

Econ261, Pretest 1

Multiple Choice

Identify the choice that best completes the statement or answers the question.

- _____ 1. Rational choice requires that opportunity cost be
 - a. ignored in making a decision.
 - b. considered for individual choices, but not for societal choices.
 - c. computed, but not actually used in making a decision.
 - d. considered as part of making a decision.
 - e. used as the sole decision criterion.

- _____ 2. Consider the following information regarding a person's decision to go to college: college tuition is \$20,000 per year, room and board is \$10,000 per year, and books and materials are \$2,000 per year. Suppose that instead of going to college this person could have earned \$18,000 working in a store. An economist would calculate the cost of going to college as
 - a. \$20,000.
 - b. \$30,000.
 - c. \$32,000.
 - d. \$50,000.
 - e. \$18,000.

- _____ 3. Which of the following is an example of a fiscal policy initiative?
 - a. Lowering of interest rates.
 - b. Increase in reserve requirements.
 - c. Reduction in taxes.
 - d. Decrease in money supply.

- _____ 4. Opportunity cost is the
 - a. cost incurred when one fails to take advantage of an opportunity.
 - b. cost incurred in order to increase the availability of attractive opportunities.
 - c. cost of the best option forgone as a result of choosing an alternative.
 - d. drudgery of the undesirable aspects of an option.

- _____ 5. During a war, a government will often draft people, most of whom are presently employed, into the army. An economist, computing the real cost of the war, would be sure to include which of the following items?
 - a. the value of the civilian goods no longer produced by the new soldiers
 - b. the cost of feeding and clothing the new soldiers
 - c. the dollar cost of the payroll
 - d. the higher prices of civilian goods due to wartime shortages
 - e. the cost of transporting the soldiers to combat

- _____ 6. The opportunity cost of any good or service is the
 - a. actual dollar cost of doing or making it.
 - b. highest price that a seller can get for the item.
 - c. value of the next best alternative.
 - d. cost associated with a value judgment.
 - e. cost of producing the good or service.

- _____ 7. The principle of comparative advantage explains how
- one nation can take advantage of another one through international trade.
 - two nations may engage in mutually beneficial trade, even though one of them is more productive than the other.
 - one individual can take advantage of another through international trade.
 - some people are good at producing everything, while others have no comparative advantages.
 - some nations end up with large trade surpluses.
- _____ 8. When economists are critical of government regulations that prohibit free individuals from making certain kinds of contracts, for example, to purchase a good or service, they will usually invoke the concept of
- marginal analysis.
 - mutual gains from voluntary trade.
 - inflation-unemployment trade-off.
 - the need for abstraction.
 - externalities.
- _____ 9. In Egypt, in 1970, the Aswan Dam was completed. By preventing the annual flood of the Nile (thereby providing millions of acres of arable land) and by providing electricity, the dam was expected to raise the living standard of the Egyptian people-and it has. However, it has also led to a rise in the water table which causes Egypt's limestone structures, including the pyramids, to absorb more salt water and to suffer serious erosion from crystallized salts. Combined with air pollution and traffic vibration, this erosion is turning the pyramids to dust. Economists analyze this type of problem with the concept of
- an externality.
 - the antiquity problem.
 - a free-rider problem.
 - the public good problem.
 - the trade-off between equity and output.
- _____ 10. Because there is a trade-off between total output and equality of income distribution,
- greater equality of distribution will generally result in higher levels of output.
 - greater output is generally associated with more equal distribution.
 - policies designed to increase output will only succeed if distribution is more equal.
 - policies intended to expand output must necessarily fail.
 - policies designed to equalize distribution may adversely affect the size of output.
- _____ 11. In terms of the competing claims of equality and efficiency, in the United States we have
- chosen greater wage inequality for lower unemployment.
 - chosen higher unemployment for less wage inequality.
 - both greater wage inequality and higher unemployment.
 - not faced a trade-off between wage inequality and unemployment.
 - been able to choose both less wage inequality and lower unemployment.
- _____ 12. The dramatic increase in the standard of living since the Industrial Revolution
- means that societies and individuals face no constraints.
 - has not meant unlimited abundance for societies or persons.
 - means that "opportunity cost" is a meaningless concept.
 - has reduced the choices open to persons.
 - has made economics less useful to persons.

- ____ 13. Probably the most important factor affecting material well-being is
 - a. inflation rates.
 - b. unemployment rates.
 - c. budget deficits.
 - d. growth in productivity.
 - e. monopoly power.

- ____ 14. Economics is a social science in the sense that it
 - a. rigorously examines human behavior.
 - b. is not as scientific as physics.
 - c. relies on historical data instead of mathematical data.
 - d. relies on statistics instead of mathematics.
 - e. All of the above are correct.

