

Basic Economics MCQs with Answers

1. The fundamental economic problem faced by all societies is:

- a. unemployment
- b. inequality
- c. poverty
- d. scarcity

2. “Capitalism” refers to:

- a. the use of markets
- b. government ownership of capital goods
- c. private ownership of capital goods
- d. private ownership of homes & cars

3. There are three fundamental questions every society must answer. Which of the following is/are one of these questions?

- a. What goods and services are to be produced?
- b. How are the goods and services to be produced?
- c. Who will get the goods and services that are produced?
- d. All of the above

4. If you were working full-time now, you could earn \$20,000 per year. Instead, you are working part-time while going to school. In your current part-time job, you earn \$5,000 per year. At your school, the annual cost of tuition, books, and other fees is \$2,000. The opportunity cost of completing your education is:

- a. \$2,000
- b. \$5,000
- c. \$17,000
- d. \$20,000
- e. \$22,000

5. The bowed shape of the production possibilities curve illustrates:

- a. the law of increasing marginal cost
- b. that production is inefficient
- c. that production is unattainable
- d. the demand is relatively inelastic

6. You have taken this quiz and received a grade of 3 out of a possible 10 points (F). You are allowed to take a second version of this quiz. If you score 7 or more, you can raise your score to a 7 (C). You will need to study for the second version. In making a rational decision as to whether or not to retake the test, you should

- a. always retake the quiz
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7. The law of demand states that:

- a. as the quantity demanded rises, the price rises
- b. as the price rises, the quantity demanded rises
- c. as the price rises, the quantity demanded falls
- d. as supply rises, the demand rises

8. The price elasticity of demand is the:

- a. percentage change in quantity demanded divided by the percentage change in price
- b. percentage change in price divided by the percentage change in quantity demanded
- c. dollar change in quantity demanded divided by the dollar change in price
- d. percentage change in quantity demanded divided by the percentage change in quantity supplied

9. Community Colleges desired to increase revenues. They decided to raise fees paid by students with Bachelors degrees to \$50 per unit because they believed this would result in greater revenues. But in reality, total revenues fell. Therefore, the demand for Community College courses by people with Bachelors degrees must have actually been:

- a. relatively inelastic
- b. unit elastic
- c. relatively elastic
- d. perfectly elastic

10. The demand for a product would be more inelastic:

- a. the greater is the time under consideration
- b. the greater is the number of substitutes available to buyers
- c. the less expensive is the product in relation to incomes
- d. all of the above

Answers: D C D C A D C A C C

1. In the case of agriculture,

- a. the demand has shifted to the right more than the supply has shifted to the right
- b. the demand has shifted to the right less than the supply has shifted to the right
- c. the demand has shifted to the left more than the supply has shifted to the left
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2. The agricultural price support program is an example of

- a. a price ceiling
- b. a price floor
- c. equilibrium pricing

3. If there is a price floor, there will be

- a. shortages
- b. surpluses
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- b. black markets
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6. The goal of a pure market economy is to best meet the desires of

- a. consumers
- b. companies
- c. workers
- d. the government

7. In a pure market economy, which of the following is a function of the price?

I. provide information to sellers and buyers , II. provide incentives to sellers and buyers

- a. I only
- b. II only
- c. both I and II
- d. neither I nor II

8. In a market system, sellers act in _____ interest , but this leads to behaviors in _____ interest.

- a. self; self
- b. self; society's
- c. society's; society's
- d. society's; self

9. The law of diminishing (marginal) returns states that as more of a variable factor is added to a certain amount of a fixed factor, beyond some point:

- a. Total physical product begins to fall
- b. The marginal physical product rises
- c. The marginal physical product falls
- d. The average physical product falls

10. Why is the law of diminishing marginal returns true?

- a. specialization and division of labor
- b. spreading the average fixed cost
- c. limited capital
- d. all factors being variable in the long-run

Answers: B B B A D A C B C C

1. Which of the following concepts represents the extra revenue a firm receives from the services of an additional unit of a factor of production?

