1. Babe Ruth, the famous baseball player, earned $80,000 in 1931. Today, the best baseball players can earn more than 300 times as much as Babe Ruth earned in 1931. However, prices have also risen since 1931. We can conclude that
   a. the best baseball players today are about 300 times better off than Babe Ruth was in 1931.
   b. because prices have also risen, the standard of living of baseball stars hasn't changed since 1931.
   c. one cannot make judgments about changes in the standard of living based on changes in prices and changes in incomes.
   d. one cannot determine whether baseball stars today enjoy a higher standard of living than Babe Ruth did in 1931 without additional information regarding increases in prices since 1931.

ANS: D

2. The consumer price index is used to
   a. monitor changes in the level of wholesale prices in the economy.
   b. monitor changes in the cost of living over time.
   c. monitor changes in the level of real GDP over time.
   d. monitor changes in the stock market.

ANS: B

3. When the consumer price index rises, the typical family
   a. has to spend more dollars to maintain the same standard of living.
   b. can spend fewer dollars to maintain the same standard of living.
   c. finds that its standard of living is not affected.
   d. can offset the effects of rising prices by saving more.

ANS: A

4. The term inflation is used to describe a situation in which
   a. the overall level of prices in the economy is increasing.
   b. incomes in the economy are increasing.
   c. stock-market prices are rising.
   d. the economy is growing rapidly.

ANS: A

5. The inflation rate is defined as the
   a. price level in an economy.
   b. change in the price level from one period to the next.
   c. percentage change in the price level from the previous period.
   d. price level minus the price level from the previous period.

ANS: C

6. The CPI is a measure of the overall cost of the goods and services bought by
a. a typical consumer, and the CPI is computed and reported by the Department of the Treasury.
b. typical consumers and typical business firms, and the CPI is computed and reported by the Department of the Treasury.
c. a typical consumer, and the CPI is computed and reported by the Bureau of Labor Statistics.
d. typical consumers and typical business firms, and the CPI is computed and reported by the Bureau of Labor Statistics.

ANS: C

7. In the calculation of the CPI, coffee is given greater importance than tea if
   a. consumers buy more coffee than tea.
   b. the price of coffee is higher than the price of tea.
   c. it costs more to produce coffee than it costs to produce tea.
   d. coffee is more readily available than tea is to the typical consumer.

ANS: A

8. Consider a small economy in which consumers buy only two goods: apples and pears. In order to compute the consumer price index for this economy for two or more consecutive years, we assume that
   a. the number of apples bought by the typical consumer is equal to the number of pears bought by the typical consumer in each year.
   b. neither the number of apples nor the number of pears bought by the typical consumer changes from year to year.
   c. the percentage change in the price of apples is equal to the percentage change in the price of pears from year to year.
   d. neither the price of apples nor the price of pears changes from year to year.

ANS: B

9. If the consumer price index was 80 in 2004, 100 in 2005, and 110 in 2006, then the base year must be
   c. 2006.
   d. The base year cannot be determined from the given information.

ANS: B
10. If the consumer price index was 100 in the base year and 107 in the following year, then the inflation rate was
   a. 1.07 percent.
   b. 7 percent.
   c. 10.7 percent.
   d. 107 percent.
ANS: B

**Table 11-1**

The table below pertains to Pieway, an economy in which the typical consumer’s basket consists of 10 bushels of peaches and 15 bushels of pecans.

<table>
<thead>
<tr>
<th>Year</th>
<th>Price of Peaches</th>
<th>Price of Pecans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$11 per bushel</td>
<td>$6 per bushel</td>
</tr>
<tr>
<td>2006</td>
<td>$9 per bushel</td>
<td>$10 per bushel</td>
</tr>
</tbody>
</table>

11. **Refer to Table 11-1.** The cost of the basket in 2005 was
   a. $200.
   c. $240.
   d. $245.
ANS: A

12. **Refer to Table 11-1.** The cost of the basket in 2006 was
   a. $200.
   c. $240.
   d. $245.
ANS: C

13. **Refer to Table 11-1.** If 2005 is the base year, then the CPI for 2005 was
   a. 83.3.
   b. 100.
   c. 120.
   d. 200.
ANS: B

14. **Refer to Table 11-1.** If 2005 is the base year, then the CPI for 2006 was
   a. 83.3.
   b. 100.
   c. 120.
If 2005 is the base year, then the inflation rate in 2006 was
a. 16.7 percent.
b. 20 percent.
c. 40 percent.
d. 44.1 percent.
ANS: B

**Table 11-3**

The table below pertains to Studious, an economy in which the typical consumer’s basket consists of 5 books and 10 calculators.

<table>
<thead>
<tr>
<th>Year</th>
<th>Price of a Book</th>
<th>Price of a Calculator</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$24</td>
<td>$8</td>
</tr>
<tr>
<td>2007</td>
<td>$30</td>
<td>$12</td>
</tr>
<tr>
<td>2008</td>
<td>$32</td>
<td>$15</td>
</tr>
</tbody>
</table>

The cost of the basket in 2006 was
a. $32.
b. $200.
c. $280.
d. $480.
ANS: B

The cost of the basket increased from 2006 to 2007 and increased from 2007 to 2008.

The cost of the basket increased by $10 from 2006 to 2007.

If 2006 is the base year, then the consumer price index was
  
ANS: A

20. The goal of the consumer price index is to measure changes in the
   a. costs of production.
   b. cost of living.
   c. relative prices of consumer goods.
   d. production of consumer goods.
ANS: B