

BPE MAC1 Macroeconomics 1 – Spring Semester 2011

Tutorial Session 1 - 11:05-11:50 a.m.

Multiple Choice

Identify the choice that best completes the statement or answers the question.

- ___ 1. Which price index measures the average price of things purchased by the typical family?
- GDP deflator
 - producer price index
 - consumer price index
 - minimum wage
- ___ 2. The good that receives the most weight in the CPI is the good that
- consumers buy most frequently.
 - has experienced the greatest price increase.
 - has the highest price.
 - consumers spend the largest fraction of their income on.
- ___ 3. Which of the following is a reason why the Consumer Price Index (CPI) is not calculated as a simple average of all prices?
- Some goods experience large price changes and the CPI would be too variable if computed by a simple average.
 - Goods differ in their importance in the average consumer's budget.
 - Some goods never experience price changes and the CPI would not be variable enough if computed as a simple average.
 - It would be difficult to compute a price index using a simple average of all prices.
- ___ 4. Substitution bias
- is one factor that causes the CPI to underestimate the inflation rate.
 - is caused by the poor quality of many imported products.
 - is one of the primary causes of inflation.
 - involves consumer behaviour that helps explain why the CPI overestimates the inflation rate.
- ___ 5. Improvements in the quality of consumer goods and services over time
- cause the CPI to overstate actual inflation.
 - cause the CPI to understate actual inflation.
 - are accounted for in the CPI.
 - are insignificant and thus would not affect the CPI even if accounted for.
- ___ 6. Factors that cause the CPI to exaggerate the inflation rate do NOT include
- the tendency of consumers to substitute relatively cheaper goods for those that have become relatively more expensive.
 - political pressure from unions and retirees on the providers of a country's official statistics to overstate the inflation rate.
 - the introduction of new technologies that make it easier to obtain the same standard of living.
 - improvements over time on the quality of products.

- ___ 7. The CPI differs from the GDP deflator in that the CPI
- uses base year quantities of goods to weight prices.
 - uses current year quantities of goods to weight prices.
 - is not a weighted price index.
 - always indicates a higher rate of inflation than the GDP deflator.
- ___ 8. If the consumer price index has a value of 115 today and the base year is 2000, then consumer prices have
- increased by 15 per cent since 2000.
 - increased by 1.5 per cent since 2000.
 - more than doubled since 2000.
 - declined 15 per cent since 2000.
- ___ 9. Use this table to find the real wage in 2002.

<u>Year</u>	<u>Nominal Wage (€/Hour)</u>	<u>CPI</u>
2001	€12.50	155.0
2002	€13.00	160.0

- €8.06
 - €8.13
 - €13.00
 - €20.80
- ___ 10. The real interest rate on a loan
- is the amount that the consumer agrees to pay.
 - is always the same as the nominal rate.
 - is the percentage increase in the lender's purchasing power that results from making the loan.
 - decreases as the inflation rate increases.
- ___ 11. When the inflation rate ends up being lower than expected,
- everyone benefits because money is cheaper.
 - everyone benefits because prices do not increase.
 - lenders of fixed rate mortgages generally benefit because they will make higher profits than they had calculated.
 - borrowers with fixed rate loans will benefit because their purchasing power will not decline as much.
- ___ 12. In general, a higher than anticipated inflation rate
- helps everyone.
 - hurts everyone.
 - helps creditors and harms debtors.
 - helps debtors and harms creditors.

Tutorial Session 1 - 11:05-11:50 a.m.**Answer Section****MULTIPLE CHOICE**

1. ANS: C
consumer price index

PTS: 1

2. ANS: D
consumers spend the largest fraction of their income on.

PTS: 1

3. ANS: B
Goods differ in their importance in the average consumer's budget.

PTS: 1

4. ANS: D
involves consumer behaviour that helps explain why the CPI overestimates the inflation rate.

PTS: 1

5. ANS: A
cause the CPI to overstate actual inflation.

PTS: 1

6. ANS: B
political pressure from unions and retirees on the providers of a country's official statistics to overstate the inflation rate.

PTS: 1

7. ANS: A
uses base year quantities of goods to weight prices.

PTS: 1

8. ANS: A
increased by 15 per cent since 2000.

PTS: 1

9. ANS: B
€8.13

PTS: 1

10. ANS: C
is the percentage increase in the lender's purchasing power that results from making the loan.

PTS: 1

11. ANS: D
borrowers with fixed rate loans will benefit because their purchasing power will not decline as much.

PTS: 1

12. ANS: D
helps debtors and harms creditors.

PTS: 1