- a. total revenue
- b. marginal physical product
- c. marginal revenue product
- d. marginal revenue

2. Workers Quantity Produced

1 15

2 28

3 39

4 48

5 55

6 60

This company is a profit-maximizing firm selling in a competitive product market and hiring in a competitive labor market. It uses semi-skilled labor to produce dampers used in office building ventilation systems. Assume that the current market price per damper is \$50 and that the prevailing weekly salary per semi-skilled worker is \$550. This company should employ _____ workers.

- a. 2
- b. 3
- c. 4
- d. 5
- e. 6

3. The demand for labor is the same as the

- a. marginal revenue product
- b. marginal physical product
- c. marginal cost
- d. wage

4. The demand for labor slopes down and to the right because of

- a. the law of demand
- b. the iron law of wages
- c. the law of diminishing marginal returns
- d. economies of scale

5. The demand for labor will be more elastic if:

- a. there are few substitutes for labor
- b. there is a short time under consideration
- c. labor is a large percent of the total cost of production
- d. the demand for the product is relatively inelastic
- e. all of the above

6. Skills that can be transferred to other employers are called:

- a. general skills

- b. specific skills
- c. non-pecuniary skills
- d. all of the above

7. Which skills are most likely to be paid for by the employer?

- a. General skills
- b. Specific skills
- c. Educational skills

8. If worker A earns more in wages than worker B, it could be because:

- a. The product made by worker A sells for a higher price than that made by worker B
- b. Worker A uses more capital per worker than worker B
- c. Worker A has more natural ability than worker B
- d. All of the above

9. Skills that embodied in a person are called

- a. Human capital
- b. Embodied skills
- c. Physical capital
- d. Experience skills

10. "Treating an individual as typical of a group" is the definition of

- a. pure discrimination
- b. statistical discrimination
- c. human capital
- d. specific skills

Answers: C B A C C A B D A B

1. Which of the following is a characteristic of pure monopoly?

- a. one seller of the product
- b. low barriers to entry
- c. close substitute products
- d. perfect information

2. In pure monopoly, what is the relation between the price and the marginal revenue?

- a. the price is greater than the marginal revenue
- b. the price is less than the marginal revenue
- c. there is no relation
- d. they are equal

3. In order to maximize profits, a monopoly company will produce that quantity at which the:

- a. marginal revenue equals average total cost
- b. price equals marginal revenue
- c. marginal revenue equals marginal cost
- d. total revenue equals total cost

4. Quantity Price Total Cost

1 \$100 \$ 60

2 95 130

3 90 210

4 85 300

5 80 400

This monopolist should produce:

- a. 1
- b. 2
- c. 3
- d. 4
- e. 5

5. Compared to the case of perfect competition, a monopolist is more likely to:

- a. charge a higher price
- b. produce a lower quantity of the product
- c. make a greater amount of economic profit
- d. all of the above

6. Which of the following is necessary for a natural monopoly?

- a. economies of scale
- b. a high proportion of the total cost is the cost of capital goods
- c. the market is very small
- d. all of the above

7. Which of the following is true about the way by which SDG&E has been regulated by the PUC?

- a. SDG&E has been allowed to earn very high economic profits
- b. The profits of SDG&E are calculated as a percent of the value of the capital goods
- c. When the demand for electricity would fall, the price of electricity would also fall
- d. All of the above

8. Which of the following best defines price discrimination?

- a. charging different prices on the basis of race
- b. charging different prices for goods with different costs of production
- c. charging different prices based on cost-of-service differences
- d. selling a certain product of given quality and cost per unit at different prices to different buyers

9. In order to practice price discrimination, which of the following is needed?

- a. some degree of monopoly power
- b. an ability to separate the market
- c. an ability to prevent reselling
- d. all of the above

10. In price discrimination, which section of the market is charged the higher price?

- a. the section with the richest people
- b. the section with the oldest people
- c. the section with the most inelastic demand
- d. the section with the most elastic demand

Answers: A A C C D D B D D C

1. The largest source of tax revenue for the federal government is:

- a. the personal income tax
- b. the social security tax
- c. the property tax
- d. the sales tax

2. When my income was \$100,000, I paid \$10,000 in taxes. When my income became \$200,000, I paid \$40,000 in taxes. My marginal tax rate is:

- a. 10%
- b. 20%
- c. 30%
- d. 40%

3. The tax is question #2 is:

- a. progressive
- b. regressive
- c. proportional

4. Which of the following taxes is regressive?

- a. the federal income tax
- b. the state income tax
- c. the sales tax
- d. the Medicare tax

5. Assume that there are two goods, A and B. In 1996, Americans produced 10 units of A at a price of \$10 and 20 units of B at a price of \$20. In 2002, Americans produced 20 units of A at a price of \$20 and 30 units of B at a price of \$30. The Nominal GDP for 2002 is:

- a. \$100
- b. \$400
- c. \$500
- d. \$900
- e. \$1300

6. Using the numbers in question 5, the Real GDP for 2002 is:

- a. \$400 b. \$500 c. \$800 d. \$900 e. \$1,300

7. Which of the following statements is/are true?

- a. Business Investment Spending occurs when individuals buy stock in the stock market
- b. Productivity in the United States grew very slowly between 1973 and 1996
- c. Because of discouraged workers, the official unemployment rate is too high
- d. "Full employment" occurs when there is no frictional unemployment

8. Immediately after a trough, we would expect to have a/an

- a. peak
- b. recession
- c. recovery
- d. another trough

9. Last week, Martha spent one day cleaning a house. For this, she was paid \$50. The rest of the week, she spent looking for a job. Martha would be classified as

- a. employed
- b. unemployed
- c. not in the labor force

10. John lost his accounting job when Montgomery Wards closed its stores in San Diego. He looked for a similar job for ten months before finding an accounting job at Sears. During the month John was unemployed, he was

- a. frictionally unemployed
- b. seasonally unemployed
- c. cyclically unemployed
- d. structurally unemployed

Answers: A C A C E C B C A D

1. Which of the following IS a function of money?

- a. medium of exchange
- b. store of value
- c. unit of accounting
- d. all of the above

2. Which of the following is a component of M-1?

- a. savings deposits
- b. credit card
- c. checkable deposits
- d. gold

3. Which of the following is a NOT component of M-2?

- a. small time deposits
- b. money market mutual funds
- c. stocks
- d. checkable deposits

4. Which of the following is true about the Federal Reserve System (Fed)?

- a. it is a system of 12 central banks
- b. its Board of Governors is elected by a vote of the people
- c. its main policy-making body is the FDIC

- d. it accepts deposits from the public and makes loans to businesses
- e. all of the above

5. An IOU of the Federal Reserve Bank of San Francisco to Bank of America is called:

- a. discounts
- b. federal funds
- c. reserves
- d. collateral

6. Which of the following is the most liquid?

- a. a savings account
- b. a 6 month CD
- c. a home
- d. water

7. The monetary base is composed of:

- a. gold and silver
- b. currency only
- c. currency and reserves
- d. currency and checkable deposits

8. If the monetary base is increased by \$1,000 and the reserve requirement is 10% (1/10), by how much will the money supply be increased?

- a. \$100
- b. \$1,000
- c. \$5,000
- d. \$10,000

9. If the Federal Reserve wishes to increase the money supply, it should:

- a. raise the reserve requirement
- b. raise the discount rate
- c. buy Treasury securities in the open market
- d. all of the above

10. An increase in the money supply will cause interest rates to

- a. rise
- b. fall
- c. remain unchanged

Answers: D C C A C A C D C B

1. To determine the correct level of GNP, it is necessary to.
- a. to add up the values of goods and services during one year.
 - b. add up all savings
 - c. to count all imports
 - d. to add up the value of semi finished goods

Answer is = A

2. GNP is always
- a. less than NNP
 - b. Greater than NNP
 - c. Equal to NNP
 - d. Any of a, b, c

Answer is = B

3. The four factor payment are:
- a. Money, capital, salaries and income
 - b. Wages, rent, interest and profits
 - c. Money, power, present age, and wealth
 - d. Wages, interest, salaries, and income.

