Name: _____ **Class:** _____ **Date:** _____ **ID: A**

Macro CH 22 sample test question

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

____ 1. The CPI stands for
a. Citizens Paying Index.
b. Corporate Placing Index.
c. Consumer Paying Index.
d. Consumer Price Index.
e. Corporate/Consumer Payment Index.

____ 2. The Consumer Price Index (CPI) measures the changes of the
a. prices paid by consumers for a fixed market basket of consumer goods and services.
b. quantities of a fixed market basket of goods produced by businesses.
c. lowest prices paid by consumers for a fixed market basket of consumer goods and services.
d. prices paid by all businesses for a fixed market basket of production resources.
e. prices paid by consumers and businesses for a fixed market basket of goods and services.

____ 3. The Consumer Price Index measures the average prices paid by
a. businesses for a fixed market basket of resources.
b. businesses for the most frequently used basket of resources.
c. urban consumers for a fixed market basket of goods and services.
d. urban consumers for the goods and services that most frequently change in price.
e. businesses and consumers for a market basket of goods and services.

____ 4. For the CPI to provide an accurate measure of the prices paid by urban consumers, it i necessary to
a. assign equal weights to all the goods and services included in the market basket surveyed so that nothing is over-weighted.
b. have a market basket that is consistent and corresponds to what households actually purchase.
c. have prices stated in dollars so consumers can compare what they spend.
d. change the market basket each month to reflect the changes that consumers make.
e. make certain that the incomes of the consumers surveyed do not change because such a change would affect the market basket of the goods and services they buy.

____ 5. The CPI is calculated by the Bureau of Labor Statistics on a frequency of every
a. week.
b. month.
c. quarter.
d. year.
e. decade, along with the Census.

____ 6. Suppose a report from the Bureau of Labor Statistics states that the CPI for the year 2004 was 160. What is the percentage point increase in the prices of the goods and services since the reference base period?
a. 160 percent
b. 60 percent
c. 100 percent
d. 40 percent
e. 260 percent.

____ 7. To measure the CPI, the BLS economic assistants check the prices of
a. 8,000 goods and services every year.
b. 8,000 goods and services every month.
c. 80,000 goods and services every month.
d. 80,000 goods and services every year.
e. only the goods and services whose prices have changed every month.

____ 8. The reference base period that the BLS uses to measure the CPI is
a. 1982-1984.
b. 1993-1995.
c. 1998-2000.
d. 1967-1969.
e. 2005

____ 9. If the current period has a CPI of 150, then the amount of inflation since the base period is
a. 150 percent.
b. 50 percent.
c. 250 percent.
d. 100 percent.
e. unknown without knowing the base period's CPI.

____ 10. The items included in the CPI are
a. final goods produced in the United States.
b. final goods and services produced in the United States.
c. goods and services consumed by the typical urban household.
d. only goods and services produced within the current year and consumed by the typical household.
e. gods but not services consumed by the typical urban household.

____ 11. The CPI market basket is determined by
a. tax return data of households.
b. supermarket purchases recorded by scanner technology.
c. profit releases of the largest companies.
d. a consumer survey.
e. surveys asking large retail companies, such as Walmart, about their sales of consumer goods and services.

____ 12. The largest component in the CPI market basket is
a. medical care.
b. housing.
c. education.
d. food and beverages.
e. apparel.

____ 13. According to the CPI basket, the largest item in the households' budgets is
a. food.
b. housing.
c. transportation.
d. education.
e. apparel.

____ 14. What is the good or service is given the most weight in the CPI?
a. apparel
b. food and beverages
c. housing
d. transportation
e. recreation.

____ 15. Consumers in Infland consume only two goods, magazines and pizzas. If they spend $50 on magazines and $90 on pizzas a month, how many magazines and pizzas are in their CPI market basket if the price of a magazine is $5 and the price of a pizza is $9.
a. 7 magazines and 5 pizzas
b. 10 magazines and 5 pizzas
c. 5 magazines and 7 pizzas
d. 10 magazines and 10 pizzas
e. It is impossible to determine the market basket without information on the quantity of at least one of the two goods consumed.

