

UNIT 1 PRACTICE EXAM

1. Economics is a social science that
- (A) is primarily concerned with money
 - (B) is primarily concerned with how resources are used
 - (C) relies solely on the scientific method for analysis
 - (D) is primarily concerned with maximizing spiritual well-being
 - (E) is purely normative

2. Macroeconomics focuses on
- (A) government and its laws that affect commerce
 - (B) individuals and their resource use
 - (C) corporations and their production levels
 - (D) the resource use of the entire nation
 - (E) money

3. Given the table below what is the opportunity cost of wheat in France?

Country	Labor hours needed to produce a unit of:	
	Wheat	Cloth
France	5	10
England	20	20

- (A) $\frac{1}{2}$ cloth
- (B) $\frac{1}{2}$ wheat
- (C) 2 cloth
- (D) 2 wheat
- (E) $\frac{1}{4}$ cloth

4. Given the table below, which statement is true?

Country	Labor hours needed to produce a unit of:	
	Wheat	Cloth
France	5	10
England	20	20

- (A) England has the absolute advantage in both products
- (B) France should specialize in and export wheat while England should specialize in and export wheat
- (C) France has the comparative advantage in wheat
- (D) England has the comparative advantage in wheat
- (E) France has the absolute advantage in wheat while England has the absolute advantage in cloth

5. Which of the following statements is positive?
- (A) An economy that produces more butter than guns is better off than an economy that produces more guns than butter
 - (B) Nations should concentrate their resources on producing wholesome consumer goods as opposed to the weapons of war
 - (C) The production possibilities frontier is concave to the origin because of the law of increasing costs.
 - (D) Nations ought to devote at least some of their resources to national defense.
 - (E) Nations would do better by producing toward the middle of their production possibilities frontiers as opposed to the extreme points near the axes.

6. The primary focus of microeconomics is
- (A) families and how they make money.
 - (B) firms and how they make profits.
 - (C) individual units within the overall economy.
 - (D) government.
 - (E) small countries.

7. Economists use the term “capital” to mean
- (A) money.
 - (B) plant and equipment.
 - (C) where the central government is located.
 - (D) the center of the economy.
 - (E) a major idea.

8. Land refers to
- (A) all productive resources.
 - (B) all natural resources.
 - (C) farmland only.
 - (D) real estate.
 - (E) chattels.

9. What you give up to pursue another alternative is known as
- (A) capital.
 - (B) land.
 - (C) money cost
 - (D) the price of the product
 - (E) opportunity cost.

10. Given the following table

(combinations that can be produced using resources fully and efficiently)

<u>Apples</u>	<u>Oranges</u>
0	20
7	10
14	0

the opportunity cost of apples is

- (A) 10/7 oranges
- (B) 7/10 oranges
- (C) 10/7 apples
- (D) 7/10 apples
- (E) 70 percent

11. Given the following tables

(combination that can be produced using resources fully and efficient)

<u>Soup</u>	<u>Nuts</u>
0	15
1	10
2	5

the opportunity cost of soup is

- (A) 5 nuts
- (B) 5 soup
- (C) 20 percent
- (D) 500 percent
- (E) constant

12. When opportunity cost is constant across all production levels, the productions possibilities frontier is

- (A) concave to the origin.
- (B) convex to the origin.
- (C) undefined.
- (D) shifted.
- (E) a straight diagonal line slopping downward from left to right.

13. When an economy produces a combination of goods that lies on the production possibilities frontier,

- (A) resources are being used fully and efficiently.
- (B) prices are constant.
- (C) opportunity cost is constant.
- (D) resources will never be depleted.
- (E) prices will rise.

14. The law of increasing costs does not apply to guns and butter.

- (A) is the result of resources not being perfectly adaptable between the production of two goods.
- (B) implies that prices will rise when the costs of making a good rise.
- (C) causes the production possibilities frontier to be a straight line.
- (D) implies that opportunity costs will rise as production levels fall.

15. Which of the following is a fundamental economic question?

- (A) Who will get how much of each good and service?
- (B) Who should pay taxes?
- (C) Who will work?
- (D) Who will make the economic decisions?
- (E) Who will be allowed into the economy?

