ANSWERS - 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.**