Review Questions ... CHAPTER 7

1. Suppose that over the course of a year 100 people are unemployed for 4 weeks each (the short-term unemployed), while 10 people are unemployed for 52 weeks each (the long-term unemployed). Approximately what percentage of the total spells of unemployment were attributable to the long-term unemployed?
   A) 9 percent.
   B) 10 percent.
   C) 43.5 percent.
   D) 56.5 percent.

2. The unemployment insurance system may be desirable because unemployment insurance:
   A) raises the natural rate of unemployment.
   B) reduces the rate of job finding.
   C) increases workers' uncertainty about their incomes.
   D) induces workers to reject unattractive job offers.

3. Paying efficiency wages helps firms reduce the problem of moral hazard by:
   A) generating additional profits that can be used to improve working conditions.
   B) matching the wages each worker is paid to the number of units of output each worker produces.
   C) encouraging unsupervised workers to maintain a high level of productivity.
   D) providing an incentive for the best-qualified workers to remain with the firm.

4. Economist Robert Barro attributes the increase in the duration of unemployment to ______, while economist Paul Krugman attributes the increased duration to _____.
   A) increased immigration of low-wage workers; tax cuts given to high-wage workers
   B) contractionary monetary policy; expansionary fiscal policy
   C) high marginal tax rates on the wealthy; high marginal tax rates on low-wage workers
   D) expanded unemployment-insurance coverage; insufficient consumer demand

5. Public policy to increase the job finding rate include _____ and public policy to decrease the job separation rate include ______.
   A) government employment agencies; higher unemployment insurance benefits
   B) job training programs; 100 percent experience rated unemployment insurance
   C) higher minimum wage laws; payment of unemployment benefits for longer periods
   D) higher efficiency wages; partially experience rated unemployment insurance
6. The unemployment resulting when real wages are held above equilibrium is called _____ unemployment, while the unemployment that occurs as workers search for a job that best suits their skills is called _____ unemployment.
   A) efficiency; inefficiency
   B) efficiency; structural
   C) frictional; efficiency
   D) structural; frictional

7. If $s$ is the rate of job separation, $f$ is the rate of job finding, and both rates are constant, then the unemployment rate is approximately:
   A) $f/(f + s)$.
   B) $(f + s)/f$.
   C) $s/(s + f)$.
   D) $(s + f)/s$.

8. If the underground economy is larger in Europe than in the United States, then the difference in the _____ number of hours worked between Europe and the United States may be smaller than the difference in the _____ numbers of hours worked.
   A) measured; actual
   B) actual; measured
   C) annual; monthly
   D) monthly; annual

9. A policy that decreases the job separation rate _____ the natural rate of unemployment.
   A) will increase
   B) will decrease
   C) will not change
   D) could either increase or decrease
10. Which of the following statements most closely describes the variation in unemployment rates across countries in Europe?
   A) Countries with higher rates of unionization tend to have higher unemployment rates, but this is partially mitigated if wage negotiations are coordinated among employers.
   B) Countries with higher rates of unionization tend to have higher unemployment rates and this tendency is exacerbated if wage negotiations are coordinated among employers.
   C) Countries with more generous unemployment insurance benefits tend to have higher unemployment rates, but this is partially mitigated if the benefits are offered for a longer period of time.
   D) Countries with more generous unemployment insurance tend to have lower unemployment rates, but this effect is completely offset if benefits are offered for a longer period of time.

11. Earlier retirement in Europe than in the United States contributes to:
   A) higher employment-to-population ratios in Europe than in the United States.
   B) lower employment-to-population ratios in Europe than in the United States.
   C) more hours worked per year by the average employed person in Europe than the average employed person in the United States.
   D) fewer hours worked per year by the average employed person in Europe than the average employed person in the United States.

12. When insiders have a much greater impact on the wage-bargaining process than do outsiders, the negotiated wage is likely to be ______ the equilibrium wage.
   A) much greater than
   B) much less than
   C) almost equal to
   D) about one-half of

13. Frictional unemployment is unemployment caused by:
   A) wage rigidity.
   B) minimum-wage legislation.
   C) the time it takes workers to search for a job.
   D) clashes between the motives of insiders and outsiders.
14. More frequent holidays for workers in Europe than in the United States contribute to:
   A) higher employment-to-population ratios in Europe than in the United States.
   B) lower employment-to-population ratios in Europe than in the United States.
   C) more hours worked per year by the average employed person in Europe than the average employed person in the United States.
   D) fewer hours worked per year by the average employed person in Europe than the average employed person in the United States.