- ____ 15. Economics is a social science rather than a "hard" science like physics because
 - a. economists abstract from reality when creating their theories.
 - b. economics is easier to study than physics.
 - c. economists must explain their theories to policy makers who lack formal mathematical training.
 - d. economists study human behavior, which is affected by an unpredictable and vast range of influences.

- ____ 16. The process of focusing on only the most important factors to explain a phenomenon is called
 - a. abstraction.
 - b. marginal analysis.
 - c. rational choice.
 - d. controlled experimentation.
 - e. the trade-off between efficiency and equality.

- ____ 17. Which of the following statements is correct?
 - a. Theory and hypothesis are interchangeable terms for the same thing.
 - b. A hypothesis may result from a tested and confirmed theory.
 - c. A theory may result from a tested and confirmed hypothesis.
 - d. A hypothesis is a theory whose formulation relies on mathematics.

- ____ 18. Economists and others use economic theory
 - a. only to analyze situations in which money changes hands.
 - b. as a partial basis for public policy recommendations.
 - c. to confuse their enemies.
 - d. to replace value judgments about important policy issues.

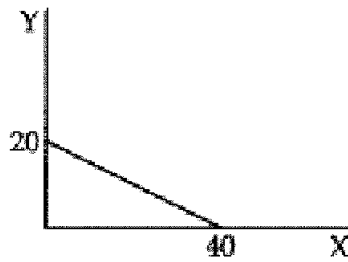
- ____ 19. Why do economists tend to create models in diagrammatic form?
 - a. Diagrams hide reality, and theory is an attempt to avoid reality.
 - b. It is easier than building models out of physical objects.
 - c. Economic reality cannot possibly be represented except in diagrams.
 - d. Most economists are frustrated artists, and like to draw when possible.
 - e. All of the above are correct.

- ____ 20. Economic models
 - a. are always based on realistic assumptions.
 - b. usually predict perfectly.
 - c. can never be tested with real world data.
 - d. are used to describe cause-and-effect relationships.
 - e. are too simple to be of much use.

- _____ 21. Which of the following is one source of disagreement between economists?
- a. Some facts about the economy are unknown.
 - b. Economists differ in their political persuasions.
 - c. Economic theory may not always give an unambiguous answer to a question.
 - d. Solving one problem may make another problem worse.
 - e. All of the above are correct.
- _____ 22. Economists may disagree about how to solve an economic problem because they
- a. use different models to analyze the problem and its solutions.
 - b. have different political and moral beliefs.
 - c. disagree about the facts of the situation.
 - d. All of the above are correct.
- _____ 23. An economist might be hired to answer which of the following questions?
- a. What will the price of oil be next year?
 - b. Why is the median income of women about half the median income of men?
 - c. How much will interest rates change as the federal deficit decreases?
 - d. How much will inflation change if import restrictions are imposed?
 - e. All of the above are correct.
- _____ 24. In the fall of 1992, candidate Bill Clinton's campaign office had a large sign which read, "It's the economy, stupid." This was meant to say that
- a. economic problems were the most important in the campaign.
 - b. there is no agreement on economic goals.
 - c. economists have let the country down.
 - d. economic theory is too abstract for people to understand.
 - e. there has been a loss of comparative advantage.
- _____ 25. The purpose of economic science is to
- a. show people that it is better to want less.
 - b. encourage people to care more about others.
 - c. analyze the problems of market economies only.
 - d. develop principles by which to rank alternative uses of scarce resources.
 - e. reach consensus on economic goals and objectives
- _____ 26. A diagram is a good example of a(n)
- a. hypothesis.
 - b. abstraction.
 - c. theory.
 - d. concept.
 - e. instrumentation.
- _____ 27. "The hotter it gets, the more water people drink." This statement implies that the relationship between temperature and water consumption must have a
- a. negative slope.
 - b. positive slope.
 - c. slope always equal to one.
 - d. slope always equal to 45 degrees.

- _____ 28. The slope of a curved line differs from that of a straight line in that
- a. the numerical value of the slope of a straight line is different at every point, but is the same at every point for a curved line.
 - b. the numerical value of the slope of a straight line is always higher than the numerical value of the slope of a curved line.
 - c. the numerical value of the slope of a curved line is different at every point, but is the same at every point for a straight line.
 - d. the numerical value of the slope of a curved line is an irrational number, but the numerical value of the slope of a straight line is always a rational number.
 - e. straight lines are more realistic, but curved lines are not descriptively accurate for the real world.
- _____ 29. If an economic curve has a negative slope, then one variable
- a. falls as the other rises.
 - b. changes at a slower rate than another.
 - c. has a smaller value than another.
 - d. changes after another variable.
- _____ 30. The tangent at point A on a curve has a positive slope. Therefore, the curve has a
- a. positive slope at all points.
 - b. positive slope at point A.
 - c. negative slope at all points.
 - d. negative slope at point A.
- _____ 31. When variable *A* rises by 10 units, variable *B* rises by 15 units. The slope of the line describing this relationship is
- a. always $\frac{2}{3}$.
 - b. either $\frac{2}{3}$ or 1.5, depending on which variable goes on which axis of the graph.
 - c. either 1.5 or -1.5, depending on which variable goes on which axis.
 - d. always -1.5.
- _____ 32. A horizontal line has a slope of
- a. one.
 - b. zero.
 - c. infinity.
 - d. undefined.