____ 16. When calculating the CPI, the Bureau of Labor Statistics
a. weights the price of goods and services in the basket relative to the importance of the average urban household budget.
b. sums the prices of the goods and services in the average urban household consumption basket.
c. weights the price of all goods and services produced in a year within a country's borders.
d. multiplies by 100 the average price of goods and services in the average urban consumer's basket.
e. makes certain to weight the goods and services equally so that no one product is over-weighted.

____ 17. The prices of the goods and services in the CPI market basket are collected
a. monthly.
b. yearly.
c. quarterly.
d. infrequently.
e. only when the CPI market basket is determined by the Consumer Expenditure Survey.

____ 18. When the price of, say, a package of rice changes, what must the BLS do next?
a. immediately incorporate the new price into the CPI.
b. determine if the new price is consistent with other price changes for the period.
c. determine if the size, quality, weight, or packing of the rice has changed and adjust the price accordingly.
d. ignore the price change.
e. immediately incorporate the new price into the CPI only if the price has fallen.

____ 19. The formula for the CPI is
a. [(Cost of CPI market basket at current period prices) ÷ (Cost of CPI market basket at next year's prices)] × 100.
b. [(Cost of CPI market basket at current period prices) ÷ (Cost of CPI market basket at base period prices)] × 100.
c. [(Cost of CPI market basket at base period prices) ÷ (Cost of CPI market basket at current period prices)] × 100.
d. [(Cost of CPI market basket this year) × (Cost of CPI market basket at base period prices)] ÷ 100.
e. [(Cost of CPI market basket this year) × (Cost of CPI market basket at base period prices)] × 100.

____ 20. Each month the CPI is calculated by
a. recording the new prices and making no other calculation.
b. multiplying the current cost of the CPI market basket by the base period cost and then dividing by 100.
c. subtracting the base period cost of the CPI market basket from the current cost and then dividing by 100.
d. dividing the current cost of the CPI market basket by the base period cost and then multiplying by 100.
e. subtracting the current period cost of the CPI market basket from the base period cost and then multiplying by 100.

____ 21.

Year	CPI
1994	90.0
1996	95.5
1998–2000	100.0
2002	104.0

The table above gives the CPI for a nation. Based on the table, we can determine that the reference base period is
a. 1994.
b. 1996.
c. 1998-2000.
d. 2002.
e. More information about when the Consumer Expenditure Survey was undertaken is needed to answer the question.

____ 22. If the cost of the CPI market basket at current period prices is $550 and the cost of the CPI market basket at base period prices is $250, the CPI is
a. 2.20.
b. 220.
c. 550.
d. 1,375.
e. 250.

____ 23. If the cost of the CPI market basket at current period prices is $272 and the cost of the CPI market basket at base period prices is $340, the CPI is
a. 80.
b. 100.
c. 125.
d. 924.8.
e. 272.

Item	Quantity (2005)	Price (2005)	Quantity (2006)	Price (2006)
Pens	400	$ 1.00	400	$1.02
CDs	200	$15.00	200	$15.90

____ 24. Consumers in a country buy only two goods, pens and CDs. The prices and quantities purchased by urban households are in the table above. If 2005 is the reference base year, the cost of the CPI market basket in the base year is
a. $3,400.
b. $3,408.
c. $3,580.
d. $3,508.
e. $3,500.

____ 25. Consumers in a country buy only two goods, pens and CDs. The prices and quantities purchased by urban households are in the table above. The reference base year is 2005. If the current year is 2006, the cost of the CPI market basket in 2006 is
a. $3,400.
b. $3,588.
c. $3,580.
d. $3,508.
e. $3,500.

