Test Review Unit 4

Remember to bring a calculator to test day!!!

What does GDP stand for?

What does GDP measure?

What is the difference between nominal and real GDP?

What are the components of GDP? Explain each.

Compute the GDP for the country described, and percentages that C, I, and G and X make up. Population: 100

$500 Public education
$1000 Food and beverages
$250 Increase in inventory of motorcycles
$500 Roads and police force
$250 Clothing
$200 Frozen burger patties sold to McDonald’s
$50 Cars exported to Japan
$1000 New housing construction
$1000 Military protection
$500 Factories built
$100 Imported grapes from Brazil

GDP=

C=

I=

G=

X=

GDP per capita=
Define the 4 types of unemployment.

How is the unemployment rate calculated? (what is the equation)

What is the worst kind of unemployment and why?

What are four groups that are not included in the labor force?

What does underemployment mean? Give an example.

What is a natural rate of unemployment in the US?

What is full employment?

In the US, approximately what percentage of the population is in the labor force?

**Unemployment Data:**

Of the 1500 people surveyed, 500 are not working. The status of those who are not working is as follows:

- 100 are full time students.
- 50 were looking for a job, but became discouraged and quit looking.
- 50 are in long-term care facilities.
- 100 are at least 16 years old and looking for work.
- 50 are retirees.
- 50 are under 16 years old.
- 100 are in the underground economy and not looking for a “real” job.
What is the number unemployed?____________________

What is the number in the labor force?_________________

What is the unemployment rate?____________________

Who is Ben Bernanke?

What does Mr. Bernanke believe is the main cause between the rich and the poor in the US?

What is the Fed currently doing to help the economy recover?

Define:

    Consumer price index

    Inflation

    Cost-push inflation (graph and explain)

    Demand-pull inflation (graph and explain)

How is the CPI number interpreted?

To what base year do we tie our current CPI numbers?

Explain how inflation can help some people and hurt others.
What is a “natural” rate of inflation?

What is the equation to find a real interest rate?

If you receive a 3% increase in your salary, but the inflation rate increases 4%, what has happened to your “real” salary?

Complete the chart and answer the following questions.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gallon of gas</td>
<td>1.50</td>
<td>1.60</td>
<td>1.65</td>
</tr>
<tr>
<td>Candy bar</td>
<td>.40</td>
<td>.45</td>
<td>.40</td>
</tr>
<tr>
<td>Box of cereal</td>
<td>2.00</td>
<td>2.75</td>
<td>3.00</td>
</tr>
<tr>
<td>Apple</td>
<td>.30</td>
<td>.50</td>
<td>.55</td>
</tr>
<tr>
<td>Price of basket</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>CPI, base year 1989</td>
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</tbody>
</table>

What was the rate of inflation from 1989 to 1991?__________

What was the rate of inflation from 1989 to 1990?__________

What was the rate of inflation from year 1990 to 1991?__________

What was the percentage change in the price of gas from year 1989 to 1991?____________

What was the percentage change in the price of candy bars from 1990 to 1991?____________

Label the phases of the business cycle. Then explain how unemployment and GDP are changing in each.