Figure 1-1



- ___ 33. The slope of the line in Figure 1-1 is
- 0.5.
 - 2.0.
 - 0.5.
 - 2.0.
- ___ 34. A line that rises at a 45 degree angle has a slope of
- 0.45.
 - 1.
 - 45.
 - 1/45.
- ___ 35. It is possible to represent three dimensions on a two-dimensional graph by using
- a contour map.
 - a razor blade.
 - curved lines.
 - all of the above.
- ___ 36. The United States has the largest economy in the world because
- it has the most land to work with.
 - it has a large population.
 - American workers are very productive.
 - both b and c are correct.
- ___ 37. If California were a separate economy, it would be the ___ largest economy on earth.
- second
 - third
 - fifth
 - eighth
- ___ 38. Capitalism and free enterprise are common, and the United States
- has just begun to move in that direction after years of central planning.
 - has gone further in that direction than almost any other country.
 - is becoming more "free," but is not as capitalistic as many others.
 - is considering a major change to "free up" its economy as many others have.
 - is leading the move toward greater central planning and control.
- ___ 39. Which of the following is the most closed economy?
- the Netherlands
 - the United States
 - Germany
 - Japan
 - Canada

- ____ 40. Along with changes in the level of economic activity, measured by GDP, what other economic variable tends to rise and fall as a consequence?
- precipitation
 - regulation
 - circulation
 - unemployment
- ____ 41. Why does unemployment tend to change when the level of output changes?
- Persons wish to buy things, and if output falls, people need to work less to earn the income to buy the smaller output.
 - Labor is an input, and if output falls, employers need fewer workers to make it, so the employment falls.
 - When output rises, persons are more interested in buying, and will work more to earn the income to buy things.
 - Persons face the option of buying or working, so that when they do more of one, the other necessarily falls.
 - When companies replace workers with machines, output rises, and people take time off from work to buy before returning to employment.
- ____ 42. Per capita GDP can be defined as
- GDP per working person.
 - GDP per unit of capital.
 - GDP per person.
 - GDP per unit of unemployment.
- ____ 43. Which of the following is true about the United States?
- There has only been one recession in U.S. history.
 - There have been recessions every couple of years throughout U.S. history.
 - Recessions have never occurred in the United States.
 - Recessions have occurred periodically in U.S. history.
 - Recessions in the United States have generally been worse than in other countries.
- ____ 44. One of the most important changes in the composition of the labor force in the United States has been
- the major increase in the number of women who work outside the home.
 - the drop in the number of men who only work part-time.
 - the steady decline in the number of women who work.
 - the increase in the ratio of male workers to female workers.
 - the major increase in the number of men who work away from the home or farm.
- ____ 45. In the United States, most workers
- work for government of some sort.
 - produce raw materials for manufacturing.
 - work in agriculture and farming.
 - produce services rather than goods.
- ____ 46. Which factor of production accounts for the highest percentage of the income that the production process generates in the US?
- Capital
 - Natural Resource
 - Land
 - Labor

- _____ 47. The average hourly wage (excluding benefits) in the United States is currently
 - a. \$5.15
 - b. \$7
 - c. \$12
 - d. \$16

- _____ 48. The payments to owners of capital include
 - a. interest and profits.
 - b. debt and taxes.
 - c. wages and salaries.
 - d. expenses and bonuses.
 - e. All of the above are correct.

- _____ 49. Most Americans
 - a. have accurate perceptions of the level of corporate profits.
 - b. underestimate corporate profits.
 - c. overestimate corporate profits.
 - d. believe that corporations earn zero profit.

- _____ 50. According to Robert Reich, secretary of Labor in the Clinton administration,
 - a. the identity of American companies is clear, and laws should be written accordingly.
 - b. foreign companies are clearly different from American companies.
 - c. multinational companies have clear bases of operations, which form their identity.
 - d. it is almost impossible to define the nationality of a multinational company.
 - e. identifying the country of origin of a product is almost impossible, but essential for proper regulation.

