

Name _____

You may not discuss this test in any way shape or form with anyone before 1500 Tuesday, September 20, 2011.

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

- 1) Because human wants are insatiable and unlimited while available resources are limited, people are said to face the economic problem of
 - A) scarcity.
 - B) why to produce.
 - C) social interest versus self-interest.
 - D) macroeconomics.
 - E) microeconomics.

- 2) The study of economics is best described as a study of
 - A) the choices made in producing goods and services (the "how" question).
 - B) how people earn a living.
 - C) choices made as a result of scarcity in a society.
 - D) capitalism.
 - E) the factors that influence the stock and bond markets.

- 3) When a third string professional quarterback earns more than a police officer, society answers the _____ question.
 - A) why
 - B) what
 - C) for whom
 - D) social interest
 - E) How

For whom. Those that answered what (entertainment vs. security) were out-thinking the question. The key was "earns more".

- 4) The opportunity cost of a decision is measured in terms of
 - A) the price of the alternative we choose.
 - B) the price of a new opportunity that arises.
 - C) the next best thing given up.
 - D) time.
 - E) sunk cost.

- 5) Ali decides to attend the one-hour review session for microeconomics instead of working at his job. His job pays him \$10 per hour. Ali's opportunity cost of attending the review session is
 - A) nothing, because the review session does not cost anything.
 - B) equal to the benefit he gets from the review session.
 - C) the value of the session minus the \$10 he could have earned at his job.
 - D) the one-hour review session.
 - E) the \$10 he could have earned at his job.

- 6) A cost that is previously incurred and irreversible is known as _____ cost.
 - A) an explicit
 - B) a sunk
 - C) an opportunity
 - D) marginal
 - E) a benefit's

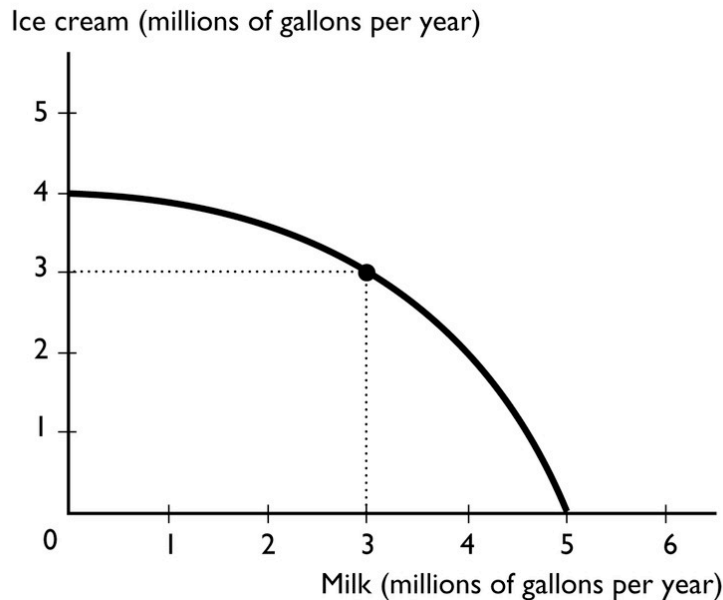
- 7) When Gabriel made a rational choice to spend his entire allowance on candy bars, he did so by comparing the
 - A) benefits of the candy bars to the scarcity candy bars.
 - B) opportunity costs of the candy bars to the scarcity of the candy bars.
 - C) marginal benefits of the candy bars to the marginal costs of the candy bars.
 - D) benefits of the candy bars to the desires he had for the candy bars.
 - E) self-interest to the social interest.

- 8) Macroeconomics includes the study of
 - A) the choices that individuals and businesses make, the way these choices interact, and the influence that governments exert on these choices.