Item	Quantity (2005)	Price (2005)	Quantity (2006)	Price (2006)
Sneakers	2	$55	2	$60
Manicures	1	$35	1	$40

____ 26. Consumers in a country buy only two goods, sneakers and manicures. The prices and quantities purchased by urban households are in the table above. The reference base year is 2005. The inflation rate between 2005 and 2006 is
a. $15.
b. 15.0 percent.
c. $10.
d. 10.3 percent.
e. 9.0 percent.

____ 27. A country reports the total expenditures on the fixed CPI basket for the past three years. The cost of the CPI basket in 2004 was $23,000, the cost of the CPI basket for the base period, 2005, was $23,805, and the cost of the CPI basket in 2006 was $24,500. The CPI for 2004 is
a. 96.6.
b. 100.0.
c. 103.5.
d. 106.5.
e. 23.0

____ 28. A country reports the total expenditures on the fixed CPI basket for the past three years. The cost of the CPI basket in 2004 was $23,000, the cost of the CPI basket for the base period, 2005, was $23,805, and the cost of the CPI basket in 2006 was $24,500. The CPI for 2006 is
a. 93.9.
b. 97.2.
c. 102.9.
d. 106.5.
e. 245.0.

____ 29. The inflation rate measures the
a. average price of the goods and services consumed by urban consumers.
b. percentage change in the price level from one year to the next year.
c. cost of the CPI market basket at current period prices divided by the cost of the CPI market basket at base period prices.
d. percentage change in the quantity of goods and services consumed by urban consumers.
e. cost of the CPI market basket at base period prices divided by the cost of the CPI market basket at current period prices.

____ 30. Which of the following formulas is used to calculate the inflation rate?
a. $\text{inflation rate} = 100 \times \frac{\text{CPI in current year}}{\text{CPI in base period}}$
b. $\text{inflation rate} = 100 \times \frac{\text{CPI in previous year}}{\text{CPI in current period}}$
c. $\text{inflation rate} = 100 \times \frac{\text{CPI in current period} - \text{CPI in previous year}}{\text{CPI in previous year}}$
d. $\text{inflation rate} = 100 \times \frac{\text{CPI in previous period} - \text{CPI in current year}}{\text{CPI in current year}}$
e. $\text{inflation rate} = 100 \times \frac{\text{CPI in base year}}{\text{CPI in current period}}$

____ 31. A country's CPI was 96.0 last year and 100.0 this year. The inflation rate was
a. 4.00 percent.
b. 4.17 percent.
c. 6.80 percent.
d. 7.29 percent.
e. –4.00 percent.

____ 32. If the CPI this year is 230 and the CPI in the previous year was 190, what is the annual inflation rate?
a. 40.0 percent.
b. 21.0 percent.
c. 17.4 percent.
d. 23.0 percent.
e. 19.0 percent.

____ 33. If in Switzerland in January, 2001 the CPI was 175.2 and in January, 2002 it was 175.4, then the inflation rate in 2001 was
a. unknown without the base period index number.
b. unknown without the real prices.
c. 0.1 percent.
d. 0.2 percent.
e. 17.54 percent.

____ 34. The CPI for 1994 was 120 and for 1995 was 130. What was the inflation rate between 1994 and 1995?
a. 8.33 percent
b. 7.7 percent
c. 10 percent
d. 13.0 percent.
e. 12.0 percent.

____ 35. Since 1305, the inflation rate has been the highest during the
a. 17th century.
b. 16th century.
c. 20th century.
d. 14th century.
e. 15th century.

____ 36. If we look back at inflation data since 1305, we see that
a. during the 20th century we have finally solved the problem of high inflation.
b. the Industrial Revolution caused the highest inflation rates.
c. the discovery of America caused prices to fall drastically.
d. inflation has been highest in the 20th century.
e. the most rapid inflation occurred prior to 1600.