- _____ 51. America's antitrust laws are used to protect competition against possible encroachment by monopoly. This is an example of government as
 - a. regulator of businesses.
 - b. buyer of goods and services.
 - c. tax collector.
 - d. redistributor.

- _____ 52. During fiscal year 2004, the most recent mentioned in the text, the federal government spent approximately
 - a. \$1.7 billion
 - b. \$1.8 trillion
 - c. \$2.3 trillion
 - d. \$30 trillion

- _____ 53. The largest single source of tax revenue for the federal government is the
 - a. personal income tax.
 - b. corporate income tax.
 - c. payroll tax.
 - d. sales tax.
 - e. property tax.

- _____ 54. The concept of government as redistributor is
 - a. approved by many, but questioned by many as well.
 - b. generally rejected as against "the American way."
 - c. largely approved by a vast majority of Americans.
 - d. unnecessary in the United States because income disparities are small.
 - e. a conservative idea that many liberals reject.

- _____ 55. Progressive income taxes are designed to
- make the distribution of income less equal.
 - leave unchanged the distribution of income.
 - let the market determine the distribution of income after taxes.
 - make the distribution of income more equal.
- _____ 56. Annual incomes of James, Jack, and Stanley are \$30,000, \$50,000, and \$80,000 and their tax rates are 10%, 20%, and 30% respectively. Which tax structure is this an example of?
- Proportional tax
 - Progressive tax
 - Regressive tax
 - Digressive tax
- _____ 57. After the federal budget deficit was eliminated the
- Congress and President Clinton easily agreed on spending priorities.
 - Congress and President Clinton still disagreed on spending priorities.
 - federal government no longer faced any budgetary problems.
 - federal government was able to satisfy all of its constituents.
- _____ 58. How does scarcity affect the range of possible choices that decision makers face?
- It narrows the choice to a single option.
 - It narrows the range of choices.
 - It increases the possible methods for solving problems.
 - It clarifies the choices by highlighting the best solutions.
 - It simplifies the choices and therefore widens the range.
- _____ 59. Economics is considered a social science because
- it deals with the decisions by the government regarding how resources are allocated.
 - it deals with decisions that affect society.
 - it deals with the economic decisions of individuals, firms, and the government.
 - it uses the research methods of the physical sciences.
- _____ 60. An optimal decision is one that chooses
- the most desirable alternative among the possibilities permitted by the resources available.
 - the lowest cost method of meeting goals, without regard to quality or any other feature.
 - among various possible goals and offends no one, so that all are equally happy.
 - among equally important goals, and thereby avoids the "indispensable necessity" syndrome.
 - among possible goals in such a way that spends as little money as possible.
- _____ 61. A student has a chance to see Eric Clapton in concert. The student also has a major economics exam in the morning. If the student goes to the concert,
- she will get a lower grade on the economics exam.
 - the opportunity cost of the concert is time spent studying.
 - this decision implies a trade-off.
 - All of the above are correct.
- _____ 62. The concept of opportunity cost in a fully employed economy with technology and resources held constant tells us that
- expansion of output in one industry means expansion cannot occur in another industry.
 - expansion of output in one industry means output in another industry must contract.
 - output cannot be increased in any industry.
 - output of all industries must contract until more resources are found.

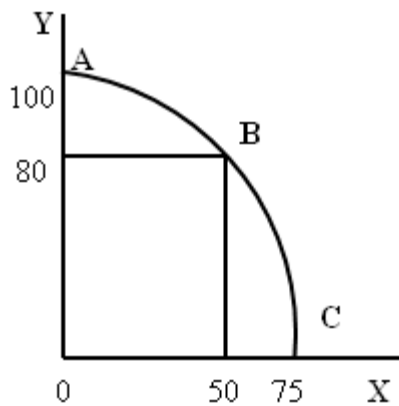
- ____ 63. Opportunity cost can best be defined as the
- money cost of a good or service.
 - money cost plus interest on money borrowed to buy a good or service.
 - cost of the resources used to produce a good or service.
 - value of the best alternative forgone when the alternative at hand is chosen.
- ____ 64. The idea of opportunity cost is relevant
- only in consumption decisions.
 - only in production decisions.
 - only in financial decisions.
 - in almost any kind of decision.
- ____ 65. Opportunity cost is best defined as the value of
- all of the other possible options that the decision maker could have chosen.
 - the alternative which the decision maker would choose if more resources were available.
 - what is gained from the alternative which is chosen.
 - resources that are given up to obtain the alternative that is chosen.
 - the next best alternative that the decision forces one to give up.
- ____ 66. How are money cost and opportunity cost related to each other?
- If markets function well, they are closely related.
 - They are always identical in any economic system.
 - Opportunity cost always exceeds money cost.
 - Money cost is less than or equal to opportunity cost.
 - In a market economy, they are always equal to each other.
- ____ 67. Generally, the opportunity cost and the money cost of a good
- are identical only if the good sells in a free market.
 - are different.
 - matter only to the purchaser of the good.
 - are not reflected in its price.
- ____ 68. Do all valuable items have price tags?
- No, because some valuable items have no opportunity cost.
 - Yes, because everything has its price.
 - Yes, because price is the measure of opportunity cost.
 - No, some have no explicit price on them.
 - Yes, because only items that can be sold in markets have value.