- B) how choices made in the social interest advance the social interest.
 - C) how government policies impact salaries of specific occupations.
 - D) the aggregate effects on the national economy and the global economy of the choices made by individuals, businesses, and governments.
 - E) how prices for individual goods are determined.
- 9) Which of the following statements is a positive statement?
- A) Too many people are unemployed.
 - B) Our country needs to increase military spending.
 - C) There should be a computer in every elementary school classroom.
 - D) Online shopping increased by 50 percent this Christmas season.
 - E) We need to spend less on luxury items for the wealthy, and more on necessities for the less fortunate.
- 10) The largest share of total production in the United States is
- A) exports of goods and services.
 - B) capital goods.
 - C) imports of goods and services.
 - D) consumption goods and services.
 - E) government goods and services.
- 11) Which of the following items is a capital good?
- A) A jet airplane purchased by Delta Airlines.
 - B) A paper back book purchased by a business traveler to read on the airplane.
 - C) A coffee maker given to your roommate as a Christmas gift.
 - D) A doughnut purchased by a surveyor on his way to work.
 - E) A tennis ball purchased by two friends to play tennis.
- 12) The productive resource that includes work time and work effort is called
- A) labor.
 - B) capital.
 - C) land.
 - D) entrepreneurship.
- 13) The owners of the resource _____ are paid _____ .
- A) labor; profit
 - B) entrepreneurship; wages
 - C) capital; rent
 - D) land; wages
 - E) capital; interest
- 14) Which factor of production earns the largest share of the nation's total income?
- A) labor
 - B) land
 - C) consumption goods and services
 - D) entrepreneurship
 - E) capital
- 15) Dan missed class the day the professor covered the circular flow model. Dan asked his friend Joan to explain markets to him. Joan correctly stated that a market
- A) must include a written contract between buyers and sellers.
 - B) is only a place to purchase groceries.
 - C) is any arrangement that brings buyers and sellers together.
 - D) must have many buyers and only one seller, who is willing to sell to all the buyers.
 - E) requires a physical location for buyers and sellers to get together.
- 16) In the circular flow model, which of the following owns the factors of production?
- A) firms, households, and all levels of government
 - B) only households
 - C) only federal, state, and local governments
 - D) only firms
 - E) both firms and households

Yikes! We beat the commies! What, corporations are evil? We (teachers, fire-fighters, cops, anyone who owns stocks) own corporations thru stocks. In a capitalist system, only households own the factors of production and they sell them to corporations in the circular flow model thru factors markets.

- 17) Most of the world's population lives in
- A) developing economies.
 - B) advanced economies.
 - C) island nations.
 - D) emerging market economies (the old Soviet Union).
- 18) The production possibilities frontier is the
- A) minimum output that can be produced when resources are used inefficiently.
 - B) maximum output that can be produced at an opportunity cost of zero.
 - C) boundary between the combinations of goods and services that can be produced and the combinations that cannot be produced, given the available factors of production and the state of technology.
 - D) maximum opportunity cost combinations of goods and services.
 - E) boundary between the combinations of goods and services that can be produced and the combinations that cannot be produced when technology is changing.



- 19) The figure above shows the production possibilities frontier for a country. A combination of 3 million gallons of milk and 3 million gallons of ice cream is
- A) unattainable and has less than full employment of resources.
 - B) unattainable.
 - C) attainable and has less than full employment of resources.
 - D) attainable and has full employment of resources.

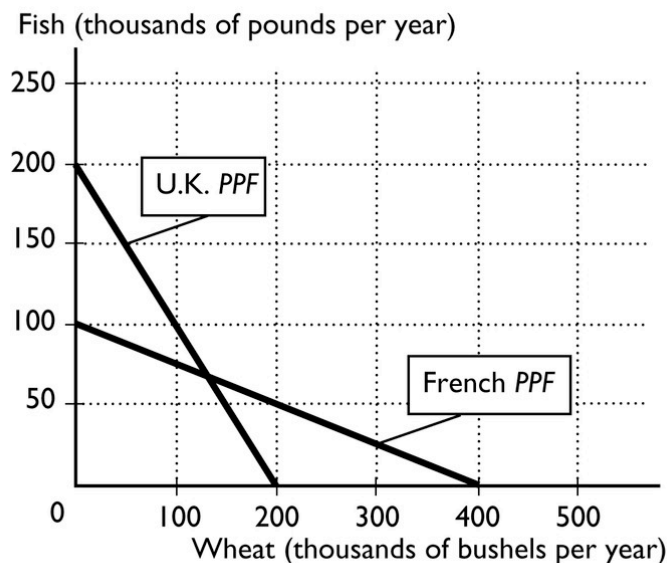
	Fish	Fruit
Possibility	(pounds)	(pounds)
A	37	56
B	31	78
C	20	90
D	9	99

- 20) Robinson Crusoe divides his time between catching fish and gathering fruit. Part of his production possibilities frontier is given in the above table. If Mr. Crusoe is on his PPF and he increases the amount of fruit he gathers from 56 to 90 pounds, the opportunity cost is
- A) 90 pounds of fruit.
 - B) 17 pounds of fish.
 - C) 34 pounds of fruit.
 - D) 31 pounds of fish.
 - E) 37 pounds of fish.

- 21) The fact of increasing opportunity cost when moving on the *PPF* means that
- A) to decrease the production of one product requires smaller and smaller sacrifices of the other good.
 - B) to increase the production of one product requires smaller and smaller sacrifices of the other good.
 - C) the *PPF* will be a negatively sloped straight line.
 - D) when the government forces a movement from one point on the *PPF* to another point, no production is lost.
 - E) to increase the production of one product requires larger and larger sacrifices of the other good.
- 22) As an economy grows by giving up consumption goods and services now in favor of capital goods so as to have more consumption goods later, its *PPF*
- A) shifts outward.
 - B) becomes steeper.
 - C) becomes less steep.
 - D) becomes straighter.

