

Inflation – Day 6 Questions

Honors Econ 202/Haworth

The questions below are provided to test your understanding of this day's material.

*To receive credit for this assignment, go to Assignments and find the folder entitled Daily Questions. Inside that folder, you'll find a folder entitled Section 1. Once you're in that folder, click on the link that says **Inflation-Day 6** and complete the assignment. When you are finished, you may submit. Remember that the deadline for submitting this Day 6 Daily Question assignment is Friday, February 3, at 9:00pm.*

1. Which of the following is the most likely outcome of cost-push inflation:
 - a. the inflation rate will increase and national output increases as well
 - b. the inflation rate will increase as national output decreases
 - c. the inflation rate will decrease and national output will increase
 - d. the inflation rate will decrease and national output decreases as well
 - e. the inflation rate will increase, but there will be no effect on national output

2. In which of the following situations could we possibly observe deflation:
 - a. aggregate demand decreases
 - b. aggregate demand increases
 - c. aggregate supply decreases
 - d. aggregate supply increases
 - e. both b and c are correct
 - f. both a and c are correct
 - g. both a and d are correct

Assume that the CPI and income values below correspond with the same year.

3. Assume that the CPI in Boston is 350.0 and the CPI in New York is 360.0. In this situation, which of the following would be a true statement:
 - a. if nominal income in Boston is \$20,000 and nominal income in New York is \$21,000, then the real income in Boston is greater than the real income in New York
 - b. if nominal income in Boston is \$20,000 and nominal income in New York is \$25,000, then the real income in Boston is greater than the real income in New York
 - c. if nominal income in Boston is \$25,500 and nominal income in New York is \$26,000, then the real income in Boston is greater than the real income in New York
 - d. if nominal income in Boston is \$26,000 and nominal income in New York is \$27,000, then the real income in Boston is greater than the real income in New York

4. Which of the following statements about inflation is correct:
- a. unexpected inflation would make lenders better off and borrowers worse off
 - b. unexpected inflation would make lenders worse off and borrowers better off
 - c. increases in the inflation rate lead to increases in market interest rates
 - d. increases in the inflation rate lead to decreases in purchasing power
 - e. both c and d are correct statements
 - f. a, c and d are correct statements
 - g. b, c and d are correct statements
5. Which of the following is the best explanation for why the CPI would overstate the true price level:
- a. this tends to happen when the economy experiences demand pull inflation
 - b. when real national output increases more quickly than expected
 - c. there are increases in supplier costs that have not yet been passed on to consumers
 - d. consumers begin purchasing less expensive generic goods instead of name brands
 - e. significant increases in the quality of goods within the CPI basket