Answer is = B

4. We measure national income by this method
- a. Expenditure method
 - b. income method
 - c. product method
 - d. all of the above

Answer is = D

5. Transfer payment means
- a. Bank loans
 - b. The payment without work
 - c. Text payments
 - d. Payments made to all factors of production

Answer is = B

6. Which statement is true
- a. National expenditure= National income
 - b. National Expenditure= National income+ National production
 - c. National Expenditure= National income+ National Taxes
 - d. National Expenditure= National income- Taxes

Answer is = A

7. If we compare GDP and GNP, then
- a. $GNP = GDP - \text{net income from abroad}$
 - b. $GNP = GDP + \text{net income from abroad}$
 - c. $GNP = NNP - \text{net income from abroad}$
 - d. $GNP = NNP + \text{net income from abroad}$

Answer is = B

8. A TV set purchased from a retail store is an example of

- a. Intermediate goods
- b. Capital goods
- c. Surplus goods
- d. Final goods

Answer is = D

9. GNP is ?

- a. Total sales in the economy
- b. Total monetary transactions in an economy
- c. The market values of all goods and services produced in an economy
- d. Total spending in an economy

Answer is = C

10. GNP includes

- a. A loan from bank
- b. A loan from one's parents
- c. Gifts and donations
- d. A broker's commission

Answer is = D

11. Net Investment is

- a. Gross Investment minus household Investment
- b. Gross Investment minus govt.
- c. Gross investment minus capital consumption allowance
- d. None of the above

Answer is = C

12. Market value of all final goods and services produced in a country during a year is definition of

- a. NI
- b. NNP
- c. GNP
- d. Consumption

Answer is = C

13. Consumption spending does not include

- a. Household's purchases of food
- b. Household's purchases of a car

- c. Household's payment of rent for an apartment
- d. Household's purchases of stock in any XYZ corporation

Answer is = D

14. Which of the following would increase national income

- a. Increases in taxation
- b. Increase in savings
- c. Increases in govt spending
- d. Decreases in consumption spending

Answer is = C

15. Which of the following is a withdrawal from the circular flow income stream.

- a. Investment
- b. Subsidies
- c. Taxation
- d. consumption

Answer is = C

16. Pakistan's saving rate is

- a. 5 %
- b. 14.4 %
- c. 25 %
- d. 35 %

Answer is = B

17. In the world population-wise Pakistan is

- a. 3rd
- b. 4th
- c. 6th
- d. 8th

Answer is = C

18. Population growth rate in Pakistan is

- a. 1 %
- b. 1.73 %
- c. 1.9 %
- d. 4 %

Answer is = B

19. According to the Economic Survey of Pakistan 2008-09 Pakistan's per capita income is U.S. dollars

- a. 320
- b. 1046
- c. 950
- d. 1520

Answer is = B

20. Which is most likely to cause a more even distribution of income

- a. An increases in indirect taxes
- b. An increases in managers' salaries
- c. An increases in progressive taxation
- d. An increases in an rate of inflation