Mary's production in 1 day		Mark's production in 1 day	
Dresses	8	Dresses	24
Jackets	12	Jackets	16

- 23) In the above table, for Mary the opportunity cost of producing a dress is _____ and the opportunity cost for Mark of producing a dress is _____.
- A) 1 1/2 jackets; 2/3 of a jacket
 - B) 1 jacket; 1 jacket
 - C) 1 1/2 jackets; 2 1/2 jackets
 - D) 1 dress; 1 dress
 - E) 1 1/4 jackets; 1/2 of a jacket
- 24) When a person (or nation) has a comparative advantage in producing a good or service, the person has
- A) an increasing marginal benefit in producing the good.
 - B) a higher opportunity cost in producing that product than someone else.
 - C) a constant opportunity cost in producing that product.
 - D) a decreasing opportunity cost in producing that product.
 - E) a lower opportunity cost in producing that product than someone else.
- 25) If Country A can produce an extra plane by giving up two boats, and Country B can produce an extra plane by giving up three boats, then
- A) Country A would like to trade with B, but B cannot gain by trading with A.
 - B) the two countries have no incentive to trade with one another.
 - C) Country B has a comparative advantage over Country A in the production of planes.
 - D) Country A has an absolute advantage in producing planes and a comparative advantage in producing boats.
 - E) Country A has a comparative advantage over Country B in the production of planes.



- 26) The figure above shows the production possibilities frontiers for the United Kingdom and France. What is the

opportunity cost of one bushel of wheat in France?

- A) 1 pound of fish
- B) 4 pounds of fish
- C) 2 pounds of fish
- D) 100 pounds of fish
- E) 1/4 of a pound of fish

27) The figure above shows the production possibilities frontiers for the United Kingdom and France. If the United Kingdom and France specialize and engage in trade, the United Kingdom will produce _____ and France will produce _____.

- A) both wheat and fish; both wheat and fish
- B) wheat; fish
- C) fish; fish
- D) wheat; wheat
- E) fish; wheat

28) What is gained when people engage in specialization and trade?

- A) Specialization and trade allow people to consume inside their production possibilities frontiers.
- B) Specialization and trade allow people to consume at a point on their production possibilities frontiers.
- C) Specialization and trade allow people to consume outside their individual production possibilities frontiers.

	Potatoes (pounds)	or	Tomatoes (pounds)
Huey	12	or	8
Steve	6	or	2

29) Huey and Steve can grow potatoes or tomatoes. The table above shows the pounds of potatoes and tomatoes Huey and Steve can grow in a week. Based on the table, Steve has a comparative advantage in

- A) potatoes.
- B) tomatoes.
- C) both potatoes and tomatoes.
- D) neither potatoes nor tomatoes.

$$H: 12p = 8t \quad p = 2/3t$$

$$S: 6p = 2t \quad p = 1/3t \quad \text{Steve lower opportunity cost in potatoes so Steve comparative advantage in spuds. Oh, and on CH1-6 Sample Test #12.}$$

30) The "law of demand" refers to the fact that, other things remaining the same, when the price of a good rises,

- A) the demand curve shifts rightward and there is a movement up along the demand curve to a smaller quantity demanded.
- B) there is a movement down along the demand curve to a larger quantity demanded.
- C) the demand curve shifts leftward.
- D) there is a movement up along the demand curve to a smaller quantity demanded.
- E) the demand curve shifts rightward.

31) Your college requires that starting this year, every business student must bring a laptop to school. This requirement

- A) increases the quantity demanded of laptops.
- B) has no effect on the demand for laptops because it affects only the supply of laptops.
- C) increases both the demand for and the supply of laptops.
- D) decreases the quantity demanded of laptops.
- E) increases the demand for laptops.

32) The market demand curve

- A) cannot show how quantity demanded changes in response to a change in price.
- B) cannot show a change in demand for a good.
- C) is the horizontal sum of individual demand curves.
- D) is upward sloping.
- E) is the vertical sum of individual demand curves.

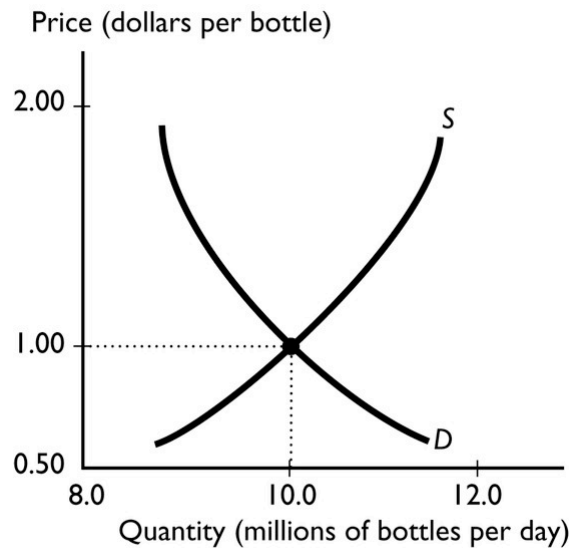
We did this in class.

