Chapter 9 – Unemployment and Inflation – Quick Quiz

INFLATION

1. If the Consumer Price Index rises from 300 to 333 in a particular year, the rate of inflation in that year is:
A. 11 percent.
B. 33 percent.
C. 91 percent.
D. 10 percent.

2. Demand-pull inflation:
A. occurs when prices of resources rise, pushing up costs and the price level.
B. occurs when total spending exceeds the economy's ability to provide output at the existing price level.
C. occurs only when the economy has reached its absolute production capacity.
D. is also called cost-push inflation.

3. Inflation initiated by increases in wages or other resource prices is labeled:
A. demand-pull inflation.
B. demand-push inflation.
C. cost-push inflation.
D. cost-pull inflation.

4. Cost-of-living adjustment clauses (COLAs):
A. invalidate the "rule of 70."
B. apply only to demand-pull inflation.
C. increase the gap between nominal and real income.
D. tie wage increases to changes in the price level.

5. Which of the following statements is *correct?* Unanticipated inflation:
A. arbitrarily "taxes" fixed-income groups.
B. increases the real value of savings.
C. increases the purchasing power of the dollar.
D. benefits creditors at the expense of debtors.