13 UNDERSTANDING BUSINESS CYCLES

1. 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.

2. 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

3. Manufacturing and trade sales are best described as a:
   (A) leading indicator.
   (B) coincident indicator.
   (C) lagging indicator.

4. 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.

5. The inventory-to-sales ratio for manufacturing and trade is classified as a:
   (A) coincident indicator.
   (B) lagging indicator.
   (C) leading indicator.

6. 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.

7. 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.

8. A firm's most likely initial response to a cyclical increase in the inventory-to-sales ratio is to adjust their utilization of labour by:
   (A) adding new workers.
   (B) laying off employees.
   (C) reducing overtime.

9. 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.

10. 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.

11. 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.

12. 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.

13. Average weekly initial claims for unemployment insurance are classified as a:
    (A) lagging indicator.
    (B) leading indicator.
    (C) coincident indicator.

14. 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