

**ECON 202**  
**EXAMPLE TEST #3**  
**PRICE LEVEL**

- 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.

Table 1

Year	Price index	Inflation rate (percent)
1998	100	
1999	117	?
2000	125	?
2001	120	?
2002	?	8.3
2003	150	?

- 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.
  
- 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.
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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

Table 2: CPI Basket in School-Land

Item	2004 (Base year)		2005	
	Quantity	Price	Quantity	Price
Books	10	\$30	8	\$50
Pens	20	\$1	15	\$2

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.