15. Unemployment caused by the time it takes workers to search for a job is called ______ unemployment.
   A) frictional
   B) structural
   C) efficiency
   D) insider

16. Assume that a country experiences a reduction in productivity that lowers the marginal product of labor for any given level of labor. In this case, the:
   A) labor supply curve shifts to the right.
   B) labor supply curve shifts to the left.
   C) labor demand curve shifts upward and to the right.
   D) labor demand curve shifts downward and to the left.

17. Which of the following statements correctly describes European labor markets?
   A) In recent years, the unemployment rate in every European country has been higher than the unemployment rate in the United States.
   B) In recent years, the average unemployment rate in Europe has been higher than the unemployment rate in the United States.
   C) Within Europe the short-term unemployment rate shows greater variability across countries than does the long-term unemployment rate.
   D) European countries with more generous unemployment insurance tend to have lower unemployment rates.

18. Short-term unemployment is most likely to be ______ unemployment, while long-term unemployment is mostly likely to be _____ unemployment.
   A) structural; frictional
   B) structural; the natural rate of
   C) the natural rate of; frictional
   D) frictional; structural
19. If the number of employed workers equals 200 million and the number of unemployed workers equals 20 million, the unemployment rate equals ______ percent (rounded to the nearest percent).
   A) 0
   B) 9
   C) 10
   D) 20

20. Transitions into and out of the labor force:
   A) rarely occur.
   B) do not affect unemployment statistics.
   C) make unemployment statistics difficult to interpret.
   D) reduce the amount of frictional unemployment.

21. Across countries of Europe, greater spending on unemployment insurance tends to _____ unemployment and more “active” labor-market policies tend to _____ unemployment.
   A) increase; increase
   B) increase; decrease
   C) decrease; decrease
   D) decrease; increase

22. Economists call the changes in the composition of demand among industries and regions:
   A) insider-outsider conflicts.
   B) sectoral shifts.
   C) moral hazard.
   D) adverse selection.

23. All of the following statements about minimum-wage workers in the United States are correct except:
   A) minimum-wage workers are more likely to be male.
   B) minimum-wage workers are more likely to work part time.
   C) minimum-wage workers are more likely to be less educated.
   D) minimum-wage workers are more likely to be young.
24. The natural rate of unemployment in the United States since 1950 has averaged between ______ and ______ percent.
   A) 0; 1
   B) 1; 3
   C) 5; 6
   D) 10; 15

25. When Henry Ford paid his workers $5 per day when the prevailing wage was between $2 and $3 a day:
   A) it greatly increased his company's costs.
   B) workers reduced their work efforts because they felt they “had it made.”
   C) Ford proved the efficiency-wage theory was wrong.
   D) it raised the efficiency of his workers.

26. One efficiency-wage theory implies that firms pay high wages because:
   A) this practice increases the problem of moral hazard.
   B) in wealthy countries, it is important to pay workers high wages to improve their health.
   C) the more a firm pays its workers, the greater their incentive to stay with the firm.
   D) paying high wages promotes adverse selection.

27. Results from the Euro-Barometer Survey series suggests that people are happier when inflation is ______ and unemployment is ______.
   A) high; high
   B) high; low
   C) low; high
   D) low; low

28. The minimum wage:
   A) is usually about 75 percent of the average wage earned in manufacturing.
   B) raises the wages of highly skilled workers.
   C) encourages master workers to take on apprentices.
   D) has its greatest impact on teenage unemployment.

29. The unemployment rate in the United States since 1952 has:
   A) never been close to zero.
   B) gravitated toward a steady-state rate of zero.
   C) remained constant from year to year.
   D) equaled the natural rate of unemployment in every year.
30. Assume that a country experiences a reduction in productivity that shifts the labor demand curve downward and to the left. If the labor market were always in equilibrium, this would lead to:
   A) a lower real wage and a rise in unemployment.
   B) a lower real wage and no change in unemployment.
   C) a lower real wage and less unemployment.
   D) no change in real wage or in unemployment.

31. If the steady-state rate of unemployment equals 0.125 and the fraction of unemployed workers who find jobs each month (the rate of job findings) is 0.56, then the fraction of employed workers who lose their jobs each month (the rate of job separations) must be:
   A) 0.08.
   B) 0.125.
   C) 0.22.
   D) 0.435.

