



• Name: _____

• Date: _____

• Section: _____

BUS 201: Principles of Global Economics

Problem Set #8

Fall 2025

INSTRUCTIONS:

- Write your full name, date, and section clearly at the top of the first page.
- This problem set is designed as a check-in assignment to help you practice the core ideas. It is not intended to be difficult, but you are expected to think carefully about your answers.
- For multiple-choice problems, circle the best answer.
- For short-answer problems, limit your response to no more than 4 sentences. Be concise but complete, and use economic reasoning in your answers.
- You may use your textbook, lecture slides, and personal notes.

Problem 1. Multiple Choice

1.A. The unemployment rate measures:

- a) The percentage of the adult population that is unemployed.
- b) The percentage of the labor force that is unemployed.
- c) The percentage of marginally attached workers without jobs.
- d) The percentage of discouraged workers without jobs.

1.B. A discouraged worker is someone who:

- a) Is unemployed and actively looking for work.
- b) Is employed part time for economic reasons.
- c) Has stopped looking for work even though they would like a job.
- d) Is counted as unemployed in official statistics.

1.C. Frictional unemployment exists because:

- a) The business cycle eliminates job opportunities in recessions.
- b) Workers need time to search for jobs that best match their skills and preferences.
- c) Wages are always set above equilibrium.
- d) Workers refuse to accept any available job offers.

1.D. Structural unemployment can result from:

- a) Temporary changes in job search time.
- b) Workers voluntarily quitting to find better matches.
- c) Wages being held above the market-clearing level.
- d) Random fluctuations in seasonal employment.

1.E. Which of the following describes cyclical unemployment?

- a) Unemployment caused by workers searching for jobs that better match their skills.
- b) Unemployment that results from wages being set above the equilibrium level.
- c) Unemployment that exists even when the economy is producing at its long-run potential.
- d) Unemployment that rises during economic downturns and falls during expansions.

Problem 1. Multiple Choice (continued)

1.F. Which of the following is a function of money?

- a) A mechanism for creating new goods.
- b) A method for eliminating inflation.
- c) A store of value.
- d) A substitute for financial markets.

1.G. Commodity money differs from fiat money because:

- a) Commodity money has intrinsic value, while fiat money does not.
- b) Fiat money is used only in barter economies.
- c) Commodity money cannot serve as a medium of exchange.
- d) Fiat money cannot serve as a store of value.

1.H. The reserve ratio refers to:

- a) The fraction of deposits banks hold as reserves.
- b) The fraction of deposits banks loan out.
- c) The interest rate the Fed pays on reserves.
- d) The total value of loans created by the banking system.

1.I. Open-market purchases by the Fed:

- a) Reduce the monetary base.
- b) Increase bank reserves.
- c) Decrease the money supply.
- d) Have no effect on interest rates.

1.J. The money multiplier becomes smaller when:

- a) Banks choose to hold fewer excess reserves.
- b) The reserve ratio rises.
- c) The public holds less currency and more deposits.
- d) The Fed conducts open-market purchases.

Problem 2. True / False

Determine whether each statement is TRUE or FALSE. If you deem that the statement is FALSE, you MUST justify your verdict by providing a brief explanation.

- 2.A. A person who is not working and has not searched for a job within the last four weeks is counted as unemployed.

- 2.B. Structural unemployment arises when wages are set above the level that balances supply and demand in the labor market.

- 2.C. Money serves as a medium of exchange, a unit of account, and a store of value.

- 2.D. When the Fed conducts an open-market sale of government bonds, the money supply increases.

Problem 3. Short Answer

3.A. Explain why frictional unemployment is unavoidable in a dynamic economy. In your answer, refer to how job matching and information affect the labor market.

3.B. Workers who receive unemployment insurance often take longer to find new jobs. Explain why this may occur, and discuss whether this outcome is always undesirable.

Problem 3. Short Answer

3.C. Suppose the reserve ratio in the banking system is 20%. A new deposit of \$5,000 enters the banking system. Using the simple money multiplier, calculate the maximum possible increase in the money supply. Show your reasoning briefly.

3.D. Discuss one advantage and one limitation of fiat money. Why does fiat money remain valuable even though it lacks intrinsic value?

• Original Score: _____

• Recovered Score: _____

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