

## Econ 101 Exam Review Answers:

Define:

1. Economics

Economics is the study of choice under conditions of scarcity.

2. Opportunity Cost

The opportunity cost of any choice is what we must forego when we make that choice. (Highest Valued)

3. Product Possibility Frontier (PPF)

A curve showing all combinations of two goods that can be produced with the resources and technology currently available

4. Model

A model is an abstract representation of reality. (Example: a map)

5. Market

A collection of buyers and sellers who have the potential to trade with one another

6. Specialization

Where we concentrate our efforts on a limited number of productive activities

7. Exchange

Where we obtain most of what we desire by trading with others rather than producing for ourselves.

8. Tariff

A tax on an imported good

9. Quota

A government decree that limits the imports of a good to a specified maximum physical quantity

10. Protectionism

The idea that a nation's industries should be protected from free trade with other nations

1. Match the term with the best answer:

- |                          |   |
|--------------------------|---|
| A) Traditional Economy-5 | 1) People are largely free to do what they want with the resources at their disposal  |
| B) Command Economy-3     | 2) A system in which most of the resources are owned by the state                     |
| C) Market Economy-1      | 3) Resources are allocated mostly by explicit instructions from some higher authority |
| D) Capitalism-4          | 4) A system in which most of the resources are owned by private citizens              |
| E) Socialism-2           | 5) Resources are allocated according to the long-lived practices of the past          |

2. What kind of economy does the United States have?

- A) Market Economy
- B) Mixed Economy**
- C) Command Economy
- D) Traditional Economy

3. What are the 2 types of cost that are involved with opportunity cost?

- A) exponential
- B) imponential
- C) explicit Money payments**
- D) implicit Sacrifices for which no money is being exchanged Ex: time**
- E) explosive
- F) implosive

4. Which of the following is not a form of capital?

- A) physical capital
- B) human capital
- C) emotional capital**
- D) capital stock

5. Which of the following are examples classes of resources?

- A) Labor**
- B) Time
- C) Capital**
- D) Persistence
- E) Land**
- F) Entrepreneurship**
- G) Management

6. Which of the following is true

- A) Microeconomics is concerned with the behavior of individual actors on the economic scene, while Macroeconomics is concerned with a group's total output.**
- B) Macroeconomics is concerned with the behavior of individual actors on the economic scene, while Microeconomics is concerned with a group's total output.

7. Is this an example of positive or normative statement?  
"Raising the price of bananas will decrease the demand in bananas"  
**A) Positive Statement – explains how the economy works, plain and simple**  
B) Normative Statement- prescribes solutions to economic problems
8. Draw 3 PPF's, one with Linear Opportunity Cost, one with Increasing Opportunity Cost, and one with Decreasing Opportunity Cost.
9. Draw a point on one of the PPF's above that would indicate an inefficient point. Then define an inefficient point below:

A point is inefficient if it could produce more of at least one good without producing less of any other good.

10. Draw 2 PPF's, one that indicates there has been a positive change in technology for one good, and another that indicate there has been a positive change in technology for both goods:
11. Which of the following represents absolute advantage:  
A) A person has an absolute advantage in producing some good if he or she can produce it with a smaller opportunity cost than some other person can.  
**B) An individual has an absolute advantage in the production of some good when he or she can produce it using fewer resources than another individual can.**
12. Which of the following is the definition of terms of trade?  
A) the price of one good that is exchanged for one unit of another good.  
B) the price of many goods that is exchanged for one unit of another good  
**C) the quantity of one good that is exchanged for one unit of another good**  
D) the quantity of many goods that is exchanged for one unit of another good

13. List the four arguments that can be made for the continuation of protectionism:

National Security Argument  
Infant Industry Argument  
Strategic Trade Policy Argument  
Zero-Sums Argument

**Go through examples of Opportunity Cost, Gains from Specialization and Demand Schedule**