16. In a command economy

- (A) the market dictates the answers to the fundamental economic questions.
- (B) competition help answer the fundamental economic questions.
- (C) state and local governments respond to the fundamental economic questions.
- (D) the central government dictates the answers to the fundamental economic questions
- (E) laws are set up to answer the fundamental economic questions.

17. Market economics
(A) rely on markets to coordinate economic activity.
(B) rely on the government to address the fundamental questions.
(C) rely on elected officials to make the most important economic decisions.
(D) rely on courts to ensure people and firms get what they deserve.
(E) are more equitable than command economies.
18. Prices in capitalist economics are
(A) unfair.
(B) determined by supply and demand.
(C) determined, in most cases, by the federal government.
(D) a reflection of our basic values.
(E) a means to achieve equality.
19. What do economists mean when they state that a good is scarce?
(A) There is a shortage or insufficient supply of the good at the existing price.
(B) It is impossible to expand the availability of the good.
(C) People will want to buy more of the good regardless of price.
(D) The amount of the good that people would like to have exceeds the supply that is freely available from nature.
20. Rationing is
(A) the allocation of a limited supply of a good or resource among users who would like to have more of it.
(B) a function that can only be performed by market prices.
(C) a function that is unnecessary except in cases where markets are used to allocate goods and resources.
(D) essential only when the price of a product is set above market equilibrium.
21. The expression, "There's no such thing as a free lunch" implies that
(A) everyone has to pay for his own lunch.
(B) the person consuming a good must always pay for it.
(C) costs are incurred when resources are used to produce goods and services.
(D) no one has time for a good lunch anymore.
22. Which one of the following states a central element of the economic way of thinking?
(A) Scarce goods are priceless.
(B) Incentives matter--if the personal cost of a choice increases, individuals will be less likely to choose it.
(C) The realism of the assumptions is the best test of an economic theory.
(D) When deciding how to allocate time, the concept of opportunity cost is meaningless.
23. Which one of the following is a positive economic statement?
(A) An increase in the price of butter causes consumers to buy less butter.
(B) Social conscience demands that we increase the minimum wage.
(C) Taxes should be raised to halt inflation.
(D) The sales tax on food should be repealed.
24. Goods are scarce because
(A) of greed; if human beings were not so selfish, goods would be less scarce.
(B) the desire for goods is far greater than their availability from nature.
(C) of competition, if people were not so competitive, it would be possible to satisfy our desire for material things.
(D) of private property; if things were not owned privately, scarcity could be eliminated.
25. Which of the following is true?
(A) Economic analysis assumes that people act only as the result of selfish motives.
(B) Charitable behavior is inconsistent with the basic postulate of economics.
(C) Using scarce resources to meet a need in one area will reduce our ability to meet needs in other areas.
(D) The economic way of thinking stresses that good intentions usually lead to sound economic policy.
26. Economics is the study of:
(A) how choices are made because of scarcity.
(B) how the values and preferences of people are formed.
(C) how to operate a business.
(D) how to make money in the stock market.

