

Chapter 13 Practice Test

Indicate whether the statement is true or false. If it is false, change the identified word(s) to make the statement true.

- ___ 1. An econometric model is used to describe how the economy is expected to perform in the near future.
- ___ 2. The depression scrip is an index of 30 representative stocks used to monitor price changes in the overall stock market.
- ___ 3. A business cycle begins when the economy reaches a low and begins to climb out of a recession.
- ___ 4. A statistical series that normally turns down after the economy turns down or turns up after the economy turns up is a leading economic indicator.
- ___ 5. The bursting of the housing bubble in 2006–2007 negatively affected consumer buying power and was largely responsible for the Great Recession in 2008–2009.

Indicate the answer choice that best completes the statement or answers the question.

- ___ 6. Which of the following statements best defines the first phase of a business cycle?
 - a. a period during which real GDP increases for at least two quarters in a row
 - b. a period during which real GDP declines for at least two quarters in a row
 - c. the economy reaches the point where real GDP stops going up
 - d. the economy reaches a turnaround point where real GDP stops going down
- ___ 7. Which of the following is true about inflation?
 - a. Inflation has a tendency to make people change retail spending habits.
 - b. Economists have agreed on a single explanation for the cause of inflation.
 - c. Inflation tempts some people to speculate in an attempt to take advantage of rising prices.
 - d. Inflation is a decrease in the general level of the prices of goods and services.
- ___ 8. Which type of unemployment is natural in a free market economy, where workers have the freedom to change occupations?
 - a. structural unemployment
 - b. cyclical unemployment
 - c. frictional unemployment
 - d. technological unemployment
- ___ 9. Which of the following is a characteristic of the long-term unemployed?
 - a. workers whose skills have become obsolete because of new technology or automated systems
 - b. workers who have been without a job for 27 weeks or more
 - c. workers who are out of a job because of seasonal changes in the weather
 - d. workers who are out of a job because of swings in the business cycle

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- ___ 10. Which of the following is included in the unemployment rate?
- a. people who hold only part-time jobs
 - b. people who are too frustrated to look for work
 - c. the jobless who made an effort to find a job during the past month
 - d. all of the above
- ___ 11. Which of the following indicates what would happen to the economy if it were not interrupted by alternating periods of recession and recovery?
- a. depression scrip
 - b. trend line
 - c. econometric model
 - d. trough
- ___ 12. A trend line is ____.
- a. a trough on a graph
 - b. a reflection of an external shock
 - c. a hypothetical graph line
 - d. a peak on a graph
- ___ 13. Which of the following is a form of instability that reverses economic growth?
- a. recession
 - b. deflation
 - c. frictional unemployment
 - d. creeping inflation
- ___ 14. The Federal Deposit Insurance Corporation (FDIC) was created to ____.
- a. prevent working people from being exploited by employers
 - b. provide modest bank insurance for depositors
 - c. regulate new companies that were soliciting funds from investors
 - d. help people provide for their own retirement
- ___ 15. What is the first step in constructing a price index?
- a. select a representative selection of commonly purchased goods and services
 - b. sample prices of items in stores across the country
 - c. divide the cost of every market basket by the base-year market basket cost
 - d. find the average price of each item in the market basket

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- ___ 16. Which of the following is the index used to measure changes in gross domestic product?
- a. implicit GDP price deflator
 - b. producer price index (PPI)
 - c. wage-price spiral
 - d. consumer price index (CPI)
- ___ 17. Which of the following is NOT a form of unemployment?
- a. underemployment
 - b. long-term unemployment
 - c. frictional unemployment
 - d. structural unemployment
- ___ 18. How are the effects of U.S. inflation rates felt around the world?
- a. The effects of U.S. inflation rates are not felt around the world.
 - b. The number of goods and services that each dollar will buy increases.
 - c. The dollar's exchange rate rises.
 - d. U.S. inflation makes U.S. exports more expensive overseas.
- ___ 19. Inflation characterized by rising input costs, especially energy and organized labor, which drive up the cost of products for manufacturers is called _____.
- a. hyperinflation
 - b. creeping inflation
 - c. cost-push inflation
 - d. demand-pull inflation
- ___ 20. How did business cycles change after World War II?
- a. There were no external shocks.
 - b. Business cycles became much more extreme.
 - c. Recessions occurred more frequently.
 - d. Recessions became shorter and periods of expansion became longer.
- ___ 21. A decline in real GDP lasting at least two quarters or more is called a _____.
- a. recession
 - b. business fluctuation
 - c. peak
 - d. business cycle