- 33) Consumers regard Dell computers and Apple computers as substitutes. If the price of a Dell computer decreases, the
- A) demand for Apple computers increases.
 - B) demand for Apple computers decreases.
 - C) supply of Dell computers increases.
 - D) demand for Dell computers decreases.
 - E) demand for Dell computers increases.
- 34) The law of supply states that, other things remaining the same,
- A) as people's income increase, the supply of goods increases.
 - B) if the price of a good increases, the supply increases.
 - C) if the price of a good increases, firms buy less of it.
 - D) if the price of a good increases, the quantity supplied increases.
 - E) demand increases when supply increases.
- 35) Oil refiners can refine a barrel of petroleum so that it yields either more home heating oil or more diesel fuel. If the price of diesel fuel falls, there is
- A) an increase in the demand for home heating oil.
 - B) a decrease in the supply of home heating oil.
 - C) a decrease in the quantity of home heating oil supplied.
 - D) an increase in the quantity of home heating oil supplied.
 - E) an increase in the supply of home heating oil.

Note: The previous question was about law of supply (hint), so not a. All answers are about home heating oil. Cannot be C or D because nothing about price of home heating oil. So, B or E. Diesel is a substitute in production. If price of substitute in production falls, increase Supply of home heating oil.

- 36) A surplus of cardboard boxes means that
- A) at the current price of a cardboard box, the quantity demanded is less than the quantity supplied.
 - B) at the current price of a cardboard box, the quantity demanded exceeds the quantity supplied.
 - C) at the current price of a cardboard box, the quantity demanded equals the quantity supplied and the price will fall to restore the equilibrium..
 - D) the current price of a cardboard box is less than the equilibrium price.
- 37) Some experts have suggested that of the total electricity consumed in the United States, 8 percent is used up by the Internet. Thus an increased demand by consumers to surf the Internet will _____ the equilibrium price of electricity and _____ the equilibrium quantity of electricity.
- A) not change; increase
 - B) raise; increase
 - C) raise; decrease
 - D) lower; increase
 - E) lower; decrease
- 38) Suppose that the equilibrium price and quantity of new houses both increase. Which of the following could be a cause of this change?
- A) A technological advance in framing a new house might have occurred.
 - B) The rent for nearby apartments might have fallen.
 - C) The wage paid carpenters who build new houses might have risen.
 - D) The cost of wood framing used to build houses might have fallen.
 - E) More home buyers might have moved into the area.

Look to chart, only case is increase in Demand.



- 39) The graph illustrates the market for bottled water. If the producers of bottled water switch to using improved technology, then the
- A) quantity demanded of bottled water increases.
 - B) quantity demanded of bottled water does not change.
 - C) supply of bottled water decreases.
 - D) price of bottled water rises.
 - E) supply curve shifts leftward.

Cannot be C or E, improved technology increases Supply. Cannot be D, better use of factors of production by better technology would, empirically, tend to lower price. Cannot be B, something is changing. A because improved technology increases Supply. A price lower than \$1 is the new price, movement along the Demand curve, that is consumers adjust to the lower price by taking more off the market, that is, quantity demanded of bottled water increases. Oh, and on Sample test #32.

- 40) Kiwis and strawberries are substitutes for consumers. An increase in the price of a kiwi coupled with an increase in the number of strawberry growers _____ the equilibrium price of a pound of strawberries and _____ the equilibrium quantity of strawberries.
- A) lowers; probably changes, but more information is needed to determine if it increases or decreases
 - B) raises increases
 - C) lowers; increases
 - D) probably changes, but more information is needed to determine if it rises or falls; increases
 - E) raises; probably changes, but more information is needed to determine if it increases or decreases

We are talking about strawberries. Always remember what good or service we are talking about. Supply of strawberries increases (number of growers increases). An increase in price of a complement (kiwis) increases Demand for strawberries. Go to chart: we know the new equilibrium quantity of strawberries increases but we cannot say anything for sure about price, we need more info on relative shifts in D and S of strawberries.

- 1) A
- 2) C
- 3) C
- 4) C
- 5) E
- 6) B
- 7) C
- 8) D
- 9) D
- 10) D
- 11) A
- 12) A
- 13) E
- 14) A
- 15) C
- 16) B
- 17) A
- 18) C
- 19) D
- 20) B
- 21) E
- 22) A
- 23) A
- 24) E
- 25) E
- 26) E
- 27) E
- 28) C
- 29) A
- 30) D
- 31) E
- 32) C
- 33) B
- 34) D
- 35) E
- 36) A
- 37) B
- 38) E
- 39) A
- 40) D