____ 37. Since 1305, the inflation rate has been greater than 2 percent per year and reaching its highest peaks
a. primarily before 1400.
b. primarily between 1400 and 1500
c. primarily between 1500 and 1700.
d. primarily between 1700 and 1900.
e. primarily after 1900.

____ 38. Comparing the GDP deflator and the CPI, we can conclude that the GDP deflator
a. is more biased than the CPI.
b. has no biases.
c. is not a better measure of the cost of living.
d. is a better measure of the cost of living.
e. includes used goods whereas the CPI excludes used goods.

____ 39. Which of the following is NOT a source of bias in the CPI?
i. quality change bias
ii. new goods bias
iii. quantity change bias

a. i only.
b. ii only.
c. iii only.
d. i and ii.
e. ii and iii.

____ 40. The CPI is biased because it
a. takes into account the changes in product quality.
b. takes into account the changes in technology.
c. does not always take into account the changes in product quality.
d. accurately measures the cost of living but not the cost of producing.
e. does not include services.

____ 41. If the CPI is used as a cost of living index, incomes that are adjusted to reflect the changes in the CPI will
a. increase by more than the actual change in the cost of living.
b. decrease by more than the actual change in the cost of living.
c. increase by more than the actual change in quantities.
d. decrease by more than the actual change in quantities.
e. generally rise by about 2 percent a year because the standard of living generally rises by about 2 percent a year.

____ 42. The presence of new goods that are of higher quality than the old goods leads the BLS to
a. update the market basket every time a new good is available.
b. do nothing because at least some people still buy the old goods.
c. try to separate price differences from improvements in quality.
d. actually understate the cost of living when calculating the CPI.
e. immediately update the reference base period used in calculating the CPI.

____ 43. When a good gets better from one year to the next, the CPI has a what is called
a. new goods bias.
b. quality change bias.
c. commodity substitution bias.
d. outlet substitution bias.
e. magnitude of change bias.

____ 44. When discussing the CPI, the term "commodity substitution bias" refers to changes in
a. prices that lead business to change the items they buy.
b. quantities that lead households to change the items they buy.
c. prices that lead households to change the items they buy.
d. income that lead households to change the items they buy.
e. stores so that consumers switch from one store to another.

____ 45. In constructing the CPI, the BLS has to deal with commodity substitution bias, which is defined as
a. consumers' substitution of discount stores for full service stores to avoid the higher prices in the full service stores.
b. consumers' substitution of cheaper goods for goods whose prices increase.
c. the bias from quality changes in existing products that cause prices to increase.
d. the bias from new goods being introduced that are more expensive than older goods.
e. the bias that arises because the BLS changes the CPI market basket each month.

____ 46. The fact the consumers substitute one good for another when prices change is
a. taken into account by the fixed market basket used in calculating the CPI.
b. not taken into account by the fixed market basket used in calculating the CPI
c. not important to economists.
d. a reason why the CPI is used to calculate inflation rates.
e. a reason why the CPI understates the actual change in the cost of living.

____ 47. When the price of oranges increase relative to apples, people who buy fresh fruit respond by buying more apples and fewer oranges. As a result, the CPI has a
a. new goods bias.
b. quality change bias.
c. commodity substitution bias.
d. outlet substitution bias.
e. switchers bias.

____ 48. Suppose higher prices lead consumers to switch from shopping at Sears to shopping at Target. If the CPI does not reflect this change, it is referred to as
a. a new goods bias.
b. a quality change bias.
c. an outlet substitution bias.
d. a discriminating bias.
e. store bias.

____ 49. If higher prices cause buyers to shop at discount stores, the CPI has a
a. new goods bias.
b. quality change bias.
c. commodity substitution bias.
d. outlet substitution bias.
e. discounted bias.

____ 50. Mark has a two-year wage contract with his employer. Mark's wage contract specifies a $30,000 salary for the first year, and specifies a salary increase equal to the percentage increase in the CPI during the second year. The percentage increase in the CPI during the year was 3.0 percentage points. If the CPI overstates inflation by 1.0 percentage point, at the end of the first year Mark's salary increased by ____ more than it would have without the upward bias.
a. $30
b. $60
c. $300
d. $600
e. $1,800.

