Question #1 of 14

Question ID: 1572964

Which of the following statements about credit cycles is *mostaccurate*?

A) Credit cycles are a potential cause of asset price bubbles.

B) A typical business cycle includes two or more credit cycles.

C) Credit cycles tend to dampen business cycles.

Explanation

Credit cycles tend to amplify business cycles and are a potential cause of asset price bubbles. Credit cycles have tended to be longer, on average, than business cycles.

(Module 13.1, LOS 13.b)

Question #2 of 14

Question ID: 1572969

An economy has been producing at its full-employment level of output and the price level has been stable. Businesses then begin experiencing unintended decreases in their inventory levels. What does this *most likely* imply about the short-run outlook for economic growth and inflation?

	Economic growth	Inflation
A)	Increasing	Increasing
B)	Increasing	Decreasing
C)	Decreasing	Increasing

Explanation

Starting from conditions of long-run equilibrium, unintended decreases in inventory levels suggest that aggregate demand has increased. Producers will respond in the short run by increasing output and prices, so economic growth and inflation will increase.

(Module 13.1, LOS 13.c)

Question #3 of 14

Question ID: 1572972

Manufacturing and trade sales are *best* described as a:

A) leading indicator.

B) coincident indicator.

C) lagging indicator.

Explanation

Manufacturing and trade sales are a coincident indicator that generally reflects the current phase of the business cycle.

(Module 13.1, LOS 13.c)

Question #4 of 14

Question ID: 1572966

Firms' initial responses to an emerging economic contraction are *most likely* to be:

A) reducing overtime hours.

B) laying off workers.

C) deferring maintenance of machinery.

Explanation

Early in an economic contraction, firms typically reduce output by using capital and labor less intensively than during an expansion (e.g., by reducing overtime). When they believe a contraction is likely to persist, firms decrease capacity by laying off workers and reducing their physical capital, often by deferring maintenance or not replacing worn-out equipment.

(Module 13.1, LOS 13.c)

Question #5 of 14

Question ID: 1572973

The inventory-to-sales ratio for manufacturing and trade is classified as a:

A) coincident indicator.

B) lagging indicator.

C) leading indicator.

Explanation

The inventory-to-sales ratio for manufacturing and trade is considered a lagging indicator because it peaks after the economy does, even though it is sometimes used in forecasting economic activity.

(Module 13.1, LOS 13.c)

Question #6 of 14

Question ID: 1572967

As an economic expansion approaches its peak, the economy is *most likely* to show:

A) a decrease in inventory levels. ✗

B) accelerating sales growth. ✗

C) an increase in the inventory-to-sales ratio. ✓

Explanation

As the economy approaches its peak, sales growth begins to slow, unsold inventories begin to accumulate, and the inventory-to-sales ratio increases.

(Module 13.1, LOS 13.c)

Question #7 of 14

Question ID: 1572965

When the economy enters an expansion phase, the *most likely* effect on external trade is a(n):

A) decrease in exports. ✗

B) increase in exports. ✗

C) increase in imports. ✓

Explanation

When the domestic economy is expanding, demand for imports is likely to increase as domestic incomes increase. Exports tend to be independent of domestic economic growth and are more closely related to trading partners' economic growth.

(Module 13.1, LOS 13.c)

Question #8 of 14

Question ID: 1572968

A firm's *most likely* initial response to a cyclical increase in the inventory-to-sales ratio is to adjust their utilization of labor by:

A) adding new workers.

B) laying off employees.

C) reducing overtime.

Explanation

As a cyclical indicator, an increase in the inventory-to-sales ratio is a sign of slowing economic growth. When decreasing their utilization of labor in response to a slowing economy, firms typically first reduce overtime. Firms tend to be slow to lay off workers until it is clear that an economic contraction is underway.

(Module 13.1, LOS 13.c)

Question #9 of 14

Question ID: 1572961

A peak in the business cycle is *most likely* associated with:

A) decreasing inflation pressure.

B) payroll employment turning from positive to negative.

C) the highest level of economic output during the cycle.

Explanation

The peak phase of a business cycle represents the highest level of economic output (real GDP) reached during that cycle. Inflation pressure that built during the expansion may continue into the early part of the contraction that follows the peak. Employment typically does not begin to decline until sometime after the peak.

(Module 13.1, LOS 13.a)

Question #10 of 14

Question ID: 1572971

Which of the following economic indicators is classified as a leading indicator for the United States economy?

A) Average duration of unemployment.

B) Index of consumer expectations.

C) Industrial production.

Explanation

Consumer expectations are a leading indicator. Industrial production is a coincident indicator. Average duration of unemployment is a lagging indicator.

(Module 13.1, LOS 13.c)

Question #11 of 14

Question ID: 1572970

Increases in firms' inventory-sales ratios are *most likely* to occur:

A) during an economic contraction.

B) just after the trough of the economic cycle.

C) just before a peak in the economic cycle.

Explanation

Just before a peak in the economic cycle, sales slow, but production and inventory levels still reflect expectations of continued rapid growth. Inventory accumulates as sales slow, increasing the inventory-sales ratio until firms reduce production in response to decreased or declining sales growth.

(Module 13.1, LOS 13.c)

Question #12 of 14

Question ID: 1572963

The expansion phase of a business cycle is *most likely* characterized by:

A) increasing employment.

B) decreasing inflationary pressures.

C) the rate of economic growth changing from negative to positive.

Explanation

Employment is typically increasing during the expansion phase of a business cycle. Inflationary pressures are typically decreasing during a contraction phase. The rate of economic growth changes from negative to positive in the trough phase.

(Module 13.1, LOS 13.a)

Question #13 of 14

Question ID: 1572974

Average weekly initial claims for unemployment insurance are classified as a:

A) lagging indicator.

B) leading indicator.

C) coincident indicator.

Explanation

Initial claims for unemployment insurance are considered a leading indicator.

(Module 13.1, LOS 13.c)

Question #14 of 14

Question ID: 1572962

During an economic contraction:

A) inflation pressures are typically decreasing.

B) real GDP growth is greater than its sustainable long-term rate.

C) the unemployment rate typically decreases.

Explanation

An economic contraction (recession) is typically characterized by decreasing inflationary pressures, increasing unemployment, and low or negative real GDP growth.

(Module 13.1, LOS 13.a)