

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

- 1) A recurring theme in economics is that people: 1) _____
 - A) Can increase resources by limiting their economic wants
 - B) Have unlimited resources, but limited economic wants
 - C) Have limited economic wants and limited resources
 - D) Have unlimited economic wants, but limited resources

- 2) Economics is a social science that studies how individuals, institutions, and society may: 2) _____
 - A) Attain a minimum level of production
 - B) Expand the amount of resources available to them
 - C) Best use resources to maximize satisfaction of economic wants
 - D) Reduce the amount of goods and services they need

- 3) What does "there is no such thing as a free lunch" mean in economics? 3) _____
 - A) That products only have value because people are willing to pay for them
 - B) That scarce resources are used up to provide "freebies" and giveaways
 - C) That sometimes people may take friends out to lunch and pay for them
 - D) That all items in the lunch menu have specific prices

- 4) The opportunity cost of doing or getting something is best and fully defined as: 4) _____
 - A) The materials used in doing or getting something
 - B) The value of the best alternative that is given up in order to do or get something
 - C) The money spent in doing or getting something
 - D) The difference between the marginal cost and benefit of doing something

- 5) When a state government chooses to build more roads, the resources used are no longer available for public education programs. This dilemma illustrates the concept of: 5) _____
 - A) Opportunity cost
 - B) Production expenses
 - C) Unintended consequences
 - D) Unemployment issues

- 6) The opportunity cost of constructing a new public highway is the: 6) _____
 - A) Value of other goods and services that are sacrificed in order to construct the new highway
 - B) Value of shorter driving times and distances when the new highway is completed
 - C) Money cost of hiring contractors and construction workers for the new highway
 - D) Expected cost of constructing the new highway in a future year

- 7) The economic perspective focuses largely on marginal analysis, which means analyzing: 7) _____
 - A) The changes in the situation that would result from a given action
 - B) Peripheral elements of a given issue or action
 - C) The minor aspects of a given issue or decision
 - D) Emotional and psychological facets of a given action

- 8) From an economic perspective, when a student decides to go to the movies instead of studying for a test, it indicates that in the student's thinking the marginal: 8) _____
- A) Cost of going to the movies is less than the marginal benefit of going to the movies
 - B) Cost of going to the movies is greater than the marginal cost of studying
 - C) Benefit of studying are greater than the marginal benefit of going to the movies
 - D) Benefit of studying is greater than the marginal cost of studying
- 9) Which of the following is another way of saying "marginal benefits of an action"? 9) _____
- A) Benefits given up, once the action is taken
 - B) Unintended gains from taking the action
 - C) Extra benefits resulting from the action
 - D) Benefits accruing to others, as a result of one's action
- 10) The economic principle that "unemployment rate will tend to increase as the economy moves into a recession" is an example of: 10) _____
- A) An assumption
 - B) A normative statement
 - C) A generalization
 - D) A loaded terminology
- 11) Which of the following exemplifies a microeconomic question? 11) _____
- A) What is the current national rate of unemployment?
 - B) Is the aggregate output in the economy greater this year than last year?
 - C) Will a new type of electronic reader or tablet increase the number of buyers?
 - D) Is the economy experiencing a decline in the rate of inflation?
- 12) The statement in a newspaper that "consumer prices rose last month by 1 percent, and if this trend continues, the annual rate of inflation will be 12 percent for the year" is an example of: 12) _____
- A) A normative economic statement
 - B) Microeconomic analysis
 - C) Rational self-interest
 - D) A positive economic statement
- 13) A budget line is a graph that shows the various combinations of two products that a: 13) _____
- A) Household can produce with a given amount of resources
 - B) Consumer can buy with a given amount of money income
 - C) Nation can trade with another nation
 - D) Business firm can produce with a given budget
- 14) Suppose that a consumer purchases just two goods, X and Y. The slope of the budget line would indicate the: 14) _____
- A) Opportunity cost of good Y in terms of good X given up for each unit of Y
 - B) Maximum quantity of good X that the consumer could buy with a given budget
 - C) Opportunity cost of good X in terms of good Y given up for each unit of Y
 - D) Maximum quantity of good Y that the consumer could buy with a given budget

15) Assume that a consumer has a given budget or income of \$12, and that she can buy only two goods, apples or bananas. The price of an apple is \$1.50 and the price of a banana is \$0.75. 15) _____

Refer to the information given above. If the consumer spent all of her budget on just apples or just bananas, how many apples or bananas maximum would she be able to buy?

- A) 8 apples or 16 bananas
- B) 16 apples or 12 bananas
- C) 8 apples or 12 bananas
- D) 12 apples or 8 bananas

16) The market system is also known as: 16) _____

- A) Central planning
- B) Production system
- C) Capitalism
- D) Socialism

17) Laissez-faire capitalism limits the government's economic functions to the following, *except*. 17) _____

- 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

18) One major element of the command system is: 18) _____

- 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

19) Capitalism gets its name from the fact that capital resources are mostly: 19) _____

- 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

20) All of the following statements describe a market economy *except*. 20) _____

- 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

21) A production system where various workers concentrate on different specialized tasks to contribute towards a whole product is referred to as: 21) _____

- A) Roundabout production
- B) Division of labor
- C) Freedom of enterprise
- D) A coincidence of wants

- 22) Specialization is beneficial: 22) _____
 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
- 23) If a nation restricts trade with other nations, then the most likely effect is: 23) _____
 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
- 24) Why might a company use barter rather than money to make a trade? 24) _____
 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
- 25) The term *consumer sovereignty* means that: 25) _____
 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
- 26) 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: 26) _____
 A) \$1,500 B) \$15,000 C) \$1,000 D) \$16,500
- 27) 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. 27) _____

	Techniques			
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
Labor	4	10	6	5
Land	5	3	3	3
Capital	5	2	4	4
Entrepreneurship	1	1	1	1

Refer to the above table. Which technique is the most economically efficient way of producing Zenia?

