



**Faculty of Commerce
Department of Economics
English Section
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Module code: E214
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Questions for Chapter 5 of *Macroeconomics, 10e* (Parkin)

Choose the best answers for the following question 1 through ...

Employment and Unemployment

1) The working-age population is defined as the number of

- A) people over the age of 16 who are not in jail, hospital, or other institution.
B) people who have a job. C) people looking for work.
D) people working full-time jobs who are over the age of 16.

2) Which of the following best fits the definition of unemployed?

- A) retired and not working B) working less than a full work week
C) not working but looking for a job D) not working and not looking for work

Category	Number (millions)
Discouraged workers	15
Unemployed workers	40
Employed workers	100
Population (16 years and over)	225

3) In the above table, the working age population is

- A) 225 million. B) 100 million. C) 140 million. D) 155 million.

4) In the above table, the size of the labor force is

- A) 210 million. B) 155 million. C) 140 million. D) 100 million.

5) In the above table, the unemployment rate is

A) 6 percent. B) 24 percent. C) 18 percent. D) 29 percent.

6) Discouraged workers _____ counted as officially unemployed because they _____.

A) are; are not working
B) are; are still in the labor force
C) are not; are not qualified to work
D) are not; are not actively seeking work

Unemployment and Full Employment

7) When a woman reenters the labor force and looks for a job after spending time at home raising a child,

A) cyclical unemployment increases. B) structural unemployment decreases.
C) frictional and cyclical unemployment increase.
D) frictional unemployment increases.

8) Suppose that over a period of years the country of Quasiland switched from being an agriculturally-based economy to a technologically-based economy. As a result, many people lost jobs because they lacked the correct skills. As they search for new jobs, these people are part of

A) frictional unemployment. B) structural unemployment.
C) cyclical unemployment. D) discouraged workers.

9) An individual is structurally unemployed if

A) there is a recession and the individual is laid off.
B) the individual wants to work just during certain months of the year.
C) the individual quits a job in order to search for a better one.
D) the individual lacks marketable job skills because technology has changed.

10) Structural unemployment

A) falls during the expansion phase of the business cycle.
B) falls as the pace of technological progress increases.
C) generally lasts longer than frictional unemployment.
D) falls when the government provides more generous unemployment compensation benefits.

11) When the economy switches production toward services and away from manufacturing and workers in the manufacturing industry are permanently laid off,

A) frictional unemployment decreases. B) structural unemployment increases.
C) cyclical unemployment increases. D) frictional and cyclical unemployment increase.

12) How would you best describe a manufacturing employee who has been fired because he was replaced by a robot (new technology) and does not have the skills necessary to help operate the robot?

A) job leaver B) entrant/reentrant C) cyclically unemployed D) structurally unemployed

13) An observer of the economy notices that over the past 12 months the unemployment rate has fallen from 7.0 percent to 6.5 percent. During the same time, the rate of growth in real GDP has been positive. From this information we might conclude that

- A) inflation is not occurring. B) an expansion is occurring in the economy.
C) a recession is in progress. D) a trough in the business cycle will soon be reached.

14) Mike has just been laid off from his construction job because consumers are not purchasing new homes because of the recession. Mike would be considered to be part of

- A) structural unemployment. B) cyclical unemployment.
C) seasonal unemployment. D) frictional unemployment.

15) Full employment occurs when

- A) structural unemployment is zero. B) cyclical unemployment is zero.
C) frictional unemployment is zero.
D) cyclical and frictional unemployment are zero.

16) Suppose the economy is experiencing frictional unemployment of 1 percent, structural unemployment of 3 percent and cyclical unemployment of 4 percent. What is the natural unemployment rate?

- A) 3 percent. B) 4 percent. C) 5 percent. D) 7 percent.

17) Suppose that the unemployment rate equals 4.5 percent and that the natural unemployment rate is 5.5 percent. We can conclude that

- A) the output gap is negative. B) the output gap equals zero.
C) the output gap is positive. D) we have mismeasured the natural unemployment rate.

The Price Level, Inflation, and Deflation

18) A permanent increase in the price level is defined as

- A) a recession. B) a growth boom. C) inflation. D) an expansion.

19) Hyperinflation is defined as

- A) declining inflation rates. B) rising but low inflation rates.
C) very high inflation rates. D) very low inflation rates.

20) Using the notation P_t to designate this period's price level and P_{t-1} to designate last period's price level, the formula for measuring the inflation rate from last period to this period is

- A) $[(P_t - P_{t-1}) / P_t] \times 100$. B) $[(P_{t-1} - P_t) / P_{t-1}] \times 100$.
C) $[(P_t - P_{t-1}) / P_{t-1}] \times 100$. D) $[(P_{t-1} - P_t) / P_t] \times 100$.

21) Suppose the CPI last year is 121 and the CPI this year is 137. The correct method to calculate the inflation rate is

- A) $(137 - 121)/100 = 0.16$. B) $137 \times 121 = 258$.
C) $[(137 - 121)/121] \times 100 = 13.2$. D) $(137/121) \times 100 = 113.2$.

22) Which of the following means that the CPI overstates the actual inflation rate?

- A) new goods bias B) quality change bias
C) outlet substitution bias D) All of the above cause the CPI to overstate inflation

Essay Questions

23) Why is unemployment a problem?

24) Can frictional unemployment ever be totally eliminated? Explain your answer.

25) Explain the difference between frictional and structural unemployment.

26) What is the relationship between the natural unemployment rate, the unemployment rate, potential GDP, and actual GDP?

Numeric Questions

27) The tables below give the purchases of an average consumer in a small economy. (These consumers purchase only shampoo and pizza.) Suppose 2010 is the reference base period.

Item	Quantity (2010)	Price (2010)
Shampoo	25	\$2.35
Pizza	15	\$7.50

Item	Quantity (2010)	Price (2011)
Shampoo	25	\$2.50
Pizza	15	\$7.75

- a) What is the cost of the CPI basket in 2010 and 2011?
b) What is the CPI in 2010 and in 2011?
c) What is the inflation rate between 2010 and 2011?