____ 51. Because a third of government outlays are linked directly to the CPI, as time passes the CPI bias means that the government's outlays are
a. larger than needed to keep pace with the cost of living.
b. smaller than needed to keep pace with the cost of living.
c. exactly equal to the changes in the cost of living.
d. larger than needed to keep pace with the cost of living if the CPI is falling from one year to the next, otherwise the outlays are smaller than needed to keep pace with the cost of living.
e. smaller than needed to keep pace with the cost of living if the CPI is falling from one year to the next, otherwise the outlays are larger than needed to keep pace with the cost of living.

____ 52. When comparing the GDP deflator to the CPI, we find that the
a. CPI has no faults unlike the GDP deflator.
b. GDP deflator is a better measure of the cost of living.
c. GDP deflator has no faults unlike the CPI.
d. CPI is used to help construct the GDP deflator.
e. CPI overs virtually all the final goods and services produced in our economy while the GDP deflator has a more limited coverage.

____ 53. When comparing the annual inflation rate in the United States based on the CPI with the annual inflation rate based on the GDP deflator, the data show that the two inflation rates
a. move in opposite directions.
b. remained constant over the thirty year period after 1975.
c. steadily increased over the thirty year period after 1975.
d. move up and down in similar but not identical ways.
e. both fluctuate but the fluctuations have little relationship to each other.

____ 54. When comparing the annual inflation rate in the United States based on the CPI with the annual inflation rate based on the GDP deflator, the data show that the
a. CPI measure tends to exceed the GDP deflator measure.
b. GDP deflator measure tends to exceed the CPI measure.
c. CPI measure and the GDP deflator measure are equal.
d. CPI measure and GDP deflator measure move in opposite directions.
e. CPI deflator and GDP deflator cannot be compared because they measure prices of different baskets of goods and services.

____ 55. The difference between nominal and real is
a. nominal is measured in current dollars and real is measured in dollars of a given year.
b. real is measured in current dollars and nominal is measured in dollars of a given year.
c. nominal is a number stated in dollars and real is stated with an index number.
d. real is a number stated in dollars and nominal is stated with an index number.
e. both nominal and real are measured with index numbers, only the nominal index is greater than 100 and the real index is less than 100.

____ 56. During 1990, a Hershey candy bar cost $.85. By 2005, the same Hershey candy bar cost $1.25. If the CPI was 130.7 in 1990 and 180.5 in 2005, the price of the 1990 Hershey candy bar in 2005 prices is
a. greater than the price of the 2003 Hershey candy bar.
b. less than the price of the 2003 Hershey candy bar.
c. equivalent to the price of the 2003 Hershey candy bar.
d. perhaps greater than, perhaps less, or perhaps the same depending on whether the CPI in 2005 has been adjusted to reflect 2005 prices.
e. not able to be determined given the information in the question.

____ 57. A ham and cheese sandwich at the local deli costs $3.99 in 1991. If the CPI in 1991 was 90.0 and the CPI today is 110.0, the equivalent price for the ham and cheese sandwich today is
a. $3.26.
b. $4.39.
c. $4.43.
d. $4.88.
e. $3.99.

____ 58. Carol brags to her mother that her starting salary as a management trainee is $26,000, much higher than her mother's starting salary of $18,000 as a management trainee several years ago. If the CPI the year Carol begins work is 160.5 and the CPI the year her mother started work was 107.6, Carol is
a. wrong. Adjusting for price changes, her salary is less than her mother's salary.
b. wrong. Adjusting for quantity changes, her salary is less than her mother's salary.
c. correct. Adjusting for price changes, her salary is more than her mother's salary.
d. correct. Adjusting for quantity changes, her salary is more than her mother's salary.
e. maybe wrong and maybe right. Adjusting for quantity changes, her salary is less than her mother's salary but with the information given we are unable to further adjust for price changes.