Table 3-1

<u>Peanuts (Bushels)</u>	<u>Corn (Bushels)</u>
0	55
10	50
20	42
30	28
40	0

- ____ 69. Suppose a farmer produces 50 bushels of corn and 10 bushels of peanuts. According to Table 3-1, the opportunity cost of 10 more bushels of peanuts is
- 8 bushels of corn.
 - 42 bushels of corn.
 - 50 bushels of corn.
 - impossible to determine from the information given.

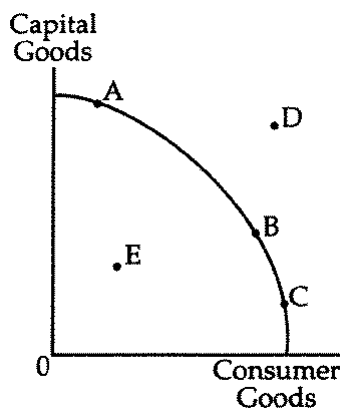
Figure 3.7



- ____ 70. What is the opportunity cost of moving from point B to point A in Figure 3.7?
- 20 units of X
 - 50 units of X
 - 25 units of X
 - 75 units of X
- ____ 71. For a given production possibilities frontier, which points are attainable?
- points inside the frontier
 - points outside the frontier
 - points on or outside the frontier
 - points on the frontier only
 - points on or inside the frontier
- ____ 72. How are the slope of a production possibilities frontier and the opportunity cost of the goods related?
- The slope is a graphical representation of the cost of expanding production of both goods.
 - The slope is a graphical measure of the growth rate of the economy.
 - The slope is a graphical representation of the cost of decreasing unemployment.
 - The slope is a graphical representation of the rate of trade-off between the goods.
 - The slope is a graphical representation of the cost of economic growth in the economy.

- ___ 73. If production involves decreasing opportunity cost, the production possibilities curve
- is "bowed inward."
 - is a straight line.
 - is "bowed outward."
 - is a wavy line.
 - has an unpredictable shape.
- ___ 74. The concavity or bowed-out shape of the production possibilities frontier is the result of
- the law of downward-sloping demand.
 - the law of upward-sloping demand.
 - the principle of increasing cost.
 - complementarity in consumption.
- ___ 75. The statement "Resources employed in producing X are better suited to making Y" is another way of saying resources
- are specialized.
 - are scarce.
 - are used inefficiently.
 - are unproductive.
 - have no opportunity cost.
- ___ 76. A typical economy produces thousands of different goods. Is it accurate to say that society faces a production possibilities frontier?
- No, because two dimensions cannot capture the complexity of a full economy.
 - No, although a graph with several thousand dimensions would be appropriate.
 - Yes, although society does not face opportunity cost and the model does not apply.
 - Yes, because scarcity always imposes opportunity costs.
 - Uncertain-economic theory has no answer to this question.

Figure 3-2



- ___ 77. In Figure 3-2, the production possibilities frontier has a bowed-out shape because of the law of
- decreasing costs.
 - increasing costs.
 - demand.
 - comparative advantage.

- ____ 78. In Figure 3-2, a point such as A
- is preferable over B.
 - is an efficient use of resources.
 - represents a misallocation of resources.
 - is not obtainable.
- ____ 79. Economic growth may result from
- eliminating unemployment.
 - introducing inventions.
 - increasing the proportion of society's spending that goes to consumption goods rather than to capital goods.
 - All of the above are correct.
- ____ 80. Economic growth, roughly speaking, means that the
- average citizen gets larger and larger quantities of goods and services.
 - economy becomes less able to meet the average citizen's economic wants.
 - average citizen gets less and less quantities of goods and services.
 - economy has a larger production possibilities frontier, but there is less to meet the average citizen's economic wants.
 - All of the above are correct.
- ____ 81. Generally, the more an economy invests this year in capital goods, the more
- consumption goods and/or capital goods it can produce next year.
 - consumption goods it can produce next year.
 - capital goods it can produce next year.
 - consumption goods it can produce this year.
- ____ 82. An economy that wants to experience growth should
- increase current consumption and reduce producing capital goods.
 - increase production of capital goods and reduce consumption.
 - increase production of capital goods and increase consumption.
 - decrease current consumption and reduce production of capital goods.
- ____ 83. Is faster economic growth unambiguously better?
- No, because growth has an opportunity cost.
 - No, because growth serves no useful purpose.
 - Yes, because more goods and services are always better.
 - Yes, because it expands the production possibilities of an economy.
 - Uncertain-economic growth has no answer to this question.
- ____ 84. Is increased capital spending the only way for an economy to expand its production possibilities frontier?
- No, an economy can also expand by invention and innovation.
 - No, an economy can also grow by investment instead of capital spending.
 - Yes, more capital is the only way to expand its production possibilities frontier.
 - Yes, although more capital clearly has a high opportunity cost.
 - Yes, because capital is the only constraining resource that limits growth.
- ____ 85. If you discover that the opportunity cost of raising your economics grade is zero, you
- are studying too hard and receiving a higher grade than is optimal for you.
 - must be on the production possibilities frontier that describes your trade-offs between producing high grades and producing other goods.
 - must be inside the production possibilities frontier that describes your trade-offs between producing high grades and producing other goods.
 - must be producing more of other goods than is optimal for you.