Answer is = C

21. Working population is ————— percent of total population of Pakistan

- a. 20 %
- b. 30 %
- c. 40 %
- d. 50 %

Answer is = B

22. Pakistan started its first five-year plan in

- a. 1947
- b. 1950
- c. 1955
- d. 1960

Answer is = C

23. Contribution of agriculture in Pakistan's national income is

- a. 20 %
- b. 24 %
- c. 28 %
- d. 26 %

Answer is = B

24. Contribution of industrial sector in Pakistan economy is

- a. 28 %
- b. 18 %
- c. 8 %
- d. –Undetermined

Answer is = B

25. Size of Pakistan's 8th plan was in ————— rupees:

- a. 700 billion
- b. 1700 billion
- c. 2700 billion
- d. 3700 billion

Answer is = B

26. Pakistan produces ————— of its oil requirements

- a. 25 %
- b. 35 %

c. 45 %

d. 55 %

Answer is = A

27. Economic development

a. it same is as economic growth

b. Means improvement in lifestyle

c. Exists when there is equal distribution of income

d. All of the above

Answer is = B

28. Economic development is measured on the basis of

a. Increases in nominal GNP

b. Increases in real GNP

c. Increases in personal incomes

d. Increases in government revenue

Answer is = B

29. The govt. can control inflation by

a. Increasing demand for goods

b. Increasing supply of goods

c. Increasing money supply

d. Decreasing taxes

Answer is = B

30. Government of Pakistan issues currency on the basis of:

a. Availability of gold in the country

b. Availability of dollar in the country

c. Demand for money in the country

d. Tax collection

Answer is = C

31. Which property the paper money dose not possession

a. Acceptability

b. Divisibility

c. Durability

d. Portability

Answer is = C

32. Velocity of circulation of money means.

a. the number of times a unit of money changes hand's daily

b. the number of times a unit of money changes hands monthly

c. the number of times a unit of money changes hands annually

d. the number of times a unit of money changes hands value

Answer is = C

33. When the nation's money supply is Rs. 1200 billion and GDP

is Rs. 4800 billion, velocity of money is

- a. 0.25
- b. 4
- c. 0.4
- d. 4 billion rupees

Answer is = B

34. If quantity of money is doubled, then according to Quantity Theory, value of money is

- a. Remains constant
- b. Double
- c. Half
- d. None of the above

Answer is = C

35. According to Keynes, demand for money is affected by

- a. Income
- b. Rate of interest
- c. Literacy rate
- d. A and B of above

Answer is = D

36. Which people of most likely to gain during inflation?

- a. Those living on pension
- b. Those living on there saving
- c. Those who are repaying borrowed money

Answer is = C

37. If quantity of money increases 100 % other things remaining constant, value of changes by

- a. Increases by 100 %
- b. Decreases by 100 %
- C.Decreases by 200 %
- d. Dose not changes

Answer is = B

38. When banks prepare their balance sheets, they show the money lent in

- a. Liability
- b. Assets
- c. Both assets and liabilities
- d. None

Answer is = B

39. The power of a bank to create credit is affected by

- a. The cash reserve requirements
- b. The amount of cash available
- c. The number of branches of a bank

d. A and B of above

Answer is = D

40. A bank has Rs. 5 million in cash. The minimum reserve ratio is 20 %. What is maximum potential increases in total deposits?

a. 0

b. 5m

c. 10m

d. 25m

Answer is = D

41. When a commercial bank creates credit, its immediate effect is that it raises

A. The exchanges rate

B. The insert rate

C. The money supply

D. The real national income

Answer is = C

42. State Bank of Pakistan was established in

A. 1948.

B. 1950

C. 1952

D.1954

Answer is = A

43. 10-rupee note is issued by

A. National Bank

B. State Bank

C. Govt of Pakistan

D. Governor state Bank

Answer is = B

44. Which is the most widely used tool of monetary policy?

A. Clearing house

B. open market operations

C. discount rate

D. issuing of notes

Answer is = B

45. when the state bank wants to decrease money supply in the country, it

A. buys govt securities in stock market

B. sells govt. securities

C. lowers discount rate

D.B and C of above.

Answer is = B

46. Central bank's rate of lending to commercial banks is called

- A. Interest rate
- B. discount rate
- C. money rate
- D. control rate

Answer is = B

47. When a central bank wants to increase money supply in circulation it called?

- A. Purchase govt. securities
- B. Lowers bank rate
- C. Directs banks to advance more loans
- D. A and B

Answer is = D

48. Every country establishes central bank to

- A. Issue notes
- B. Supervise commercial banks
- C. Give loans to businessmen
- D. A and B

Answer is = D

49. Which is a monetary measure to increase employment?

- A. Increase in Govt . expenditure
- B. Reduce Govt. expenditure
- C. Increase in Interest rate
- D. Reducing interest rate

Answer is = D

50. Treasury bill is used for

- A. Getting short term loans
- B. Getting long term loans
- C. Treasury bill is not credit instrument
- D. Treasury bill is a Govt. tax bill

Answer is = A

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Economics 100 Quiz #1, Page 2

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- b. unit elastic
- c. relatively elastic
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Answers: D C D C A D C A C C

Economics 100 Quiz #3 Friday, September 22, 2000

1. In the case of agriculture,

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- b. the demand has shifted to the right less than the supply has shifted to the right
- c. the demand has shifted to the left more than the supply has shifted to the left
- d. the demand has shifted to the left less than the supply has shifted to the left

2. The agricultural price support program is an example of

- a. a price ceiling
- b. a price floor

c. equilibrium pricing

3. If there is a price floor, there will be

- a. shortages
- b. surpluses
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- b. self; society's
- c. society's; society's
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- b. spreading the average fixed cost
- c. limited capital
- d. all factors being variable in the long-run