27. The benefit (or satisfaction) that an individual expects to derive from an activity is called
(A) opportunity cost
(B) utility
(C) marginal cost
(D) scarcity
28. A firm producing cans buys three tons of aluminum per day at \$200 per ton. If it buys four tons per day, it receives a quantity discount on all units and pays only \$175 per ton. The marginal cost of the fourth ton per day is
(A) \$100.
(B) \$175.
(C) \$700.
(D) \$225.
29. "There is no such thing as a free lunch." This statement best reflects the fact that
(A) consumers are unwilling to pay for a good unless it provides them with value.
(B) an opportunity cost is always present when scarce resources are used to produce a good.
(C) positive statements without normative qualifications have little use in economics.
(D) the value of a good to consumers will decrease as the consumption of it increases.
30. When economists say an individual displays economizing behavior, they simply mean that she is
(A) making a lot of money.
(B) buying only those products that are cheap and of low quality.
(C) learning how to run a business more effectively.
(D) seeking the least cost method to accomplish objectives.
31. What is the best test of an economic theory?
(A) its eloquence
(B) its ability to predict
(C) its implications
(D) the intentions of the persons undertaking the activity that the theory attempts to explain
32. The opportunity cost of an action is
(A) the monetary payment the action required.
(B) the total time spent by all parties in carrying out the action.
(C) the value of the opportunity or opportunities that must be sacrificed in order to take the action.
(D) the cost of all alternative actions that could have been taken.
33. The economic way of thinking stresses that
(A) changes in personal costs and benefits generally fail to exert much impact on behavior.
(B) incentives matter--when an option becomes more expensive, people will be less likely to choose it.
(C) if one individual gains from an economic activity, then someone else must lose, and in the same proportion.
(D) if a good is free, its production will not consume valuable scarce resources.
34. The value of a good is
(A) subjective.
(B) objective.
(C) determined quantitatively.
(D) based on the cost of production.
35. Which of the following is most consistent with economizing behavior?
(A) Before voting, you should invest the time and energy to become fully informed on the issues and candidates.
(B) If you derive the same satisfaction from going to the opera, attending the Super Bowl, and walking in the woods, it makes no difference which of the three you choose.
(C) It never makes sense to hire someone to do something for you that you could do yourself.
(D) If watching television and going to the movies provide the same amount of satisfaction, when choosing between the two, it makes sense to choose the cheaper alternative.

36. The statement "violent crime has decreased in the last five years"
- (A) is obviously wrong, and therefore cannot be a positive statement.
 - (B) is normative, since it can be answered by simply looking at the facts.
 - (C) is positive because it is testable.
 - (D) is not very interesting, because all normative issues are of little importance.
37. Which of the following represents a normative statement?
- (A) A decrease in price leads to an increase in quantity demanded.
 - (B) The temperature outside is 90 degrees.
 - (C) Economics is more difficult than history.
 - (D) People will buy less butter at \$1.50 per pound than they will at \$1 per pound.
38. The branch of economics that focuses on how behavior affects outcomes in highly aggregated markets, such as the markets for labor or consumer products, is called
- (A) normative economics.
 - (B) macroeconomics.
 - (C) microeconomics.
 - (D) Marxian economics.
39. The difference between microeconomics and macroeconomics is that
- (A) microeconomics involves mathematical relationships and macroeconomics is predominantly a verbal analysis.
 - (B) microeconomics deals with the principle of scarcity and macroeconomics with the problem of poverty.
 - (C) microeconomics deals with narrowly defined units, while macroeconomics focuses on highly aggregated markets.
 - (D) microeconomics is normative and macroeconomics positive.
40. If an economy is operating at a point inside the production possibilities curve,
- (A) its resources are being wasted.
 - (B) the curve will begin to shift inward.
 - (C) the curve will begin to shift outward.
 - (D) This is a trick question because an economy cannot produce at a point inside the curve.
41. The primary benefit that results when a nation employs its resources in accordance with the principle of comparative advantage is
- (A) an expansion in capital investment resulting from a reallocation of resources away from consumption.
 - (B) a larger output resulting from a more efficient use of resources.
 - (C) greater equality of income resulting from an increase in the number of workers.
 - (D) an increase in the profitability of business enterprises resulting from an increase in capital formation.
42. Three basic decisions must be made by all economies. What are they?
- (A) how much will be produced; when it will be produced; how much it will cost
 - (B) what the price of each good will be; who will produce each good; who will consume each good
 - (C) what will be produced; how goods will be produced; for whom goods will be produced
 - (D) how the opportunity cost principle will be applied; if and how the law of
 - (E) comparative advantage will be utilized; whether the production possibilities constraint will apply
43. For most students attending state universities, the largest cost component of going to college is
- (A) the cost of books and supplies.
 - (B) the cost of room and board.
 - (C) tuition
 - (D) the loss of current income because of attending college.
44. Which of the following would be most likely to drop out of college before completing their degree?
- (A) a math major with a solid B average.
 - (B) a physical therapy student who has just read about the fantastic job offers available to students with degrees in this area.
 - (C) a star baseball player that just received a \$200,000 offer from a major league team.
 - (D) an economics major that wants to attend graduate school.