- _____ 86. A point lying inside (under) a production possibilities curve indicates that
- a. the economy is saving money.
 - b. there are no associated opportunity costs.
 - c. more output could be produced with existing resources.
 - d. technology limits production.
- _____ 87. As a general rule, an increase in the capital available to a society
- a. reduces the slope of the production possibilities frontier, making it shallower.
 - b. increases the slope of the production possibilities frontier, making it steeper.
 - c. shifts the production possibilities frontier outward, away from the origin.
 - d. shifts the production possibilities frontier inward, toward the origin.
 - e. makes the production possibilities frontier more bowed out.
- _____ 88. If an economy is producing inefficiently, it is
- a. possible to increase production of all goods simultaneously.
 - b. possible to increase production of one good at the expense of another.
 - c. not possible to increase production of any good.
 - d. not possible to increase economic growth.
 - e. possible to increase production with no effort.
- _____ 89. Baumol and Blinder state that "any point not on the frontier cannot be best." What is their reasoning to support this?
- a. A point inside the frontier implies that society is not facing up to the problem of scarcity.
 - b. A point inside the frontier limits growth, and growth is always a goal worth pursuing.
 - c. A point inside the frontier represents inflation, and inflation is a dangerous situation.
 - d. A point inside the frontier results in fewer goods, and more is always better.
 - e. A point inside the frontier is inefficient, and represents wasted resources.
- _____ 90. The most important way in which inefficiency occurs is
- a. producing more military goods instead of civilian goods.
 - b. limiting economic growth by limiting capital spending.
 - c. unemployment of labor and other resources.
 - d. producing outside the production possibilities frontier.
 - e. All of the above are correct.
- _____ 91. Employment discrimination is a source of
- a. economic inefficiency.
 - b. increased economic growth.
 - c. innovation.
 - d. shifting production possibilities.
 - e. All of the above are correct.
- _____ 92. A market system (market economy) depends on the market to
- a. find the most efficient way of using resources.
 - b. determine how large the budget deficit should be.
 - c. decide how much government regulation there should be.
 - d. provide minimum incomes for everyone.
 - e. All of the above are correct.

- ____ 93. Probably the most important source of efficiency in production is
- investing in more capital goods.
 - consuming rationally.
 - expanding the production possibilities frontier.
 - increasing inputs of energy and raw materials.
 - the specialization of labor.
- ____ 94. The first economist to point out the importance of specialization of labor was
- Leonardo da Vinci.
 - Adam Smith.
 - David Ricardo.
 - John Maynard Keynes.
 - Enrico Caruso.
- ____ 95. The total amount of consumption of a society can be increased if
- firms allow each worker to perform multiple tasks.
 - resources are allocated by a central planning group.
 - individuals engage in specialization and voluntary trade.
 - barter exchange is used in place of money.
- ____ 96. Which of the following is a good example of efficient specialization and voluntary exchange?
- A college professor hires someone to rototill a garden for spring planting.
 - A college professor works on the engine of a car for a neighbor who is a mechanic.
 - A lawyer decides to babysit his young child and agrees to do so for others for cash.
 - A physician agrees to help a neighbor work on her income tax return in exchange for her bookkeeping services.
- ____ 97. What mechanism assures that producers use inputs efficiently?
- governmental regulations on use of resources
 - altruism
 - the desire for profit
 - an innate desire to be efficient
 - All of the above are correct.
- ____ 98. Do markets solve all of society's problems?
- Yes, markets are efficient and work well under nearly all circumstances.
 - Yes, markets solve the problems of production and distribution.
 - No, they do not solve problems such as unemployment and inflation.
 - No, they hardly solve any problems at all.
 - Uncertain, economic theory has no answer to this question.
- ____ 99. During the Revolutionary War, the Pennsylvania legislature attempted to help the Continental Army by enacting
- wage floors for soldiers in the army.
 - bonuses for soldiers who re-enlisted.
 - laws to buy food for the soldiers stationed in Pennsylvania.
 - price controls on essential commodities.
 - All of the above are correct.
- ____ 100. The mechanism of supply and demand is
- a fundamental tool in both microeconomics and macroeconomics.
 - the only real "law" of economics.
 - a fundamental tool only in microeconomics.
 - a fundamental tool only in macroeconomics.