Answers: B B B A D A C B C C

Economics 100 MW Quiz #3

1. Which of the following is a characteristic of pure monopoly?

- a. one seller of the product
- b. low barriers to entry
- c. close substitute products
- d. perfect information

2. In pure monopoly, what is the relation between the price and the marginal revenue?

- a. the price is greater than the marginal revenue
- b. the price is less than the marginal revenue
- c. there is no relation
- d. they are equal

3. In order to maximize profits, a monopoly company will produce that quantity at which the:

- a. marginal revenue equals average total cost
- b. price equals marginal revenue
- c. marginal revenue equals marginal cost
- d. total revenue equals total cost

4. Quantity Price Total Cost

1 \$100 \$ 60

2 95 130

3 90 210

4 85 300

5 80 400

This monopolist should produce:

- a. 1
- b. 2
- c. 3
- d. 4
- e. 5

5. Compared to the case of perfect competition, a monopolist is more likely to:

- a. charge a higher price
- b. produce a lower quantity of the product
- c. make a greater amount of economic profit
- d. all of the above

6. Which of the following is necessary for a natural monopoly?

- a. economies of scale
- b. a high proportion of the total cost is the cost of capital goods
- c. the market is very small
- d. all of the above

7. Which of the following is true about the way by which SDG&E has been regulated by the PUC?

- a. SDG&E has been allowed to earn very high economic profits
- b. The profits of SDG&E are calculated as a percent of the value of the capital goods
- c. When the demand for electricity would fall, the price of electricity would also fall
- d. All of the above

8. Which of the following best defines price discrimination?

- a. charging different prices on the basis of race
- b. charging different prices for goods with different costs of production
- c. charging different prices based on cost-of-service differences
- d. selling a certain product of given quality and cost per unit at different prices to different buyers

9. In order to practice price discrimination, which of the following is needed?

- a. some degree of monopoly power
- b. an ability to separate the market
- c. an ability to prevent reselling
- d. all of the above

10. In price discrimination, which section of the market is charged the higher price?

- a. the section with the richest people
- b. the section with the oldest people
- c. the section with the most inelastic demand
- d. the section with the most elastic demand

Answers: A A C C D D B D D C

Economics 100 Quiz #4, Fall 2002

1. Which of the following concepts represents the extra revenue a firm receives from the services of an additional unit of a factor of production?

- a. total revenue

- b. marginal physical product
- c. marginal revenue product
- d. marginal revenue

2. Workers Quantity Produced

- 1 15**
- 2 28**
- 3 39**
- 4 48**
- 5 55**
- 6 60**

This company is a profit-maximizing firm selling in a competitive product market and hiring in a competitive labor market. It uses semi-skilled labor to produce dampers used in office building ventilation systems. Assume that the current market price per damper is \$50 and that the prevailing weekly salary per semi-skilled worker is \$550. This company should employ _____ workers.

- a. 2
- b. 3
- c. 4
- d. 5
- e. 6

3. The demand for labor is the same as the

- a. marginal revenue product
- b. marginal physical product
- c. marginal cost
- d. wage

4. The demand for labor slopes down and to the right because of

- a. the law of demand
- b. the iron law of wages
- c. the law of diminishing marginal returns
- d. economies of scale

5. The demand for labor will be more elastic if:

- a. there are few substitutes for labor
- b. there is a short time under consideration
- c. labor is a large percent of the total cost of production
- d. the demand for the product is relatively inelastic
- e. all of the above

6. Skills that can be transferred to other employers are called:

- a. general skills
- b. specific skills
- c. non-pecuniary skills

d. all of the above

7. Which skills are most likely to be paid for by the employer?

- a. General skills
- b. Specific skills
- c. Educational skills

8. If worker A earns more in wages than worker B, it could be because:

- a. The product made by worker A sells for a higher price than that made by worker B
- b. Worker A uses more capital per worker than worker B
- c. Worker A has more natural ability than worker B
- d. All of the above

9. Skills that embodied in a person are called

- a. Human capital
- b. Embodied skills
- c. Physical capital
- d. Experience skills