____ 59. If the price of a soda was 15 cents in 1970, when the CPI was 50, and 50 cents in 2005. when the CPI was 172, then the real price of
a. a soda has risen 567 percent.
b. a soda has risen 350 percent.
c. the 1970 soda in 2005 dollars is 52 cents.
d. the 2005 soda in 1970 dollars is $3.44.
e. the soda was 15 cents in 1970 and 50 cents in 2005.

____ 60. In 2005, in New York city, apples cost $1.49 per pound. Suppose the CPI was 120 in 2005 and 140 in 2006. If the price of apples increased by the percentage increase in the CPI, what would be the percentage increase in the price of a pound of apples?
a. 20.0 percent
b. 16.7 percent
c. 6.7 percent
d. 25.0 percent
e. 140 percent.

____ 61. Nominal and real wage rates
a. must always change by the same amount.
b. must always change in opposite directions by the same amount.
c. must always change in the same direction but could change by different amounts.
d. could change in opposite directions.
e. must always change in the same direction and the nominal wage rate must change more rapidly than the real wage rate.

____ 62. If there is inflation and we compare the changes in a nominal variable over time versus its real counterpart, such as the nominal wage rate versus the real wage rate, we find that the
a. two increase at about the same rate because of inflation.
b. real wage rate increases faster because of inflation.
c. nominal wage rate increases faster because of inflation.
d. two decrease at about the same rate because of inflation.
e. two change at a rate that does not depend on the inflation rate.

____ 63. Which of the following statements about the nominal and the real wage rates is correct?
a. The nominal wage rate equals the real wage rate divided by the CPI and then multiplied by 100.
b. The nominal wage rate is measured in the dollars of a base year.
c. The real wage rate is measured in current year dollars.
d. The real wage rate indicates how much can be purchased for an hour's labor.
e. The real wage rate equals the nominal wage rate multiplied by the CPI then divided by 100.

____ 64. In 2004, Cameron began his career with SBC. His starting salary was $32,000. By 2006, his salary increased to $35,000. If the CPI was 100.0 in 2004 and 107.5 in 2006, Cameron's 2006 real income is
a. $32,000.
b. $32,558.
c. $34,400.
d. $37,625.
e. $35,000.

____ 65. Your starting salary is $35,000 per year. After one year, you are given a raise that increases your nominal salary. Which of the following salaries would you prefer the most?
a. a $36,000 salary with a CPI of 102.0
b. a $39,000 salary with a CPI of 112.0
c. a $35,500 salary with a CPI of 103.0
d. a $37,000 salary with a CPI of 105.0
e. a $42,000 salary with a CPI of 117.0

____ 66. In order to determine if the purchasing power in terms of goods of workers' wages has increased or decreased between 2000 and 2006, one should compare the 2000
a. nominal wage with the 2006 nominal wage.
b. real wage with the 2006 nominal wage.
c. real wage with the 2006 real wage.
d. nominal wage with the 2006 real wage.
e. nominal wage with the 2006 nominal wage *and* the 2000 real wage with the 2006 real wage because both are important factors determining if workers can buy more or fewer goods with an hour's work.

____ 67. If the real wage rate increases over time, this means that the
a. inflation rate has increased over time.
b. quantity of labor has increased over time.
c. nominal wage rate has increased over time.
d. buying power of an hour's work has increased over time.
e. the CPI must have decreased over time.

____ 68. In 1999, the nominal wage rate for unionized carpenters was $28.25 and the CPI was 166.7. Calculate the real wage rate for this group of workers.
a. $28.25
b. $47.09
c. $5.90
d. $16.95
e. $11.58

____ 69. Your wage this year is $15 per hour and the CPI is 178. Next year you get a raise to $17 and the CPI rises to 185. What has happened?
a. Your real wage has increased but by a smaller percentage than your nominal wage.
b. Your nominal wage has increased but your real wage has declined.
c. Your real wage rate has increased by a larger percentage than your nominal wage.
d. Your real and nominal wages have each increased by the same percentage.
e. Your nominal wage has increased but your real wage has not changed.