- A) A B) B C) C D) D

- 28) The following table illustrates alternative production techniques for producing 18 widgets that can be sold for \$1 each for a total revenue of \$18. 28) _____

Resource	Price Per Unit of Resource	Techniques			
		(# of Units of Each Resource Required)			
		A	B	C	D
Labor	\$2	3	2	1	2
Land	1	2	1	3	1
Capital	4	1	2	2	3
Entrepreneurship	3	1	2	1	1

Based on the data given in the table above, the most economically efficient production technique is:

- A) A B) B C) C D) D
- 29) The distribution of income in a market system is a primary factor that resolves which of the following fundamental economic questions? 29) _____
- 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?
- 30) An increase in the demand for a product and a reduction in its costs of production would: 30) _____
- 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.

- 31) Selfishness and self-interest are identical concepts. 31) _____
- 32) Even with the use of money, exchange and trade cannot occur if there is no coincidence of wants. 32) _____

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- 33) When economists speak of "demand" in a particular market, they refer to: 33) _____
- 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

- 34) In understanding and analyzing "demand," we focus on how much of a product the buyers are: 34) _____
- 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

- 35) The table below shows the weekly demand for hamburger in a market where there are just three buyers. 35) _____

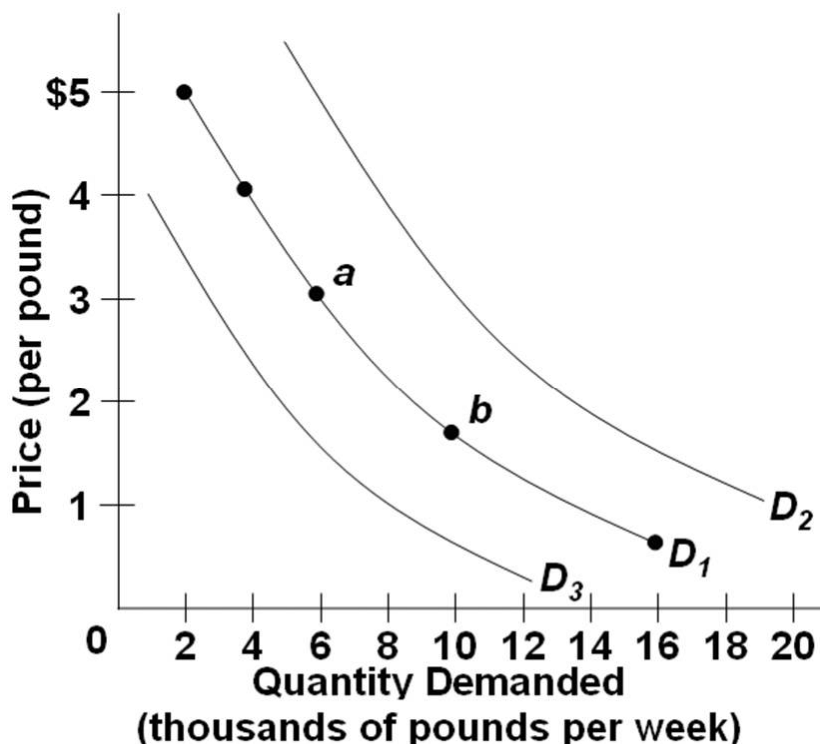
	Buyer 1	Buyer 2	Buyer 3
Price	Qd 1	Qd 2	Qd 3
\$6	7	4	6
5	9	7	8
4	15	10	12
3	21	15	16

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
- 36) Which of the following will *not* cause a change in the demand for product A? 36) _____
- 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
- 37) Which of the following goods would most probably be an inferior good? 37) _____
- A) French wines
 - B) Theater tickets
 - C) Steak
 - D) Generic beer
- 38) For most products, purchases tend to fall with decreases in buyers' incomes. Such products are known as: 38) _____
- A) Average goods
 - B) Normal goods
 - C) Inferior goods
 - D) Direct goods
- 39) Suppose that goods A and B are close substitutes. If the price of good A falls, then we would expect an: 39) _____
- 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

40) Use the following graph of the demand for coffee:

40) _____



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
- 41) 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: 41) _____
- A) Inferior goods
 - B) Substitute goods
 - C) Normal goods
 - D) Complementary goods
- 42) "Price" in the statement of the Law of Supply refers to: 42) _____
- A) The total revenues that sellers receives 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
- 43) Suppose that a more efficient way to produce a good is discovered, thus lowering production costs for the good. This will cause a(n): 43) _____
- A) Increase in quantity supplied
 - B) Increase in supply
 - C) Decrease in supply
 - D) Decrease in quantity supplied

- 44) A fall in the price of milk, used in the production of ice cream, will: 44) _____
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
- 45) There is a shortage in a market for a product when: 45) _____
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
- 46) There is a surplus of tomatoes in the market. This implies that: 46) _____
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
- 47) In competitive markets, a surplus or shortage will: 47) _____
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
- 48) A decrease in supply, holding demand constant, will cause: 48) _____
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
- 49) Which is of the following statements is correct? 49) _____
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
- 50) A headline reads "Lumber Prices Up Sharply." In a competitive market, this situation would lead to a(n): 50) _____
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