10. "Treating an individual as typical of a group" is the definition of

- a. pure discrimination
- b. statistical discrimination
- c. human capital
- d. specific skills

Answers: C B A C C A B D A B

Economics 100 Quiz #5, Fall 2001

1. If there are 50 firms in a industry, each selling 2% of the total sales, the concentration ratio is:

- a. 50%
- b. 2% €
- c. 100%
- d. 8%

2. When Daimler Benz, maker of the Mercedes, bought Chrysler, the merger was

- a. horizontal
- b. vertical
- c. conglomerate

Questions 3 through 10 involve the functions of the government in a world of laissez faire. The functions are the following:

A. Create and Enforce the "Rules"

- B. Promote or Maintain Competition***
- C. Provide Information***
- D. Provide Public Goods***
- E. Reduce Negative Externalities (External Costs) through regulations or through taxes***
- F. Subsidize Positive Externalities (External Benefits)***
- G. Provide Merit Goods***
- H. Redistribute Income on the Basis of Need***

For each of the following, choose the letter that best describes the function of government.

- 3. The government provides anti-trust laws.**
- 4. The government subsidizes the building of new stadiums and arenas.**
- 5. The government provides for military defense.**
- 6. The government has a program of social security to provide a pension for the elderly.**
- 7. The government requires that all gasoline stations post their prices in signs large enough to be seen by a reasonable person from the street.**
- 8. The government requires people to have a smog control device in their cars.**
- 9. The government makes the beach free for everyone**
- 10. The government makes laws that determine certain behaviors that a corporation must engage in and other behaviors that a corporation cannot engage in.**

Answers: D A B F D H C E G A

Economics 100 Quiz 6, Fall 2002

- 1. The largest source of tax revenue for the federal government is:**
 - a. the personal income tax
 - b. the social security tax
 - c. the property tax
 - d. the sales tax
- 2. When my income was \$100,000, I paid \$10,000 in taxes. When my income became \$200,000, I paid \$40,000 in taxes. My marginal tax rate is:**
 - a. 10%
 - b. 20%
 - c. 30%

d. 40%

3. The tax in question #2 is:

- a. progressive
- b. regressive
- c. proportional

4. Which of the following taxes is regressive?

- a. the federal income tax
- b. the state income tax
- c. the sales tax
- d. the Medicare tax

5. Assume that there are two goods, A and B. In 1996, Americans produced 10 units of A at a price of \$10 and 20 units of B at a price of \$20. In 2002, Americans produced 20 units of A at a price of \$20 and 30 units of B at a price of \$30. The Nominal GDP for 2002 is:

- a. \$100
- b. \$400
- c. \$500
- d. \$900
- e. \$1300

6. Using the numbers in question 5, the Real GDP for 2002 is:

- a. \$400 b. \$500 c. \$800 d. \$900 e. \$1,300

7. Which of the following statements is/are true?

- a. Business Investment Spending occurs when individuals buy stock in the stock market
- b. Productivity in the United States grew very slowly between 1973 and 1996
- c. Because of discouraged workers, the official unemployment rate is too high
- d. "Full employment" occurs when there is no frictional unemployment

8. Immediately after a trough, we would expect to have a/an

- a. peak
- b. recession
- c. recovery
- d. another trough

9. Last week, Martha spent one day cleaning a house. For this, she was paid \$50. The rest of the week, she spent looking for a job. Martha would be classified as

- a. employed
- b. unemployed
- c. not in the labor force

10. John lost his accounting job when Montgomery Wards closed its stores in San Diego. He looked for a similar job for ten months before finding an accounting job at Sears. During the month John was unemployed, he was

- a. frictionally unemployed
- b. seasonally unemployed
- c. cyclically unemployed
- d. structurally unemployed

Answers: A C A C E C B C A D

Economics 100 Makeup for Quiz 6

1. Define average tax rate

Define marginal tax rate

2. Define progressive tax

Define regressive tax

Define proportional tax

3. Define indexation

4. Define Nominal Gross Domestic Product (GDP)

Define Real Gross Domestic Product (GDP)

5. Define business investment spending

6. Briefly explain how the official unemployment rate is calculated.

7. Define frictional unemployment

Define cyclical unemployment

Define structural unemployment

Define “full employment”

