1. Which of the following terms describes a situation in which there is a reduction in the rate of inflation from 4% to 3% per year?
   A) hyperinflation
   B) inflation
   C) deflation
   D) disinflation

2. Arlina got a 5% raise while the rate of inflation was 6%. Arlina's standard of living:
   A) rose by about 1%.
   B) rose by about 2%.
   C) fell by about 3%.
   D) fell by about 1%.

3. Jennifer just got news that she is getting a 5% raise. However, the Bureau of Labor Statistics just reported that prices are rising by 7%.
   A) Jennifer is ahead by 2%.
   B) Jennifer is losing purchasing power by 2%.
   C) Inflation has no impact on purchasing power.
   D) Jennifer's purchasing power is rising by 7%.

4. If the labor force is 20 million and the total employed is 18 million, what is the unemployment rate?
   A) 20%
   B) 18%
   C) 10%
   D) 2%

5. Lexie works Monday to Friday from 4 P.M. to 6 P.M. in the after-school program at a local elementary school. She began looking for a full-time job last week and has already scheduled three job interviews. According to the Bureau of Labor Statistics, Lexie is:
   A) a discouraged worker.
   B) unemployed.
   C) employed.
   D) not in the labor force.
Use the following to answer question 6:

<table>
<thead>
<tr>
<th>Population</th>
<th>500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number employed</td>
<td>300</td>
</tr>
<tr>
<td>Number unemployed</td>
<td>50</td>
</tr>
</tbody>
</table>

6. (Table) According to the table, what is the labor force of this economy?
   A) 50
   B) 300
   C) 350
   D) 500

7. Scott, who has a Ph.D. in physics, waits on tables for a living. Scott is categorized as:
   A) unemployed.
   B) not part of the labor force.
   C) underemployed.
   D) discouraged.

8. All of the following types of wages can cause unemployment EXCEPT:
   A) minimum wages.
   B) union wages.
   C) efficiency wages.
   D) equilibrium wages.

9. The mortgage crisis caused a lot of consumers to stop spending money. The decrease in spending led to a decrease in production. Which type of unemployment resulted?
   A) structural
   B) frictional
   C) cyclical
   D) statistical

10. Jennifer did not work during college. She just obtained a bachelor’s degree in marketing, and she is now looking for a marketing job in the retail industry. Jennifer is considered:
    A) structurally unemployed.
    B) frictionally unemployed.
    C) cyclically unemployed.
    D) not in the labor force.
11. U.S. steelworkers who have lost their job to workers receiving lower wages overseas are part of __________ unemployment.  
A) frictional  
B) cyclical  
C) seasonal  
D) structural

12. Suppose an economist breaks the unemployment rate into the following components: frictional (2%), structural (1%), and cyclical (4%). Based on these estimates, the natural rate of unemployment is:  
A) 0%.  
B) 3%.  
C) 5%.  
D) 7%.

13. Which of the following pairs is NOT synonymous?  
A) nonaccelerating inflation rate of unemployment and full employment  
B) full employment and natural rate of unemployment  
C) cyclical unemployment and full employment  
D) natural rate of unemployment and nonaccelerating inflation rate of unemployment

14. If the growth rate in an economy is 3.5%, then its GDP will double in about:  
A) 3.5 years.  
B) 20 years.  
C) 70 years.  
D) 245 years.

15. If a country's population increases at a slower rate than the growth in its real GDP:  
A) GDP per capita has increased.  
B) the standard of living in the country has declined.  
C) average output per person has decreased.  
D) the country's rate of inflation has decreased.

16. If the growth rate in an economy is 2%, its GDP will double in about:  
A) 70 years.  
B) 140 years.  
C) 35 years.  
D) 28 years.
17. Human capital includes:
   A) physical capital.
   B) labor.
   C) the improvements to labor capabilities from training, education, and apprenticeship programs.
   D) pension plans that enable early retirement.

18. Whispering Valley Furniture employs five workers working eight hours each to produce 80 rocking chairs. Rocky Gap Furniture employs 10 workers working eight hours each to produce 160 rocking chairs. Which company's workers are more productive?
   A) Whispering Valley Furniture's workers are more productive.
   B) Rocky Gap Furniture's workers are more productive.
   C) The two companies' workers are equally productive.
   D) It is not possible to determine which workers are more productive.

19. Schumpeter's term *creative destruction* describes the:
   A) Luddites' destruction of machines.
   B) innovative dynamism of capitalism.
   C) working class communist movement.
   D) destruction of buildings.

20. Which of the following strategies is an example of increasing the capital-to-labor ratio?
   A) replacing the roof on a factory building
   B) sending workers to training classes
   C) giving a construction crew more backhoes
   D) increasing the number of workers harvesting the crop in a field

21. Which of the following items is NOT an example of investment in human capital?
   A) policy of universal education
   B) on-the-job training
   C) acquisition of obsolete skills
   D) apprenticeship
22. The following table shows data for four countries.

