1) The consumer price index (CPI)
   A) compares the cost of the typical basket of goods consumed in period 1 to the cost of a basket of goods typically consumed in period 2.
   B) compares the cost in the current period to the cost in a reference base period of a basket of goods typically consumed in the base period.
   C) measures the increase in the prices of the goods included in GDP.
   D) is the ratio of the average price of a typical basket of goods to the cost of producing those goods.

2) If the CPI basket of goods cost $200 in the base period and $450 in a later year, the CPI in the later year equals
   A) 225.
   B) 250.
   C) 300.
   D) 450.

3) In Table 1, what is the inflation rate in 1999?
   A) 17.0 percent.
   B) 6.8 percent.
   C) 8.3 percent.
   D) –4.0 percent.

4) In Table 1, what is the inflation rate in 2001?
   A) 17.0 percent.
   B) 6.8 percent.
   C) 8.3 percent.
   D) –4.0 percent.

5) In Table 1, what is the price level in 2002?
   A) 125.
   B) 130.
   C) 140.
   D) 145.

6) Consider Table 1. In 2001, this country experienced
   A) inflation.
   B) deflation.
   C) disinflation.
   D) hyperinflation.

7) The biases in the CPI include the
   A) old goods, unemployment, and inflation biases.
   B) new goods, quality change, and substitution biases.
   C) old goods, new goods, and quality change biases.
   D) substitution, new goods, and old goods biases.

8) The biases in the CPI are
   A) not important since they are so small.
   B) important only to economists, not the real world.
   C) important since they effect nearly 1/3 of federal government spending.
   D) not important although they are large.

9) The technique currently used to calculate the CPI implicitly assumes that over time consumers buy
   A) relatively more of goods whose relative prices are rising.
   B) relatively less of goods whose relative prices are rising.
   C) the same relative quantities of goods as in a base year.
   D) goods and services whose quality improves at the rate of growth of real income.
10) Substitution bias in the CPI refers to the fact that the CPI
A) takes into account the substitution of goods by consumers when relative prices change.
B) takes no account of the substitution of goods by consumers when relative prices change.
C) substitutes quality changes whenever they occur without taking account of the cost of the quality changes.
D) substitutes relative prices for absolute prices of goods.

11) The Consumer Price Index is a measure of the average of the prices paid by ____ for a fixed basket of consumer goods and services.
A) urban consumers
B) all consumers
C) urban wage earners and clerical workers
D) consumers living in cities with a population greater than 100,000

12) In 2003, the money wage rate was $30.00 an hour and the real wage rate was $24.00 an hour. In 2004, the money wage rate was $40.00 an hour and the real wage rate was $30.00 an hour. In 2003, the GDP deflator was ____ and in 2004 it was ____.
A) 125; 133
B) 80; 75
C) 1.25; 1.26
D) 125; 126

13) Consider Table 2. What is the CPI in 2004?
A) 320
B) 1.00
C) 3.20
D) 100

14) Consider Table 2. What is the CPI in 2005?
A) 59
B) 129
C) 169
D) 102

15) Consider Table 2. What is the inflation rate in 2005?
A) 69 percent
B) 15 percent
C) 31 percent
D) 2 percent

16) If the expected inflation rate is 4 percent and the actual inflation rate is 6 percent, then
A) borrowers and lenders are both better off.
B) borrowers are better off and lenders are worse off.
C) borrowers are worse off and lenders are better off.
D) borrowers and lenders are both worse off.
E) None of the above.

17) If there is unexpected disinflation, then
A) workers are worse off and firms are better off.
B) workers are better off and firms worse off.
C) workers and firms are worse off.
D) workers and firms are better off.
E) None of the above.