1) The market system is also known as:  
   A) Central planning  
   B) Production system  
   C) Capitalism  
   D) Socialism  

2) Laissez-faire capitalism limits the government's economic functions to the following, except:  
   A) Protecting private property rights  
   B) Preventing individuals and firms from coercing others  
   C) Establishing a legal environment to enforce contracts among individuals  
   D) Setting prices of individual goods and services  

3) One major element of the command system is:  
   A) Individual decentralized decision-making  
   B) Central planning conducted by the government  
   C) An emphasis on private ownership of resources  
   D) Reliance on supply-and-demand forces to guide economic activity  

4) Capitalism gets its name from the fact that capital resources are mostly:  
   A) Treated as private property  
   B) In the form of money and financial resources  
   C) Given the highest priority in the economy's income distribution  
   D) Owned by the state or government  

5) All of the following statements describe a market economy except:  
   A) Government prescribes the market prices for goods and services  
   B) The allocation of resources is determined by their prices  
   C) The actions of buyers and sellers establish a product's price  
   D) Prices provide important signals to buyers and sellers  

6) A production system where various workers concentrate on different specialized tasks to contribute towards a whole product is referred to as:  
   A) Roundabout production  
   B) Division of labor  
   C) Freedom of enterprise  
   D) A coincidence of wants  

7) Specialization is beneficial:  
   A) At the individual firm level, but not at the national and international levels  
   B) Only as long as money and capital goods are employed  
   C) Only if there are differences in the abilities of resources  
   D) At the individual, regional, and even international levels
8) If a nation restricts trade with other nations, then the most likely effect is:
   A) Make consumers in the nation worse off
   B) Increased specialization of production
   C) Expanded economic wealth of the nation
   D) Lower prices of goods and services in the nation

9) Why might a company use barter rather than money to make a trade?
   A) Money is efficient only for large transactions, so barter is preferred for smaller transactions
   B) Barter trade is generally more efficient than money-based trade
   C) Money requires a coincidence of wants, barter is more direct
   D) Barter can enable two firms to trade when their cash flows are limited

10) The term *consumer sovereignty* means that:
    A) Producers have strong control over what consumers buy
    B) There are no limits on what consumers may buy in a market system
    C) What is produced is ultimately determined by what consumers buy
    D) Government is responsible for protecting consumers' interests

11) If the total costs of producing 1,500 units of output is $15,000 and this output sold to consumers for a total of $16,500, then the firm would earn profits of:
    A) $1,500
    B) $15,000
    C) $1,000
    D) $16,500

12) Suppose a firm can produce 70 units of a product, Zenia, by combining labor, land, capital, and entrepreneurial ability, as in the four alternative techniques shown in the table below. Assume further that the firm can hire labor at $3 per unit, land at $3 per unit, capital at $6 per unit, and entrepreneurship at $9 per unit.

<table>
<thead>
<tr>
<th>Techniques</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
</tr>
<tr>
<td>Labor</td>
</tr>
<tr>
<td>Land</td>
</tr>
<tr>
<td>Capital</td>
</tr>
<tr>
<td>Entrepreneurship</td>
</tr>
</tbody>
</table>

Refer to the above table. Which technique is the most economically efficient way of producing Zenia?
   A) A
   B) B
   C) C
   D) D
13) The following table illustrates alternative production techniques for producing 18 widgets that can be sold for $1 each for a total revenue of $18.

<table>
<thead>
<tr>
<th>Resource</th>
<th>Price Per Unit of Resource</th>
<th>Techniques (# of Units of Each Resource Required)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>$2</td>
<td>A: 3  B: 2  C: 1  D: 2</td>
</tr>
<tr>
<td>Land</td>
<td>1</td>
<td>A: 2  B: 1  C: 3  D: 1</td>
</tr>
<tr>
<td>Capital</td>
<td>4</td>
<td>A: 1  B: 2  C: 2  D: 3</td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td>3</td>
<td>A: 1  B: 2  C: 1  D: 1</td>
</tr>
</tbody>
</table>

Based on the data given in the table above, the most economically efficient production technique is:
A) A  B) B  C) C  D) D

14) The distribution of income in a market system is a primary factor that resolves which of the following fundamental economic questions?
A) How will the system accommodate change?
B) How will the output to be produced?
C) Who will get the output?
D) What will be produced?

