

Chapter 26

Unemployment and Its Natural Rate

Test A

1. The natural rate of unemployment is
 - a. zero percent.
 - b. the rate associated with the highest possible level of GDP.
 - c. created primarily by short-run fluctuations in real GDP.
 - d. the amount of unemployment that the economy normally experiences.

ANSWER: d. the amount of unemployment that the economy normally experiences.

TYPE: M KEY1: D SECTION: INT OBJECTIVE: 1 RANDOM: Y

2. Unemployment data is collected
 - a. from firms and unemployment insurance claims.
 - b. through a regular survey of about 60,000 households.
 - c. from payroll data received for tax purposes.
 - d. None of the above is correct.

ANSWER: b. through a regular survey of about 60,000 households.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

3. Which of the following people is counted as unemployed according to official statistics?
 - a. Nancy, who is on temporary layoff
 - b. Gary, who has retired and is not looking for work
 - c. Brian, a full-time student who is not looking for work
 - d. All of the above are correct.

ANSWER: a. Nancy, who is on temporary layoff

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

4. Who would be included in the labor force?
 - a. Holly, an unpaid homemaker
 - b. Dave, who does not have a job, but is looking for work
 - c. Bruce, a full-time student not looking for work
 - d. None of the above are included in the labor force.

ANSWER: b. Dave, who does not have a job, but is looking for work

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

5. The BLS recently reported that there were 45.38 million college graduates over age 16. Of this number 36.08 million were in the labor force and 35.48 were employed. What was the labor-force participation rate and the unemployment rate for this group?
- a. about 78 percent and 1.3 percent
 - b. about 79.5 percent and 1.7 percent
 - c. about 92 percent and 1.3 percent
 - d. about 98 percent and 1.7 percent

ANSWER: b. about 79.5 percent and 1.7 percent.

TYPE: M KEY1: E SECTION: 1 OBJECTIVE: 1 RANDOM: Y

6. Kay loses her job and decides to sit around home for a few months. *Ceteris paribus*, the unemployment rate
- a. increases, and the labor-force participation rate decreases.
 - b. increases, and the labor-force participation rate is unaffected.
 - c. increases, and the labor-force participation rate increases.
 - d. is unaffected, and the labor-force participation rate increases.

ANSWER: a. increases, and the labor-force participation rate decreases.

TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

7. Which of the following is correct?
- a. Teenagers have lower labor-force participation rates and lower unemployment rates than do adults.
 - b. Teenagers have lower labor-force participation rates and higher unemployment rates than do adults.
 - c. Teenagers have higher labor-force participation rates and higher unemployment rates than do adults.
 - d. Teenagers have higher labor-force participation rates and lower unemployment rates than do adults.

ANSWER: b. Teenagers have lower labor-force participation rates and higher unemployment rates than do adults.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

8. Just after World War II, the labor-force participation rate of women was
- about $\frac{3}{5}$ and currently is $\frac{1}{2}$.
 - about $\frac{1}{2}$ and currently is about $\frac{3}{5}$.
 - about $\frac{1}{3}$ and currently is about $\frac{3}{5}$.
 - about $\frac{1}{4}$ and currently is about $\frac{2}{3}$.

ANSWER: c. about $\frac{1}{3}$ and currently is about $\frac{3}{5}$.

TYPE: M DIFFICULTY: 3 KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

9. Suppose that some people report themselves as unemployed when, in fact, they are working in the underground economy. If these persons were counted as employed,
- both the unemployment rate and labor-force participation rate would be higher.
 - the unemployment rate would be higher and the labor-force participation rate would be unchanged.
 - the unemployment rate would be lower and the labor-force participation rate would be unchanged.
 - both the unemployment rate and labor-force participation rate would be lower.

ANSWER: c. the unemployment rate would be lower and the labor-force participation rate would be unchanged.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

10. Christine is looking for work as a financial analyst. Although her prospects are good, she hasn't yet taken a job. Pam is looking for work in a furniture factory, but there aren't many furniture companies looking for workers and every time she shows up for an interview, there are many more people than openings.
- Christine is frictionally unemployed and Pam is structurally unemployed.
 - Christine is structurally unemployed and Pam is frictionally unemployed.
 - Christine and Pam are both frictionally unemployed.
 - Christine and Pam are both structurally unemployed.