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- ___ 22. What type of unemployment occurred when the government closed military bases in the 1990s?
- a. cyclical
 - b. long-term
 - c. frictional
 - d. structural
- ___ 23. What conditions stop the economy from growing and turn an expansion into a contraction?
- a. decrease in foreign investment
 - b. low-interest capital expenditures
 - c. increase in exports
 - d. external shocks
- ___ 24. Which of the following is not a cause of inflation?
- a. wage-price spiral
 - b. demand-push
 - c. excessive monetary growth
 - d. none of the above
- ___ 25. A period of recovery from a recession is known as _____.
- a. an econometric model
 - b. a trough
 - c. an expansion
 - d. a peak
- ___ 26. When the general level of prices rises, the economy is experiencing _____.
- a. construction
 - b. stagflation
 - c. deflation
 - d. inflation
- ___ 27. Which of the following is a factor in preventing economic growth?
- a. recession
 - b. civilian labor force
 - c. GDP
 - d. frictional unemployment

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- ___ 28. Which of the following describes demand-pull inflation?
- a. the last stage before monetary collapse
 - b. the economy cannot produce quickly enough for all sectors, and shortages occur
 - c. a 1 to 3 percent rise in prices over the course of a year
 - d. rising costs in energy which cause higher prices of products
- ___ 29. What does a trough indicate?
- a. The GDP has stopped increasing and has begun to decline.
 - b. The GDP is stagnant.
 - c. There is a GDP gap.
 - d. The GDP has stopped declining and has begun to increase.
- ___ 30. Which group has the highest unemployment rate in the U.S.?
- a. African Americans
 - b. Caucasians
 - c. Asians
 - d. women

Match each item with its correct description.

- a. creditors
 - b. debtors
 - c. stagflation
 - d. market basket
 - e. deflation
- ___ 31. a period of stagnant economic growth coupled with inflation
- ___ 32. a decrease in the general level of prices of goods and services
- ___ 33. a representative collection of goods and services used to compile a price index
- ___ 34. persons or institutions that owe money
- ___ 35. persons or institutions to whom money is owed

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Match each item with its correct description.

- a. unemployment rate
- b. outsourcing
- c. misery rate
- d. GDP gap
- e. civilian labor force

- ___ 36. the hiring of outside firms to perform non-core operations to lower operating costs
- ___ 37. the sum of all persons age sixteen and above who are either employed or actively seeking employment.
- ___ 38. the number of unemployed individuals divided by the total number of persons in the civilian labor force
- ___ 39. difference between what the economy can and does produce
- ___ 40. the sum of the monthly inflation and unemployment rates

Match each item with its correct description.

- a. depression scrip
- b. price index
- c. outsourcing
- d. peak
- e. GDP gap
- f. cyclical unemployment
- g. econometric model
- h. producer price index (PPI)
- i. stagflation
- j. trough

- ___ 41. combination of inflation and unmovng economic growth
- ___ 42. a practice in which outside firms are hired to perform non-core operations to lower operating costs
- ___ 43. point in time when real GDP stops declining and begins to expand
- ___ 44. point in time when real GDP stops expanding and begins to decline
- ___ 45. unofficial currency issued by towns, chambers of commerce, and other civic bodies during the 1930s
- ___ 46. statistical series used to measure changes in the price level over time
- ___ 47. macroeconomic expression used to describe how the economy is expected to perform in the future
- ___ 48. opportunity cost of unemployed resources
- ___ 49. jobs lost directly related to swings in the business cycle
- ___ 50. monthly series of reports used to measure prices received by domestic producers