividing the annual rate of inflation into "70." 
   c. subtracting the annual change in nominal incomes from "70."
   d. multiplying the annual rate of inflation by "70."
Answer: B

50. Demand-pull inflation:
   a. occurs when prices of resources rise, pushing up costs and the price level.
   b. occurs when total spending exceeds the economy's ability to provide output at the existing price level.
   c. occurs only when the economy has reached its absolute production capacity.
   d. is also called cost-push inflation.
Answer: B

51. Demand-pull inflation:
   a. occurs when total spending in the economy is excessive.
   b. is measured differently than cost-push inflation.
   c. can be present even during an economic depression.
   d. is also called "hyperinflation."
Answer: A

52. "Too much money chasing too few goods" best describes:
   a. the GDP gap.
   b. demand-pull inflation.
   c. the inflation premium.
   d. cost-push inflation.
Answer: B

53. Inflation initiated by increases in wages or other resource prices is labeled:
   a. demand-pull inflation.
   b. demand-push inflation.
   c. cost-push inflation.
   d. cost-pull inflation.
Answer: C

54. Cost-push inflation:
   a. is caused by excessive total spending.
   b. shifts the nation's production possibilities curve leftward.
   c. moves the economy inward from its production possibilities curve.
   d. is a mixed blessing because it has positive effects on real output and employment.
Answer: C

55. Cost-push inflation may be caused by:
a. a decline in per unit production costs.
b. a decrease in wage rates.
c. a negative supply shock.
d. an increase in resource availability.

Answer: C

56. Real income can be determined by:
   a. dividing the price level by nominal income.
   b. inflating nominal income for inflation.
   c. dividing the annual rate of inflation into the number "70."
   d. deflating nominal income for inflation.

Answer: D

57. Suppose that a person's nominal income rises from $10,000 to $12,000 and the consumer price index rises from 100 to 105. The person's real income will:
   a. fall by about 20 percent.
   b. fall by about 2 percent.
   c. rise by about 15 percent.
   d. rise by about 25 percent.

Answer: C

58. 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.

59. Answer: C