32. Discouraged workers are counted as:
   A) part of the labor force.
   B) out of the labor force.
   C) employed.
   D) unemployed.

33. Wage rigidity:
   A) forces labor demand to equal labor supply.
   B) is caused by sectoral shifts.
   C) prevents labor demand and labor supply from reaching the equilibrium level.
   D) increases the rate of job finding.

34. When there is structural unemployment, the real wage is:
   A) rigid at a level below the market-clearing level.
   B) rigid at the market-clearing level.
   C) rigid at a level above the market-clearing level.
   D) flexible.

35. If wage rigidity holds the real wage above the equilibrium level, an increase in the demand for labor will ______ the number unemployed.
   A) increase
   B) decrease
   C) not change
   D) possibly increase, decrease, or leave unchanged
36. Which of the following is the best example of structural unemployment?
   A) Tim is looking for a job with flexible hours but has not been offered one yet.
   B) Vickie lost her job as a graphic artist at a movie studio because she did not have training in computer-generated animation.
   C) Kirby is seeking a job as an airline pilot, but the high union wages in the industry have limited the number of jobs available.
   D) Fatima lost her job at a packing plant but has not looked very intensively for a new job because she still has 2 months of unemployment insurance benefits left.

37. Paying efficiency wages helps firms reduce the problem of adverse selection by:
   A) generating additional profits that can be used to pay for more proficient hiring managers.
   B) keeping labor unions from organizing workers in the firm.
   C) encouraging unsupervised workers to maintain a high level of productivity.
   D) providing an incentive for the best-qualified workers to remain with the firm.

38. Efficiency-wage theories suggest that a firm may pay workers more than the market-clearing wage for all of the following reasons except:
   A) reduce labor turnover.
   B) improve the quality of the firm's labor force.
   C) increase worker effort.
   D) reduce the firm's wage bill.

39. All of the following policies were adopted by the government in an attempt to reduce the natural rate of unemployment except:
   A) unemployment insurance.
   B) government employment agencies.
   C) public retraining programs.
   D) the Illinois bonus program for unemployment insurance claimants who found jobs quickly.

40. Government policies directed at reducing frictional unemployment include:
   A) abolishing minimum-wage laws.
   B) making unemployment insurance 100 percent experience rated.
   C) increasing the earned income credit.
   D) making government part of the union-firm wage bargaining process.
41. If wage rigidity holds the real wage above the equilibrium level, an increase in the supply of labor will ______ the number unemployed.
   A) increase
   B) decrease
   C) not change
   D) possibly increase, decrease, or leave unchanged

42. A policy that increases the job-finding rate _____ the natural rate of unemployment.
   A) will increase
   B) will decrease
   C) will not change
   D) could either increase or decrease

43. Frictional unemployment is inevitable because:
   A) different sectors do not shift.
   B) the economy needs to be lubricated.
   C) workers never quit their jobs to change careers.
   D) the demand for different goods always fluctuates.

44. According to Blanchard, Europeans are more likely to use increases in real wages resulting from technological progress to increase ______, and Americans are more likely to use these increases in real wages to increase ______.
   A) hours of work; hours of leisure
   B) consumption of goods and services; hours of leisure
   C) hours of leisure; consumption of goods and services
   D) unemployment insurance benefits; efficiency wages

45. Permitting a lower minimum wage for teenagers would likely:
   A) raise teenage unemployment.
   B) raise teenage wages overall.
   C) prevent teenagers from getting job experience.
   D) raise unemployment among unskilled adults.

46. Economists who have studied minimum-wage laws in the United States find that a 10 percent increase in the minimum wage increases teenage unemployment by about:
   A) 10 to 30 percent.
   B) 5 percent.
   C) 1 to 3 percent.
   D) 0 percent.
47. When the real wage is above the level that equilibrates supply and demand:
   A) the quantity of labor supplied exceeds the quantity demanded.
   B) the quantity of labor demanded exceeds the quantity supplied.
   C) there is no unemployment.
   D) the labor market clears.

48. Sectoral shifts:
   A) lead to wage rigidity.
   B) explain the payment of efficiency wages.
   C) depend on the level of the minimum wage.
   D) make frictional employment inevitable.