15) An increase in the demand for a product and a reduction in its costs of production would:
A) Encourage firms to leave an industry
B) Encourage firms to enter an industry
C) Decrease the profits of producers
D) Cause a shortage of the product

**TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.**

16) Selfishness and self-interest are identical concepts.  
17) Even with the use of money, exchange and trade cannot occur if there is no coincidence of wants.

**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

18) When economists speak of "demand" in a particular market, they refer to:
A) How much of an item buyers want to buy at a given price
B) The whole demand curve or schedule
C) One price-quantity combination on the demand schedule
D) One point on the demand curve
19) In understanding and analyzing "demand," we focus on how much of a product the buyers are:
   A) Actually buying now and in the recent past
   B) Able to buy with their given income
   C) Willing and able to buy
   D) Willing and wanting to buy

20) The table below shows the weekly demand for hamburger in a market where there are just three buyers.

<table>
<thead>
<tr>
<th>Price</th>
<th>Buyer 1 Qd</th>
<th>Buyer 2 Qd</th>
<th>Buyer 3 Qd</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6</td>
<td>7</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>5</td>
<td>9</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>4</td>
<td>15</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>3</td>
<td>21</td>
<td>15</td>
<td>16</td>
</tr>
</tbody>
</table>

Refer to the above table. At a price of $6, the weekly market quantity demanded for hamburger is:
   A) 18
   B) 24
   C) 17
   D) 23

21) Which of the following will not cause a change in the demand for product A?
   A) A decrease in the price of close-substitute product B
   B) A decline in consumer incomes
   C) A change in the number of buyers
   D) A change in the price of A

22) Which of the following goods would most probably be an inferior good?
   A) French wines
   B) Theater tickets
   C) Steak
   D) Generic beer

23) For most products, purchases tend to fall with decreases in buyers' incomes. Such products are known as:
   A) Average goods
   B) Normal goods
   C) Inferior goods
   D) Direct goods

24) Suppose that goods A and B are close substitutes. If the price of good A falls, then we would expect an:
   A) Increase in the demand for good A as well as for good B
   B) Increase in the quantity of A demanded and a decrease in the demand for B
   C) Increase in the demand for A and a decrease in the quantity of B demanded
   D) Increase in the demand for A and an increase in the quantity of B demanded
25) Use the following graph of the demand for coffee:

Refer to the above diagram of three demand curves for coffee. Which of the following would cause a shift in coffee demand from $D_1$ to $D_2$?
A) A decrease in the price of coffee
B) An increase in consumer incomes
C) A decrease in the price of tea
D) An increase in the prices of cream and sugar

26) An increase in the price of product B leads to an increase in the demand for product C. This indicates that products B and C are:
A) Inferior goods
B) Substitute goods
C) Normal goods
D) Complementary goods

27) "Price" in the statement of the Law of Supply refers to:
A) The total revenues that sellers receive for selling a given quantity of the product
B) The amount that buyers are willing and able to pay for each unit of the product
C) The cost of producing each unit of the product
D) The total amount that buyers pay in order to acquire a given quantity of the product

28) Suppose that a more efficient way to produce a good is discovered, thus lowering production costs for the good. This will cause a(n):
A) Increase in quantity supplied
B) Increase in supply
C) Decrease in supply
D) Decrease in quantity supplied
29) A fall in the price of milk, used in the production of ice cream, will:
   A) Decrease the supply of ice cream
   B) Increase the supply of ice cream
   C) Have no effect on the supply of ice cream
   D) Cause a movement along the supply curve of ice cream

30) There is a shortage in a market for a product when:
   A) Supply is less than demand
   B) The current price is higher than the equilibrium price
   C) Quantity demanded is less than quantity supplied
   D) Quantity demanded is greater than quantity supplied

31) There is a surplus of tomatoes in the market. This implies that:
   A) The price will be rising, as a result
   B) Quantity demanded is more than quantity supplied
   C) The current price is set above the equilibrium level
   D) Supply of tomatoes is more than the demand

32) In competitive markets, a surplus or shortage will:
   A) Cause changes in the quantities demanded and supplied that tend to intensify the surplus or shortage
   B) Never exist because the markets are always at equilibrium
   C) Cause shifts in the demand and supply curves that tend to eliminate the surplus or shortage
   D) Cause changes in the quantities demanded and supplied that tend to eliminate the surplus or shortage