____ 70. The percentage return on a loan expressed in terms of purchasing power is the
a. nominal wage rate.
b. real interest rate.
c. real wage rate.
d. nominal interest rate.
e. CPI interest rate.

____ 71. The real interest rate equals the
a. nominal interest rate – inflation rate.
b. nominal interest rate + inflation rate.
c. (nominal interest rate) ÷ (inflation rate).
d. inflation rate – nominal interest rate.
e. [(nominal interest rate) + (inflation rate)] × 100.

____ 72. The difference between nominal interest rates and real interest rates is that the
a. nominal interest rate is the percentage return on a loan expressed in purchasing power.
b. real interest rate is the percentage return on a loan expressed in dollars.
c. real interest rate is the percentage return on a loan expressed in purchasing power.
d. nominal interest rate is the percentage return on a loan corrected for inflation.
e. nominal interest rate is the pre-tax percentage return on a loan and the real interest rate is the percentage return after taxes.

____ 73. To convert the nominal interest rate to the real interest rate, we
a. divide the nominal interest rate by the inflation rate.
b. multiply the nominal interest rate by the inflation rate.
c. subtract the inflation rate from the nominal interest rate.
d. add the inflation rate to the nominal interest rate.
e. subtract the nominal interest rate from the inflation rate and then multiply by 100.

____ 74. Ms. Bankson has saved $100,000 for her retirement. She earned 6 percent interest on that money during the year 2005. If the inflation rate was 4 percent in 2005, what was Ms. Bankson's real interest rate?
a. $6,000
b. 10 percent
c. 2 percent
d. 3 percent.
e. 8 percent.

____ 75. If the nominal interest rate is greater than the real interest rate,
a. it is an indication of economic growth.
b. inflation must be occurring.
c. lenders must lose because they can only make loans using the real interest rate.
d. the real interest rate must be negative.
e. None of the above answers is correct because it is not possible for the nominal interest rate to exceed the real interest rate.

____ 76. The real interest rate is negative if the inflation rate
a. exceeds the nominal interest rate.
b. exceeds the real interest rate.
c. is equal to the nominal interest rate.
d. is less than the nominal interest rate.
e. equals zero.

____ 77. If the CPI is 170 at the beginning of the year and 181 at the end, and the bank is paying a nominal interest rate of 6 percent, we see that
a. the real interest rate is negative.
b. the interest nominal rate is negative.
c. the real interest rate is positive and is less than 1 percent.
d. the real interest rate is positive and is larger than 1 percent.
e. the real interest rate is equal to zero.

____ 78. If the bank returns $1,060 on the $1,000 deposited for a year during which inflation was 4 percent, the real interest rate is
a. 6 percent.
b. 10 percent.
c. –2 percent.
d. 2 percent.
e. 16 percent.

____ 79. Looking at real and nominal interest rates in the United States since 1965, we see that the
a. nominal interest rate has at times been negative.
b. real interest rate has been greater than 10 percent for most years.
c. real interest rate has at times been negative.
d. real interest rate was above 5 percent during the low inflation of the 1970s.
e. real interest is generally greater than the nominal interest rate.

____ 80. In the 1970s, a period of a high rate of inflation, a news magazine article listed people who were losing from inflation because their real purchasing power was falling. Those who lost the most were university professors. Which of the following explains this?
a. The marginal benefit of their work was falling.
b. Their wage rates did not increase as much as the CPI.
c. Their wage rates increased more rapidly than the CPI.
d. The professors suffered from the CPI bias.
e. The professors' market basket was different than the market basket used to calculate the CPI.