1. Business cycles occur when output  
  
Hint: Business cycles fluctuate over time around the linear trend of gross domestic product (GDP).  
  
A. falls below its potential  
  
B. rises above its potential  
  
C. is fixed at its potential  
  
D. fluctuates around its growth trend ]  
  
2. Which of these statements best describes a complete individual business cycle?  
  
Hint : A complete business cycle is measured from the initial peak to the next peak.  
  
A. Movement from peak to trough to peak  
  
B. Movement from recession to expansion  
  
C. Movement from peak to recession to trough  
  
D. Movement from trough to expansion then to peak  
  
3. During the business cycle, the period between the point at which output reaches a high and the point at which it reaches a low is called  
  
Hint : After a period of economic expansion, the economy usually contracts. This contraction would be characterized by higher unemployment and a declining GDP.  
  
A. a peak  
  
B. a trough  
  
C. an expansion  
  
D. a recession  
  
4. Which of the following equals the market value of all final goods and services produced in an economy, stated in the prices of a specific base year?  
  
A. Nominal GNP  
  
B. Nominal GDP  
  
C. Real GDP  
  
D. Real GNP  
  
5. Imagine a country has a population of 210 million. Within the country there are 95 million people who are employed workers, 50 million people incapable of working, and 60 million people capable of working, but not actively looking. Based on this information, what is the unemployment rate?  
  
Hint : Begin by looking at the labor force, then find the number of unemployed people. Some division and multiplication will be necessary after this point to find the unemployment rate.  
  
A. 3%  
  
B. 5%]  
  
C. 7%  
  
D. 9%  
  
6. The unemployment produced by fluctuations in economic activity is called  
  
Hint X Unemployment often changes with the business cycles. As the economy expands, the level of unemployment decreases. The unemployment level decreases as the economy expands.  
  
A. frictional unemployment  
  
B. cyclical unemployment]  
  
C. natural unemployment  
  
D. structural unemployment  
  
7. New college graduates are most likely to experience  
  
Hint X New college graduates often are people who are just entering the labor force or are in the process of changing jobs.  
  
A. frictional unemployment]  
  
B. cyclical unemployment  
  
C. natural unemployment  
  
D. structural unemployment  
  
8. The natural rate of unemployment is defined as the  
  
Hint X The natural rate of unemployment occurs when the economy is considered stable.  
  
A. highest sustainable rate of unemployment achievable under existing conditions  
  
B. unemployment rate that is consistent with the economy operating at its potential output]  
  
C. unemployment rate at which there is no cyclical unemployment  
  
D. the rate of unemployment that should exist according to policy makers  
  
9. The Consumer Price Index (CPI) is based on  
  
Hint X The CPI serves as an indicator for consumer inflation.  
  
A. surveys of retail store sales  
  
B. a broad index of all items in GDP  
  
C. surveys of the prices of items in a market basket  
  
D. Bureau of Labor Statistics estimates of price changes  
  
10. Unanticipated inflation is a problem for society because it  
  
Hint X Unanticipated inflation leads to inefficiencies, as people make better investment and consumption-spending decisions when they know accurate levels of future inflation.  
  
A. rewards lenders at the expense of borrowers  
  
B. increases real profits in the short term  
  
C. rewards savers at the expense of spenders  
  
D. benefits borrowers at the expense of lenders