**1. Suppose the Phillips curve is represented by the following equation:**

**πt - πt-1 = 20 -2ut , Given this information, we know that the natural rate of unemployment in this economy is:**

1. 10%
2. 20%
3. 6.5%
4. 5%
5. none of the above

**2. The "sacrifice ratio" is the \_\_\_\_\_\_\_\_ needed to achieve a 1% decrease in inflation.**

1. number of months
2. number of years
3. number of point-years of unemployment
4. percentage-point decrease in money growth
5. percentage-point decrease in output

**3. For this question, assume that expected inflation this year is equal to past year's inflation. Also assume that the unemployment rate has been equal to the natural rate of unemployment for some time. Given this information, we know that:**

1. the rate of inflation should be zero.
2. the rate of inflation should neither increase nor decrease.
3. the rate of inflation should steadily increase.
4. the rate of inflation should steadily decrease.
5. the natural rate of unemployment should steadily decrease.

**4. Which of the following will NOT cause an increase in the natural rate of unemployment?**

1. an increase in the markup, μ
2. an increase in unemployment benefits (included in z)
3. an increase in the expected inflation rate
4. a reduction in the response of wages to unemployment, α
5. none of the above

**5. If Kt+1/N = Kt/N, we know that:**

1. saving per worker equals depreciation per worker in period t.
2. saving per worker is less than depreciation per worker in period t.
3. saving per worker is greater than depreciation per worker in period t.
4. the saving rate fell in period t.

**6. The capital-labour ratio will increase when which of the following conditions is satisfied?**

1. Investment per worker equals saving per worker.
2. Investment per worker exceeds saving per worker.
3. Investment per worker exceeds depreciation per worker.
4. Saving per worker equals depreciation per worker.
5. Output per worker exceeds capital per worker.

**7. Suppose there is a permanent increase in a country's saving rate. This increase in the saving rate will cause:**

1. a permanently higher level of capital per worker.
2. a permanently higher level of output per capita.
3. a permanently faster growth rate of output.
4. both of the first two answers above
5. none of the above.

**8. In the Phillips curve equation, which of the following will NOT cause a rise in the current inflation rate?**

1. a rise in the expected inflation rate
2. a fall in the unemployment rate
3. a drop in the markup, μ
4. all of the above
5. none of the above

**9. Which of the following will likely cause an increase in output per worker?**

1. an increase in education expenditures
2. an increase in the saving rate
3. an increase in on-the-job training
4. all of the above

**10. Assume the Phillips curve is represented by the following:**

**πt -πt-1 = -α(ut - un). If α** **equals 4, the sacrifice ratio is equal to:**

1. 0.25
2. 0.5
3. 4
4. -4