To answer the next 3 questions, use the following information. Between 1992 and 2002, the consumer price index rose from 139.2 to 178.9 (1982-84 base year). Over the same period, the nominal wage rate rose from $10.57 to $14.77 per hour.

1. What was the average annual inflation rate between 1992 and 2002?
   a. 1.8%  b. 2.2%  c. 2.5%  d. 3.2%

2. Using 1982-84 as the base year, the real wage in 1992 is
   a. $6.42  b. $7.59  c. $8.36  d. $9.47

3. Based on the information provided, $1 in 1992 would buy as much as _____ would buy in 2002.
   a. $1.28  b. $.78  c. $1.79  d. $1.95

4. In 2002, nominal GDP in the U.S. was $10.495 trillion and real GDP was $9.486 trillion. Based on this information, the GDP-deflator in 2002 was:
   a. 111  b. 90  c. 101  d. 121

5. Suppose that between two years real GDP rises while nominal GDP falls. Which of the following could account for these simultaneous events?
   a. production increases and prices fall.
   b. production and prices increase.
   c. production falls and prices increase.
   d. production and prices fall.
The next 2 questions refer to information in the articles posted on the proposed tax cuts.

6. According to the analysis presented in the articles, the Bush Administration proposal for eliminating the tax on dividends would likely:
   a. increase stock prices.
   b. increase consumer spending.
   c. have relatively little benefit to households with low wealth.
   d. all of the above.

7. Which of the following statements is FALSE?
   a. Democrats propose extension of the maximum period for collecting unemployment benefits.
   b. Bush proposes eliminating the tax on dividends, whereas Democrats do not.
   c. the Democrats propose increased funding to state and local governments whereas the Bush proposal does not.
   d. both Bush and the Democrats propose eventual elimination of the "death tax".

8. Evidence suggests that the growth rate of the consumer price index (overstates, understates) the growth in the cost of living and thereby causes the growth in federal tax revenues to be too (small, large).
   a. overstates; small  b. overstates; large  c. understates; large  d. understates; small.

9. The largest component of the expenditure side of GDP in the U.S. is:
   a. consumption  b. investment  c. government purchases  d. exports.

10. Of the four components of the expenditure side of GDP, which tends to drop most during a recession?
   a. consumption  b. investment  c. government purchases  d. exports.

**ANSWERS**

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