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.**