<table>
<thead>
<tr>
<th>Country</th>
<th>Workers</th>
<th>Capital Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>100</td>
<td>$4,000</td>
</tr>
<tr>
<td>B</td>
<td>50</td>
<td>$500</td>
</tr>
<tr>
<td>C</td>
<td>200</td>
<td>$1,000</td>
</tr>
<tr>
<td>D</td>
<td>150</td>
<td>$150</td>
</tr>
</tbody>
</table>

The table shows that the country with the most productive workers is:
A) A.
B) B.
C) C.
D) D.

23. When the government funds Head Start, it is acting in its role to promote economic growth by:
A) ensuring a stable legal system.
B) enhancing physical and human capital.
C) ensuring a stable and secure financial system.
D) promoting free and competitive markets.

24. The government decides to subsidize the development of a new communications network. It is acting in its role to promote economic growth by:
A) ensuring a stable legal system.
B) enhancing physical and human capital.
C) ensuring a stable and secure financial system.
D) promoting free and competitive markets.

25. The U.S. Patent Office grants Rene a patent for a new method of waterproofing outdoor gear. It is acting in its role to promote economic growth by:
A) ensuring a stable legal system.
B) providing physical and human capital.
C) ensuring a stable and secure financial system.
D) promoting free and competitive markets.

26. When the government records a deed showing that ownership of a piece of property has passed from one party to another, it is acting in its role to promote economic growth by:
A) ensuring a stable legal system.
B) providing physical and human capital.
C) ensuring a stable and secure financial system.
D) promoting free and competitive markets.
27. Which of the following did classical economists believe would happen if the product markets accrued surpluses?
   A) Prices would rise.
   B) Interest rates would rise.
   C) Wage rates would fall.
   D) The government would fix things.

28. In the Keynesian aggregate expenditure model, prices are assumed to be fixed because:
   A) unemployment is low.
   B) resources are idle (underutilized).
   C) consumption and disposable income are closely related.
   D) the government heavily intervenes in the economy.

29. If disposable income increases from $250 to $300 and saving increases from $40 to $50, how much is the average propensity to save?
   A) 0.133
   B) 0.16
   C) 0.167
   D) 0.2

30. If income is $50,000, consumption is $47,500, and saving is $2,500, then the marginal propensity to consume is:
   A) 0.95.
   B) 0.50.
   C) 0.05.
   D) There is not enough information to answer this question.

31. Which two countries currently have the highest savings rates?
   A) China and India
   B) China and Japan
   C) China and the United States
   D) Japan and the United States

32. In the full aggregate expenditure model with net exports included:
   A) \( C + G + X = S + T + M \).
   B) \( C + G + M = S + T + X \).
   C) \( I + G + M = S + T + X \).
   D) \( I + G + X = S + T + M \).
33. If the marginal propensity to consume is 0.8 and the government reduces taxes by $5 billion, equilibrium income will:
   A) fall by $25 billion.
   B) rise by $25 billion.
   C) rise by $20 billion.
   D) fall by $20 billion.

34. Assume that the economy is at equilibrium at $10 trillion, with a marginal propensity to consume of 0.75. If exports rise by $0.5 trillion and imports increase by $0.7 trillion, equilibrium income will:
   A) not change.
   B) fall by $0.2 trillion.
   C) rise by $2 trillion.
   D) fall by $0.8 trillion.

35. Suppose full employment real GDP is $12 trillion, current real GDP is $11 trillion, and the marginal propensity to consume is 0.8. The recessionary gap is:
   A) $1 trillion.
   B) $0.8 trillion.
   C) $0.2 trillion.
   D) $0.5 trillion.

36. (Table) In the table, the marginal propensity to consume is ________ and the average propensity to consume ________.

<table>
<thead>
<tr>
<th>Income</th>
<th>Consumption Spending</th>
<th>Saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30,000</td>
<td>$30,000</td>
<td>$0</td>
</tr>
<tr>
<td>40,000</td>
<td>35,000</td>
<td>5,000</td>
</tr>
<tr>
<td>50,000</td>
<td>40,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

   A) 0.5; varies with the level of income
   B) $5,000; is $5,000
   C) $10,000; is $35,000
   D) 2; varies with the level of income

37. The 45-degree line in the Keynesian model represents:
   A) AE = C.
   B) AE = G.
   C) AE = I.
   D) AE = Y.
38. If AE = $6,200 and Y = $5,800, businesses will produce:
   A) more, raising both employment and income.
   B) less, lowering both employment and income.
   C) more, raising employment and lowering income.
   D) less, lowering employment and raising income.

39. If the marginal propensity to consume is 0.8, by how much will total income increase after an initial $200 is spent?
   A) $40
   B) $160
   C) $200
   D) $1,000
Use the following to answer question 40:

(Figure: Savings, Investment, and Aggregate Expenditures) Income and output are at equilibrium at point:

A) \( b \).
B) \( c \).
C) \( d \).
D) \( e \).
Answer Key

1. D
2. D
3. B
4. C
5. C
6. C
7. C
8. D
9. C
10. B
11. D
12. B
13. C
14. B
15. A
16. C
17. C
18. C
19. B
20. C
21. C
22. A
23. B
24. B
25. A
26. A
27. C
28. B
29. C
30. D
31. A
32. D
33. C
34. D
35. C
36. A
37. D
38. A
39. D
40. C