45. The opportunity cost of an action
(A) measures the undesirable aspects of that action.
(B) is the average of the total unhappiness (experienced by every person involved) derived from the action.
(C) is the highest-valued alternative that must be given up as the result of choosing an option.
(D) is objective, and it will be the same for all individuals.
46. The wages of house painters will tend to rise when
(A) more people recognize that house painters have very low incomes.
(B) the alternative earning opportunities of house painters worsen.
(C) house painters can find higher paying alternatives for their labor.
(D) the needs of house painters increase, perhaps as the result of an increase in the family size of house painters.
47. (I) The opportunity cost of an activity is the lowest valued alternative foregone as the result of choosing that activity.
(II) Opportunity cost is objective; it can be measured objectively in monetary terms.
(A) Both are true.
(B) I is true, II false.
(C) I is false, II true.
(D) Both are false.
48. Which of the following will be most likely to cause an outward shift in the production possibilities curve?
(A) a decrease in the labor force
(B) an increase in unemployment
(C) development of an improved technological method of production
(D) a decrease in the stock of physical capital
49. A production possibilities curve graphically represents the maximum quantities of two products produced when all resources in the economy are efficiently utilized. An economy that operates within this production possibilities curve
(A) lacks the necessary technology to produce efficiently.
(B) lacks the resources to produce the two goods efficiently.
(C) is pricing the goods below their market value.
(D) is utilizing its available resources inefficiently.
50. A production possibilities curve indicates that when resources are being used efficiently, then
(A) you can only produce more of one good if you lower its price.
(B) you can only produce more of one good if you produce more of another good.
(C) you can only produce more of one good if you raise its price.
(D) you can only produce more of one good if you produce less of another good.
51. A point outside the boundaries of a production possibilities curve represents a combination of goods that is
(A) inefficient.
(B) efficient.
(C) unattainable.
(D) attainable.
52. Over time, an increase in human knowledge and technology will
(A) shift the production possibilities curve outward.
(B) cause an economy to operate inside its production possibilities curve.
(C) shift the production possibilities curve inward.
(D) This is a trick question because human knowledge and technology have nothing to do with the production possibilities curve.

53. An economy produces only two goods, guns and butter. If the economy operates on the periphery of its production possibilities curve, it can produce more guns only if
- (A) it also produces more butter.
 - (B) it charges more for butter.
 - (C) it shifts to a point inside its production possibilities curve.
 - (D) it produces less butter.
54. Suppose you can type a paper in two hours or mow a lawn in four hours, while it takes your friend Ann eight hours to type the paper or two hours to mow the lawn. Which of the following is true?
- (A) You have a comparative advantage in typing.
 - (B) You have a comparative advantage in mowing the lawn.
 - (C) You and Ann could save time if you mowed her lawn while she typed your paper.
 - (D) You and Ann cannot gain from specialization and trade.
55. Suppose you can type a paper in two hours or mow a lawn in four hours. It takes your friend Ann eight hours to type a paper of the same length and five hours to mow the same size of lawn. Which of the following is true?
- (A) Ann is the high-opportunity cost producer of both typing and mowing.
 - (B) Since you can type papers and mow lawns faster than Ann, you and Ann cannot benefit from specialization and trade.
 - (C) You and Ann could expand output and gain from trade if she specialized in mowing lawns and you specialized in typing papers.
 - (D) You and Ann could expand output and gain from trade if she specialized in typing papers and you specialized in mowing lawns.
56. Matt worked his way through law school as a typist. He now makes \$90,000 per year as a lawyer. As the result of a heavy workload, he hires a typist at \$18,000 per year, but Matt discovers he can type twice as fast as his new employee. Should Matt do his own typing?
- (A) Yes, if he can continue to type twice as fast as his new employee.
 - (B) Yes, because it will cost less to do his own typing than to hire someone to do it.
 - (C) No, even though Matt types faster than his new employee, his opportunity cost of doing any given amount of typing will exceed that of his new employee.
 - (D) Yes, if he does not, he will waste the time invested developing his typing skills.
57. According to the law of comparative advantage, a particular task is performed most efficiently by the individual with the lowest
- (A) wage rate.
 - (B) tax liability.
 - (C) net worth.
 - (D) opportunity cost.
58. The principle of comparative advantage applies to
- (A) only capitalist economies.
 - (B) only socialist economies.
 - (C) only developed economies.
 - (D) all types of economies.
59. The time it takes Ann and Kate to do a chemistry problem and a math problem is indicated below.

