Homework 6—Chapter 6

1) Suppose the market basket consists of 100 umbrellas, 200 parasols, and 300 bumbershoots. Year 2014 prices are $5, $2, and $3 for each unit of umbrellas, parasols, and bumbershoots, respectively. Base-year (2008) prices are $2 for each good. What is the approximate CPI in the 2014, using 2008 as the base year?
   A) 15
   B) 70.20
   C) 1,200
   D) 150

2) In year 1 the CPI is 181, and in year 2 the CPI is 195. If Dennis’s salary was $95,000 in year 1, what is the salary he must earn in year 2 to exactly “keep up with inflation”?
   A) $112,500
   B) $102,348
   C) $105,750
   D) $88,180

3) Suppose that 1983 is the base year for the Consumer Price Index (CPI) and in 2012 the CPI was 226. What does this “226” mean?
   A) What cost $100 in 1983 on average cost 226 times as much in 2012.
   B) What cost $100 in 1983 on average cost $226 more in 2012.
   C) What cost $100 in 1983 on average cost $100/226 (or 0.44) times as much in 2012 (that is, it will cost $22 in 2012).
   D) What cost $100 in 1983 on average cost $126 more in 2012.

4) The base year is the year
   A) in which prices are unstable.
   B) in which prices are lowest.
   C) in which prices are highest.
   D) that serves as a reference point or benchmark.
   E) in which nominal output is largest.

Exhibit 6-1

<table>
<thead>
<tr>
<th>Year</th>
<th>CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>217</td>
</tr>
<tr>
<td>2</td>
<td>220</td>
</tr>
<tr>
<td>3</td>
<td>225</td>
</tr>
<tr>
<td>4</td>
<td>231</td>
</tr>
<tr>
<td>5</td>
<td>240</td>
</tr>
</tbody>
</table>

5) Refer to Exhibit 6-1. Prices rose by __________ percent from Year 2 to Year 3.
   A) 3.39
   B) 0.023
   C) 3.28
   D) 2.22
   E) 2.27

6) The civilian non-institutional population can be broken down into two groups:
   A) employed persons and unemployed persons.
   B) persons working and persons not working.
   C) persons working in service jobs and persons working in manufacturing jobs.
   D) persons not in the labor force and persons in the labor force.

7) Persons who are retired or engaged in own-home housework are considered to be in which of the following categories?
   A) in the civilian labor force
   B) not in the labor force
   C) employed
   D) unemployed

8) A person in the civilian labor force falls into one of two categories:
   A) a person who works in a service industry or a person who works in a manufacturing industry.
   B) unemployed or employed.
   C) disemployed or unemployed.
   D) a self-employed worker or a non-self-employed worker.

9) In order to be classified as unemployed, a person must
   A) not have a job, have been actively looking for work within the past four weeks, and currently be available for work.
   B) not have a job, and currently be available for work.
   C) actively have looked for work within the past six weeks.
   D) not have a job.

Exhibit 6-2

<table>
<thead>
<tr>
<th>Year</th>
<th>Civilian Noninstitutional Population (millions)</th>
<th>Civilian Labor Force (millions)</th>
<th>Employed Persons (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>230</td>
<td>200</td>
<td>175</td>
</tr>
<tr>
<td>2</td>
<td>400</td>
<td>300</td>
<td>200</td>
</tr>
<tr>
<td>3</td>
<td>500</td>
<td>400</td>
<td>350</td>
</tr>
<tr>
<td>4</td>
<td>1000</td>
<td>800</td>
<td>720</td>
</tr>
</tbody>
</table>
10) Refer to Exhibit 6-2. How many people are not in the labor force in year 1?
A) 25 million
B) 50 million
C) 75 million
D) 175 million
E) 200 million

11) Refer to Exhibit 6-2. How many unemployed persons are there in year 1?
A) 25 million
B) 50 million
C) 75 million
D) 175 million
E) 200 million

12) Refer to Exhibit 6-2. The unemployment rate in year 1 is
A) 12 1/2 percent.
B) 70 percent.
C) 87 1/2 percent.
D) 30 percent.
E) 10 percent.

13) Refer to Exhibit 6-2. The labor force participation rate in year 1 is
A) 12 1/2 percent.
B) 80 percent.
C) 87 1/2 percent.
D) 70 percent.
E) 10 percent.

14) Unemployment that arises as a result of the time it takes for unemployed people to locate a job utilizing their transferable skills is called __________ unemployment.
A) structural
B) cyclical
C) natural
D) frictional

15) The unemployment due to changes in the types of skills employers require is called __________ unemployment.
A) structural
B) cyclical
C) natural
D) frictional

16) "Full employment" is said to exist when the unemployment rate equals
A) zero.
B) the cyclical unemployment rate.
C) the structural unemployment rate.
D) the natural unemployment rate.

17) If the cyclical unemployment rate is negative, then the
A) actual unemployment rate is less than the natural unemployment rate.
B) actual unemployment rate is greater than the natural unemployment rate.
C) structural unemployment rate is greater than the frictional unemployment rate.
D) structural unemployment rate is less than the frictional unemployment rate.
E) a and d

18) Is it possible for the economy to be at full employment and still have some people who are unemployed?
A) No, full employment means that no one is unemployed.
B) Yes, since full employment exists if the economy is operating at the natural unemployment rate and there is always some natural unemployment.
C) Yes, since full employment exists if the economy is operating at the frictional unemployment rate and there is always some frictional unemployment.
D) Yes, since full employment equals the sum of the cyclical unemployment rate and the natural unemployment rate, and there is always some cyclical unemployment.
E) none of the above

19) Which of the following statements is false?
A) A discouraged worker is counted as an unemployed worker.
B) The frictional unemployment rate is greater than the natural unemployment rate.
C) The natural unemployment rate is greater than the structural unemployment rate.
D) The natural unemployment rate is equal to the sum of the frictional unemployment rate and the structural unemployment rate.
E) both A and B