33) A decrease in supply, holding demand constant, will cause:
   A) Lower prices and a smaller quantity sold
   B) Higher prices and a smaller quantity sold
   C) Lower prices and a larger quantity sold
   D) Higher prices and a larger quantity sold

34) Which is of the following statements is correct?
   A) If demand increases, then price will decrease
   B) If price decreases, then demand will decrease
   C) If price increases, then demand will decrease
   D) If demand decreases, then price will decrease

35) A headline reads "Lumber Prices Up Sharply." In a competitive market, this situation would lead to a(n):
   A) Increase in the price of new homes and decrease in quantity
   B) Decrease in the price of new homes and increase in quantity
   C) Increase in the price and quantity of new homes
   D) Decrease in the price and quantity of new homes
36) Which of the following statements about market failure is not true:
   A) Market failure can result from the number of sellers in a market being too few to ensure competition
   B) Market failure causes an inefficient allocation of resources, even in a competitive market
   C) Market failure can come from causes on the demand-side or the supply-side of a market
   D) Market failure always results from some government action or policy in a market

37) When producers do not produce the efficient amount of a product because they are unable to charge consumers what they are willing to pay for it, then we have a:
   A) Demand-side market failure
   B) Monopolistic market
   C) Supply-side market failure
   D) Competitive market

38) When producers (say, of roads) are not able to make all consumers pay for enjoying their product (i.e., the roads), they tend to see a:
   A) Marginal benefit of production that is too low, and there is a demand-side market failure
   B) Marginal cost of production that is too high, and there is a supply-side market failure
   C) Marginal cost of production that is too low, and there is a supply-side market failure
   D) Marginal benefit of production that is too high, and there is a demand-side market failure

39) A competitive market can produce economically efficient outcomes if these conditions are met, except:
   A) The market supply curve reflects all costs of production
   B) The market produces only units for which costs are at least equal to benefits
   C) The market demand curve reflects the buyers' full willingness to pay
   D) The market produces only units for which benefits are at least equal to cost

40) The difference between the maximum price a consumer is willing to pay for a product and the actual price the consumer pays is called:
   A) Consumer Surplus
   B) Market failure
   C) Consumer Demand
   D) Utility

41) Charlie is willing to pay $10 for a T-shirt that is priced at $9. If Charlie buys the T-shirt, then his consumer surplus is
   A) $90.
   B) $1.
   C) $0.90.
   D) $19.

42) If the price of a product increases:
   A) Consumer surplus will increase
   B) Consumer surplus will decrease
   C) Total revenue will definitely increase
   D) Total revenue will definitely decrease
43) The equilibrium point in the market is where S and D curve intersect.

Refer to the graph above. At equilibrium, consumer surplus would be represented by the area:

A) $a$
B) $b + c$
C) $a + b$
D) $a + b + c$

44) The difference between the actual price that a producer receives and the minimum acceptable price the producer is willing to accept is called the producer:

A) Utility
B) Costs
C) Revenues
D) Surplus

45) The market supply curve indicates the:

A) Maximum prices that buyers are willing and able to pay for the product
B) Minimum acceptable prices that sellers are willing to accept for the product
C) Total revenues that sellers would receive from selling various quantities of the product
D) Total amount that buyers will pay in buying a given quantity of the product

46) When economic efficiency is attained, it implies all of the following, except:

A) Allocative efficiency is achieved
B) Per-unit cost of output produced is at minimum
C) Total consumer and producer surplus is at a maximum
D) The gap between marginal benefits and marginal costs of production is at maximum

47) Street entertainers face the free-rider problem when they perform because of the:

A) Diminishing marginal utility
B) Law of Demand
C) Nonexcludability characteristic
D) Rivalry characteristic
48) Government can reallocate resources away from private goods towards public goods, usually through:
   A) Positive and negative externalities  B) Import tariffs and quotas
   C) The laws of supply and demand  D) Taxes and government spending

49) When the production of a good generates external costs, the firm's supply curve will be:
   A) Above the true-cost supply curve  B) Vertical
   C) Horizontal  D) Below the true-cost supply curve

50) An emission fee levied against polluting firms will tend to shift the:
   A) Demand curve for the product to the right  B) Supply curve of the firms to the left
   C) Demand curve for the product to the left  D) Supply curve of the firms to the right