Economics 100 Quiz #7, Fall 2002

1. Assume that there are only two goods: A and B

In the base year, Quantity Price

A 10 \$1

B 10 \$4

In the current year, Quantity Price

A 20 \$ 5

B 25 \$20

The Consumer Price Index (CPI) for the current year is:

- a. 50
- b. 100
- c. 200

- d. 500
- e. 600

2. Which of the following groups is most hurt by unexpected inflation?

- a. workers with cost of living adjustments in their labor contracts
- b. homeowners
- c. people with large debts to pay for their homes and cars
- d. people with large retirement savings held in savings accounts

3. If the nominal interest rate is 5% and the inflation rate is 2%, the real interest rate is:

- a. 2%
- b. 3%
- c. 5%
- d. 7%
- e. 2 ½%

4. For which of the following reasons might inflation cause Real GDP to grow slower than it otherwise would?

- a. Inflation makes everyone poorer
- b. Inflation reduces the value of consumer debt
- c. Inflation increases business investment spending
- d. Inflation decreases savings in financial form

5. Disposable Income is equal to:

- a. National Income c. National Income Minus Taxes
- b. Real GDP
- c. National Income Minus Taxes
- d. National Income Minus Taxes Plus Transfers

6. Assume that Potential Real GDP equals \$10,000. National Income is therefore \$10,000. Of this, consumers will pay \$2,000 in taxes, save \$1,000, and spend \$7,000 on consumer goods. Business Investment spending is \$2000. In order to avoid recessions and inflation (to have equilibrium), the government should have a:

- a. balanced budget
- b. budget deficit of \$1000
- c. budget surplus of \$1000
- d. budget deficit of \$2000

7. According to Keynes, when the Great Depression started, the government should have:

- a. done nothing
- b. decreased the money supply
- c. had a large increase in government spending
- d. enacted high tariffs, such as the Smoot-Hawley Tariff

8. If the government lowers taxes by \$10 billion, the Real GDP will rise by

- a. more than \$10 billion

- b. less than \$10 billion
- c. exactly \$10 billion

9. Which of the following is an automatic stabilizer?

- a. unemployment benefits
- b. spending on education
- c. defense spending
- d. net interest

10. "Crowding out" means that

- a. a government budget deficit lowers interest rates and causes investment spending to rise
- b. an increase in marginal tax rates lowers production
- c. a government budget deficit raises interest rates and causes investment spending to fall
- d. a government budget deficit raises American exports and lowers American imports

Answers: D D B D D C C A A C

Economics 100 Quiz 8

1. Which of the following IS a function of money?

- a. medium of exchange
- b. store of value
- c. unit of accounting
- d. all of the above

2. Which of the following is a component of M-1?

- a. savings deposits
- b. credit card
- c. checkable deposits
- d. gold

3. Which of the following is a NOT component of M-2?

- a. small time deposits
- b. money market mutual funds
- c. stocks
- d. checkable deposits

4. Which of the following is true about the Federal Reserve System (Fed)?

- a. it is a system of 12 central banks
- b. its Board of Governors is elected by a vote of the people
- c. its main policy-making body is the FDIC
- d. it accepts deposits from the public and makes loans to businesses
- e. all of the above

5. An IOU of the Federal Reserve Bank of San Francisco to Bank of America is called:

- a. discounts
- b. federal funds
- c. reserves
- d. collateral

6. Which of the following is the most liquid?

- a. a savings account
- b. a 6 month CD
- c. a home
- d. water

7. The monetary base is composed of:

- a. gold and silver
- b. currency only
- c. currency and reserves
- d. currency and checkable deposits

8. If the monetary base is increased by \$1,000 and the reserve requirement is 10% (1/10), by how much will the money supply be increased?

- a. \$100
- b. \$1,000
- c. \$5,000
- d. \$10,000

9. If the Federal Reserve wishes to increase the money supply, it should:

- a. raise the reserve requirement
- b. raise the discount rate
- c. buy Treasury securities in the open market
- d. all of the above

10. An increase in the money supply will cause interest rates to

- a. rise
- b. fall
- c. remain unchanged

Answers: D C C A C A C D C B