

Practice Problems 3

1. Suppose that the government reports the following information on violent crime in a certain area: there were 1100 incidents in the base year (2001) and 1155 incidents in 2002. The person collecting these data wants to present them in the form of an index. What is the index for 2002?
- 100
 - 110
 - 116
 - 105

2. Use the table below to find the real wage in 2003.

<u>Year</u>	<u>Nominal Wage(\$/hr)</u>	<u>CPI</u>
2002	\$13.33	113.2
2003	\$13.00	110

- \$13.00
 - \$11.82
 - \$14.30
 - \$11.78
3. In which of the following situations would an individual experience an *increase* in real wages?
- receiving a 5 percent increase in nominal wages while inflation was 6 percent
 - receiving a 3 percent increase in nominal wages while inflation was 2 percent
 - taking a 1 percent cut in nominal wages while inflation was 2 percent
 - receiving a 3 percent increase in nominal wages while inflation was 3 percent
4. Suppose Mike agrees to borrow \$100 from Renee for one year at a one-time interest payment of 5%. They both expected the inflation rate to be 2% during the one-year period. However, during that year the inflation rate was actually 1%. Which of the following has occurred?
- The unexpectedly low inflation rate has hurt Mike's purchasing power and benefited Renee.
 - The unexpectedly low inflation rate has benefited Mike and hurt Renee.
 - The unexpectedly high inflation rate has benefited Renee and hurt Mike.
 - There have not been any redistribution costs to either party.
5. Suppose to borrow money at a 9% nominal rate and the inflation rate is 2%, what is the real interest rate on the loan?
- 9%
 - 11%
 - 7%
 - 4.5%
6. Suppose you recently took a pay cut of 2% at your job. You expect the price level to fall by 3% during this year. What would be the impact on your real wage?
- The real wage would fall by 3%.
 - The real wage would rise by 3%.
 - The real wage would fall by 1%.
 - The real wage would rise by 1%.