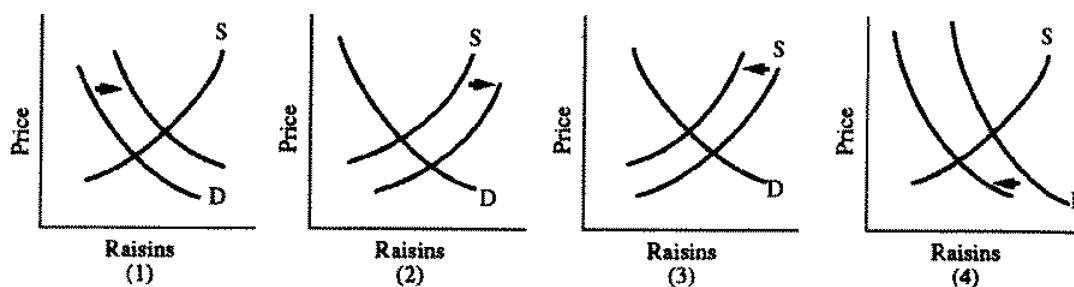
- ____ 101. A demand schedule shows
- the "market potential" for a product.
 - how much consumers are willing and able to buy at different prices.
 - possible combinations of output under different conditions.
 - how much producers would like to sell at different prices.
 - All of the above are correct.
- ____ 102. If price rises, what happens to quantity demanded for a product?
- It increases.
 - It decreases.
 - It does not change.
 - Uncertain-economic theory has no answer to this question.
- ____ 103. In late 1995 and early 1996, the Federal Reserve System reduced interest rates, the price which borrowers pay. As a result, economists expected the quantity of money demanded to
- increase.
 - decrease.
 - not change.
 - not change, although the demand schedule itself will shift outward.
- ____ 104. The U.S. government banned cigarette advertising on radio and television after January, 1971. You would expect to find that after the ban took effect the price of magazine ads for
- all goods fell.
 - only cigarettes fell.
 - all goods rose.
 - only cigarettes rose.
- ____ 105. Some medical authorities announced in the late 1980s that an acne medicine named Retin-A also had previously unknown wrinkle-reducing properties. An economist would expect to find that, after this announcement, the price of Retin-A ____ and the quantity sold ____.
- rose; fell
 - rose; rose
 - fell; fell
 - fell; rose
- ____ 106. What factors are held constant along a given demand curve for a good?
- the price of the good
 - the technology used to produce the good
 - the supply of the good
 - consumer incomes and the prices of other goods
- ____ 107. Which of the following will shift the demand curve for milk?
- change in the income of buyers of milk
 - change in the price of milk
 - change in input prices for milk
 - All of the above are correct.
- ____ 108. When there is an increase in demand,
- the demand curve shifts toward the origin of the graph.
 - the demand curve twists clockwise.
 - the demand curve shifts away from the origin of the graph.
 - the demand curve twists counterclockwise.
 - a lower price has increased the amount of the good that consumers will buy.

- ____ 109. If the price of oil, a close substitute for coal, increases then the
- supply curve for coal will shift to the right.
 - demand curve for coal will shift to the right.
 - equilibrium price and quantity of coal will not change.
 - demand curve for coal will shift to the left.
 - supply curve of coal will shift to the left.
- ____ 110. If the demand for steak shifts to the right, the most likely explanation is that
- the price of cattle feed has fallen.
 - consumer income has risen.
 - the price of steak has fallen.
 - cattle production has fallen.
- ____ 111. The quantity of a VCD players purchased declined in spite of a decline in price. This implies that the
- supply curve for VCD players shifted to the left.
 - demand curve for VCD players shifted to the right.
 - demand curve for VCD players shifted to the left.
 - supply curve for VCD players shifted to the right.
- ____ 112. Which of the following would cause a movement up (or leftward) along the demand curve for European autos in the United States?
- an increase in the price of American autos
 - a decrease in the price of American autos
 - an increase in income in the United States
 - an increase in the price of European cars
- ____ 113. The removal in 1966 of the requirement that Catholics eat fish on Fridays was followed by a 12.5 percent fall in prices of fresh fish. From this it can be deduced that the
- demand curve for fish shifted to the left.
 - demand curve shifted to the right.
 - supply curve shifted to the left.
 - supply curve shifted to the right.
- ____ 114. Along a supply curve,
- supply changes as price changes.
 - quantity supplied changes as price changes.
 - supply changes as technology changes.
 - quantity supplied changes as technology changes.
- ____ 115. The supply curve shows
- the same basic information as the demand curve.
 - who will have an opportunity to produce or purchase an item.
 - the quantity produced as a function of the price.
 - plots of what quantities have been sold over the past few weeks or months.
- ____ 116. An upward-sloping supply curve shows that
- buyers are willing to pay more for a scarce product.
 - suppliers are willing to increase production of their goods if they can receive higher prices for them.
 - buyers are unaffected by sellers' costs of production.
 - the price of a product is not influenced by the price buyers are willing to pay.
 - at higher prices, an envy effect begins to affect the demand curve.