ANSWER: a. Christine is frictionally unemployed and Pam is structurally unemployed.

TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

11. People who are unemployed because of job search are best classified as
- cyclically unemployed.
 - discouraged workers.
 - frictionally unemployed.
 - structurally unemployed.

ANSWER: c. frictionally unemployed.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

12. Sectoral shifts in the economy
- create structural unemployment.
 - immediately reduce unemployment.
 - on net leave unemployment unchanged.
 - increase unemployment due to job search.

ANSWER: d. increase unemployment due to job search.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

13. Unemployment insurance
- reduces job search unemployment.
 - decreases the natural rate of unemployment.
 - increases frictional unemployment.
 - All of the above are correct.

ANSWER: c. increases frictional unemployment.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

14. A typical American worker covered by unemployment insurance receives
- 100 percent of their former wages for 26 weeks.
 - 75 percent of their former wages for 50 weeks.
 - 50 percent of their former wages for 26 weeks.
 - 25 percent of their former wages for 50 weeks.

ANSWER: c. 50 percent of their former wages for 26 weeks.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

15. An increase in the world price of oil creates a sectoral shift that probably
- decreases unemployment, and the decrease would be greater in a country with unemployment insurance than in one without.
 - decreases unemployment, but the decrease would be smaller in a country with unemployment insurance than in one without.
 - increases unemployment, and the increase would be greater in a country with unemployment insurance than in one without.
 - increases unemployment, but the increase would be smaller in a country with unemployment insurance than in one without.

ANSWER: c. increases unemployment, and the increase would be greater in a country with unemployment insurance than in one without.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

16. Minimum wage laws
- probably reduce teenage employment.
 - are probably the major cause of natural unemployment.
 - probably most adversely affect skilled workers.
 - All of the above are correct.

ANSWER: a. probably reduce teenage employment.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

17. Between the 1940s and today, union membership
- fell from about 1/2 to 1/3 of the labor force.
 - fell from about 1/3 to 1/6 of the labor force.
 - rose from about 1/6 to 1/3 of the labor force.
 - rose from about 1/3 to 1/2 of the labor force.

ANSWER: b. fell from about 1/3 to 1/6 of the labor force.

TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 4 RANDOM: Y

18. When a union bargains successfully with an employer,
- the quantity of labor supplied increases but the quantity of labor demanded decreases.
 - the quantity of labor supplied increases but the quantity of labor demanded increases.
 - both the quantity of labor supplied and the quantity of labor demanded increase.
 - both the quantity of labor supplied and the quantity of labor demanded decrease.

ANSWER: a. the quantity of labor supplied increases but the quantity of labor demanded decreases.

TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 4 RANDOM: Y

19. When unions raise wages in one sector of the economy, the supply of labor in other sectors of the economy
- decreases, raising wages in industries that are not unionized.
 - decreases, reducing wages in industries that are not unionized.
 - increases, raising wages in industries that are not unionized.
 - increases, reducing wages in industries that are not unionized.

ANSWER: d. increases, reducing wages in industries that are not unionized.

TYPE: M DIFFICULTY: 3 KEY1: D SECTION: 4 OBJECTIVE: 4 RANDOM: Y

20. Right-to-work laws

- a. prevent employers from hiring permanent replacements for workers who are on strike.
- b. allows employers to replace workers who are on strike.
- c. guarantee workers the right to form unions.
- d. give workers in a unionized firm the right to choose whether or not to join the union.

ANSWER: d. give workers in a unionized firm the right to choose whether to join the union.

TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 4 RANDOM: Y

21. Angela is the newly appointed CEO of a company that manufactures computer chips on an assembly line. Her staff has told her that given productivity numbers, they suspect some workers may be shirking. According to efficiency wage theory, what should she do?

- a. Pay all workers more than the equilibrium wage rate.
- b. Reward those who shirk with higher wages.
- c. Pay below the equilibrium wage rate to make up for the loss from shirking.
- d. Make sure that workers are getting paid exactly the equilibrium wage rate.

ANSWER: a. Pay all workers more than the equilibrium wage rate.

TYPE: M KEY1: C SECTION: 4 OBJECTIVE: 4 RANDOM: Y

22. Efficiency wages reduce

- a. the average quality of job applicants.
- b. labor-force participation rates.
- c. the natural rate of unemployment.
- d. the incentive to shirk.