49. Which of the following hypotheses is consistent with fewer hours worked per year in Europe than in the United States?
   A) fewer mandated holidays in Europe than in the United States
   B) higher employment-to-population ratios in Europe than in the United States
   C) higher tax rates in Europe than in the United States
   D) a smaller underground economy in Europe than in the United States

50. The natural rate of unemployment is:
   A) the average rate of unemployment around which the economy fluctuates.
   B) about 10 percent of the labor force.
   C) a rate that never changes.
   D) the transition of individuals between employment and unemployment.

51. In the case of unions, the conflict of interest between different groups of workers results in insiders wanting ______, while outsiders want ______.
   A) more hirings; high wages
   B) high wages; more hirings
   C) high wages; fewer hirings
   D) fewer hirings; high wages

52. By paying efficiency wages, firms contribute to higher unemployment because they:
   A) increase the wage bill.
   B) make workers more productive.
   C) keep the wage below the equilibrium level.
   D) keep the wage above the equilibrium level.
53. Examples of “active” labor-market policies include all of the following except:
   A) job-search assistance
   B) subsidized employment
   C) unemployment insurance
   D) job-training programs

54. Data on unemployment in the United States show that:
   A) most spells of unemployment are long.
   B) most weeks of unemployment are attributable to the long-term unemployed.
   C) members of the labor force over age 55 have the highest unemployment rates.
   D) the duration of unemployment falls during recessions.

55. The earned income tax credit:
   A) increases the government's tax revenue.
   B) reduces the incomes of poor working families.
   C) does not raise labor costs.
   D) is not an alternative to raising the minimum wage.

56. The recent reduced demand for unskilled workers relative to skilled workers has led to ______ for unskilled workers in Europe compared to ______ for unskilled workers in the United States.
   A) unemployment; lower wages
   B) lower wages; unemployment
   C) more unionization; efficiency wages
   D) efficiency wages; more unionization

57. Workers unemployed as a result of wage rigidity are:
   A) actively searching for a job to match their skills.
   B) not eligible to receive unemployment insurance benefits.
   C) waiting for a job to become available.
   D) relocating to another part of the country as a result of sectoral shifts.

58. In 2007 in the United States among labor-force members ages 16 to 19, the highest unemployment rate was for:
   A) black females.
   B) black males.
   C) white females.
   D) white males.
59. Compared with an employed white teenage male, an employed middle-aged white male is ______ likely to become unemployed and, once unemployed, is ______ likely to find a job.
A) less; more  
B) less; just as  
C) more; less  
D) just as; more

60. Which of the following rankings (from most severe to least severe) best captures the degree of hardship associated with various types of unemployment?
A) discouraged worker, short term, long term  
B) involuntarily part time, job leavers, job losers,  
C) job losers, job leavers, marginally attached  
D) job leavers, involuntary part time, discouraged workers

61. A spell of unemployment begins when a person leaves his or her job or:
A) withdraws from the labor force.  
B) enters the labor force.  
C) takes a vacation.  
D) has been without a job for at least four weeks.

62. As the relative demand for unskilled workers falls, wages for unskilled workers ______ and unemployment compensation becomes a ______ attractive option.
A) fall; more  
B) fall; less  
C) rise; more  
D) rise; less

63. The unemployment resulting from wage rigidity and job rationing is called ______ unemployment.
A) frictional  
B) structural  
C) minimum-wage  
D) insider
64. If the steady-state rate of unemployment equals 0.10 and the fraction of employed workers who lose their jobs each month (the rate of job separations) is 0.02, then the fraction of unemployed workers who find jobs each month (the rate of job findings) must be:
A) 0.02.
B) 0.08.
C) 0.10.
D) 0.18.

65. Assume that a country experiences a reduction in productivity that shifts the labor demand curve downward and to the left. If the real wage were rigid, this would lead to:
A) no change in the real wage and a rise in unemployment.
B) no change in the real wage and no change in unemployment.
C) no change in the real wage and a fall in unemployment.
D) a decrease in the real wage.
Answer Key

1. A
2. D
3. C
4. D
5. B
6. D
7. C
8. B
9. B
10. A
11. B
12. A
13. C
14. D
15. A
16. D
17. B
18. D
19. B
20. C
21. B
22. B
23. A
24. C
25. D
26. C
27. D
28. D
29. A
30. B
31. A
32. B
33. C
34. C
35. B
36. C
37. D
38. D
39. A
40. B
41. A
42. B
43. D
44. C