	<u>Ann</u>	<u>Kate</u>
1 Chemistry Problem	20 min.	10 min.
1 Math Problem	15 min.	5 min.

- Which of the following statements is **true**?
- (A) Kate has a comparative advantage in both math problems and chemistry problems.
 - (B) Kate has a comparative advantage in doing math problems.
 - (C) Kate's cost of doing a chemistry problem is not doing 1/2 of a math problem.
 - (D) Ann has a lower cost of doing math problems than does Kate.

60. Which of the following is not a basic question that each economy must answer?
- (A) Which resources are scarce?
 - (B) Who shall consume the goods produced?
 - (C) How shall goods be produced?
 - (D) What goods shall be produced?

61. In Figure 2-1, point A is
- (A) unattainable
 - (B) inefficient
 - (C) efficient
 - (D) preferable to point B

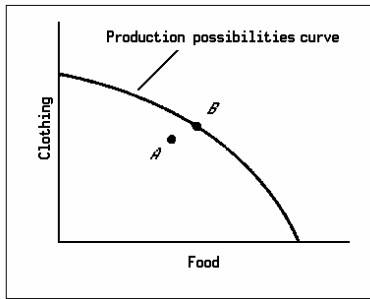


Figure 2-1

62. If an economy operates at point A on the production possibilities curve shown below, then
- (A) it cannot increase its output of food.
 - (B) it cannot increase its output of clothing.
 - (C) it cannot simultaneously increase its output of both food and clothing.
 - (D) it is utilizing its resources inefficiently.

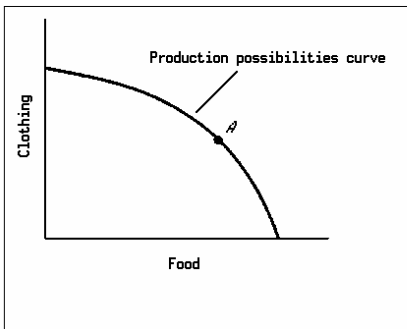


Figure 2-3

63. On the graph below, points A and B indicate consumption and investment for two economies. Other things constant, which of the economies is likely to grow more rapidly?
- (A) economy A
 - (B) economy B
 - (C) They can be expected to grow at the same rate.
 - (D) This is uncertain, since growth is not influenced by the factors indicated in this hypothetical example.

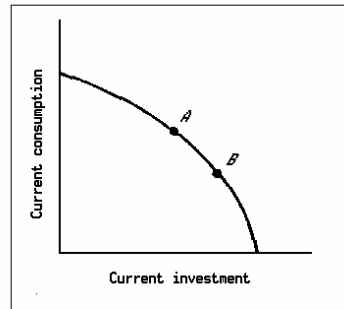


Figure 2-4

64. Which of the following will most likely shift the production possibilities curve for breadfruit and fish from AA to BB?
- (A) choosing more fish and less breadfruit
 - (B) choosing more breadfruit and fewer fish
 - (C) improved technology
 - (D) a reduction in the number of hours worked

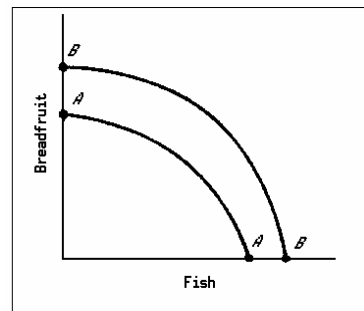


Figure 2-7

Answers:

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

- 40.A
- 41.B
- 42.C
- 43.D
- 44.C
- 45.C
- 46.C
- 47.D
- 48.C
- 49.D
- 50.D
- 51.C
- 52.A
- 53.D
- 54.A
- 55.C
- 56.C
- 57.D
- 58.D
- 59.B
- 60.A
- 61.B
- 62.C
- 63.B
- 64.C