ANSWER: d. the incentive to shirk.

TYPE: M KEY1: D SECTION: 5 OBJECTIVE: 5 RANDOM: Y

23. An efficient wage designed to ensure that quality workers are hired is designed principally to reduce a problem created by

- a. adverse selection, but it also increases unemployment.
- b. adverse selection, but it also decreases unemployment.
- c. moral hazard, but it also increases unemployment.
- d. moral hazard, but it also decreases unemployment.

ANSWER: a. adverse selection, but it also increases unemployment.

TYPE: M KEY1: C SECTION: 5 OBJECTIVE: 5 RANDOM: Y

24. Which of the following explanations of the natural rate of unemployment is most important for the U.S. economy?
- a. job search
 - b. minimum wage laws
 - c. unions
 - d. Economists have not determined the answer to this question.

ANSWER: d. Economists have not determined the answer to this question.

TYPE: M KEY1: D SECTION: 6 OBJECTIVE: 4 RANDOM: Y

25. Henry Ford paid his workers \$5.00 per day to
- a. meet union demands.
 - b. prevent his workers from unionizing.
 - c. protest minimum wage laws.
 - d. increase worker productivity.

ANSWER: d. increase worker productivity.

TYPE: M KEY1: D SECTION: 6 OBJECTIVE: 4 RANDOM: Y

- 1 ANSWER: d. the amount of unemployment that the economy normally experiences.

TYPE: M KEY1: D SECTION: INT OBJECTIVE: 1 RANDOM: Y

- 2 ANSWER: b. through a regular survey of about 60,000 households.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

- 3 ANSWER: a. Nancy, who is on temporary layoff

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

- 4 ANSWER: b. Dave, who does not have a job, but is looking for work

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

- 5 ANSWER: b. about 79.5 percent and 1.7 percent.

TYPE: M KEY1: E SECTION: 1 OBJECTIVE: 1 RANDOM: Y

6 ANSWER: a. increases, and the labor-force participation rate decreases.

TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

7 ANSWER: b. Teenagers have lower labor-force participation rates and higher unemployment rates than do adults.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

8 ANSWER: c. about 1/3 and currently is about 3/5.

TYPE: M DIFFICULTY: 3 KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

9 ANSWER: c. the unemployment rate would be lower and the labor-force participation rate would be unchanged.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

10 ANSWER: a. Christine is frictionally unemployed and Pam is structurally unemployed.

TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

11 ANSWER: c. frictionally unemployed.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

12 ANSWER: d. increase unemployment due to job search.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

13 ANSWER: c. increases frictional unemployment.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

14 ANSWER: c. 50 percent of their former wages for 26 weeks.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

15 ANSWER: c. increases unemployment, and the increase would be greater in a country with unemployment insurance than in one without.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

16 ANSWER: a. probably reduce teenage employment.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

17 ANSWER: b. fell from about 1/3 to 1/6 of the labor force.

TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 4 RANDOM: Y

18 ANSWER: a. the quantity of labor supplied increases but the quantity of labor demanded decreases.

TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 4 RANDOM: Y

19 ANSWER: d. increases, reducing wages in industries that are not unionized.

TYPE: M DIFFICULTY: 3 KEY1: D SECTION: 4 OBJECTIVE: 4 RANDOM: Y

20 ANSWER: d. give workers in a unionized firm the right to choose whether to join the union.

TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 4 RANDOM: Y

21 ANSWER: a. Pay all workers more than the equilibrium wage rate.

TYPE: M KEY1: C SECTION: 4 OBJECTIVE: 4 RANDOM: Y

22 ANSWER: d. the incentive to shirk.

TYPE: M KEY1: D SECTION: 5 OBJECTIVE: 5 RANDOM: Y

23 ANSWER: a. adverse selection, but it also increases unemployment.

TYPE: M KEY1: C SECTION: 5 OBJECTIVE: 5 RANDOM: Y

24 ANSWER: d. Economists have not determined the answer to this question.

TYPE: M KEY1: D SECTION: 6 OBJECTIVE: 4 RANDOM: Y

25 ANSWER: d. increase worker productivity.

TYPE: M KEY1: D SECTION: 6 OBJECTIVE: 4 RANDOM: Y