

AP Macro Unit 2 Week 6 Problem Set

Name: _____

A. Released AP multiple-choice questions on unemployment

37. Which type of unemployment would increase if workers lost their jobs because of a recession?
- (A) Cyclical
 - (B) Frictional
 - (C) Seasonal
 - (D) Search
 - (E) Structural
25. When an economy is in equilibrium at potential gross domestic product, the actual unemployment rate is
- (A) equal to the cyclical rate
 - (B) greater than the natural rate
 - (C) less than the natural rate
 - (D) equal to the natural rate
 - (E) equal to zero
9. The official unemployment rate understates the unemployment level in the economy because the official unemployment rate
- (A) ignores the duration of unemployment
 - (B) ignores underemployed and discouraged workers
 - (C) includes jobs created by the underground economy
 - (D) excludes all unemployed teenagers
 - (E) excludes frictionally unemployed workers

B. Practice CPI and inflation problem

To get the cost of the basket, add up the prices of all items in the basket in a given year. The cost of each year's market basket can then be used to create a price index.

Good	Year 1	Year 2	Year 3
1 lb of Apples	\$1.00	\$2.00	\$2.50
1 lb of Bananas	\$.25	\$.50	\$.75
1 Gallon Milk	\$1.75	\$2.50	\$2.75
Cost of Market Basket (COMB)			

Based on the table above, do the following calculations.

1. Calculate the cost of the market basket in each year.
2. Using year 1 as the base year, calculate the CPI for each year. _____

3. Using the change over time formula and the CPIs for each year, calculate the inflation rate from year 1 to year 2 and from year 2 to year 3. _____

C. Practice CPI and inflation problem

Year	Units of output	Price per unit	Cost of market basket	CPI	Inflation rate
1	10	\$4			
2	10	\$5			
3	15	\$6			
4	20	\$8			
5	25	\$4			

Complete the table above using year 1 as the base year.

D. Unanticipated inflation:

Identify which people are helped and which are hurt by unanticipated inflation.

1. A man who lent out \$500 to his friend in 1960 and gets paid back in 2018.
2. A tenant who is charged \$850 rent each year.
3. An elderly couple living off fixed retirement payments of \$2000 a month.
4. A man that borrowed \$1,000 in 1995 and paid it back in 2014.
5. A woman who saved \$500 in 1950 by putting it under her mattress.

E. CPI and GDP Deflator

Year	Units of output	Price per unit	Nominal GDP	Real GDP	GDP Deflator	Inflation Rate
1	10	\$4				
2	10	\$5				
3	15	\$6				
4	20	\$8				
5	25	\$4				

1. Using year 1 as the base year, complete the table above.
2. Recalculate the above using year 3 as the base year.

F. GDP Deflator Practice

1. In an economy, Real GDP (base year = 1996) is \$100 billion and the Nominal GDP is \$150 billion. Calculate the GDP deflator.
2. In an economy, Real GDP (base year = 1996) is \$125 billion and the Nominal GDP is \$150 billion. Calculate the GDP deflator.
3. In an economy, Real GDP for year 2002 (base year = 1996) is \$200 billion and the GDP deflator 2002 (base year = 1996) is 120. Calculate the Nominal GDP for 2002.
4. In an economy, Nominal GDP for year 2005 (base year = 1996) is \$60 billion and the GDP deflator 2005 (base year = 1996) is 120. Calculate the Real GDP for 2005.

G. Released AP Questions

2. Which of the following groups would most likely gain from unanticipated inflation?
 - (A) Landlords who own apartments in cities with rent controls
 - (B) Individuals who have fixed retirement incomes
 - (C) Individuals who earn high incomes
 - (D) Individuals who have borrowed money at fixed interest rates
 - (E) Banks that have loaned all excess reserves at a fixed interest rate
34. Which of the following statements is true of unanticipated inflation?
 - (A) It decreases the economic well-being of all members of society proportionately.
 - (B) It decreases the economic well-being of all members of society equally.
 - (C) It increases the economic well-being of net creditors.
 - (D) It increases the economic well-being of net debtors.
 - (E) It increases the economic well-being of workers with long-term labor contracts.
41. The consumer price index (CPI) is designed to measure changes in the
 - (A) spending patterns of urban consumers only
 - (B) spending patterns of all consumers
 - (C) wholesale price of manufactured goods
 - (D) prices of all goods and services produced in an economy
 - (E) cost of a select market basket of goods and services

H. Release FRQ

- (b) Assume that a significant number of workers are involuntarily changed from full-time to part-time employment. Explain how this will affect the number of people who are officially classified as unemployed.
- (c) Assume that the government reduces the level of unemployment compensation.
 - (i) Explain how this affects the natural rate of unemployment.