- ____ 117. The law of increasing relative costs, depicted by the concavity of the production opportunities frontier, is most closely related to the
- downward slope of the demand curve.
 - upward slope of the demand curve.
 - downward slope of the supply curve.
 - upward slope of the supply curve.
- ____ 118. Economists emphasize the importance of ____ in analyzing supply.
- quantity
 - market potential
 - wants and needs
 - price
 - sales opportunities
- ____ 119. If price rises, what happens to supply for a product?
- It increases.
 - It decreases.
 - It does not change.
 - Uncertain-economic theory has no answer to this question.
- ____ 120. If price rises, what happens to quantity supplied for a product?
- It increases.
 - It decreases.
 - It does not change.
 - Quantity supplied is constant, but supply increases.
- ____ 121. A supply curve can be thought of as
- a graphical display of "market potential."
 - a graphical representation of the information in a supply schedule.
 - showing the maximum quantities that firms are able to produce.
 - a forecasting tool.
 - All of the above are correct.
- ____ 122. An important assumption that is made when constructing a supply schedule is
- only price and quantity matter in determining supply.
 - firms always want to sell a certain amount of a product.
 - supply is too important to be left to the marketplace.
 - all other determinants of supply are held constant.
 - demand has a positive slope.
- ____ 123. Assuming that resources are specialized, the opportunity cost of an item increases as production of it rises. Therefore, we expect that firms will produce more if
- the price increases.
 - the price decreases.
 - the opportunity cost is greater than the price.
 - government asks firms to produce more.
 - the income of buyers increases.
- ____ 124. Firms often seek to borrow money to expand their capital stock, and the price they pay for the money is the interest rate. What happens to the quantity of money supplied if the interest rate increases?
- It increases.
 - It decreases.
 - It does not change.
 - It depends entirely on the interest rate.

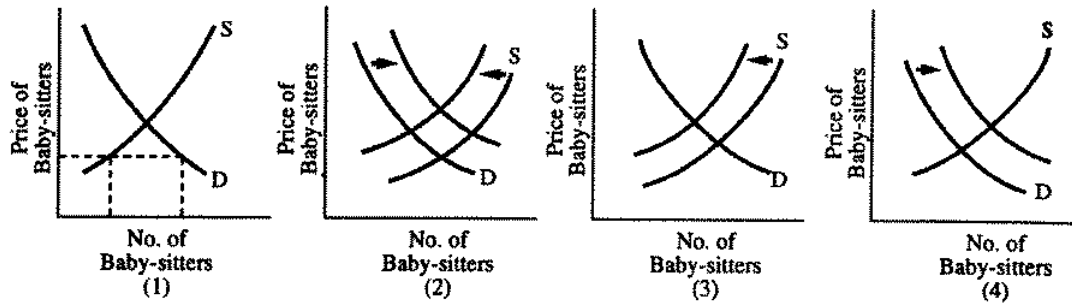
- ____ 125. The price for labor is the wage rate. What happens to the supply of labor if wages increase?
- It increases.
 - It decreases.
 - It does not change.
 - Uncertain-economic theory has no answer to this question.
- ____ 126. Suppose the numbers in parentheses represent two points on a line: (59 billion quarts; \$4) and (78 billion quarts; \$6). The line is likely a
- production possibilities frontier for milk.
 - supply curve for milk.
 - demand curve for milk.
 - ray through the origin.
 - time series line.
- ____ 127. Assume a new technology further reduces the cost of producing calculators. Also assume that consumers have cut back on their scheduled purchases in anticipation of even more cost-saving developments. As a result, we can expect
- a decrease in price but no predictable change in output.
 - a decrease in output but no predictable change in price.
 - an increase in output but no predictable change in price.
 - a predictable decrease in both output and price.

Figure 4-6



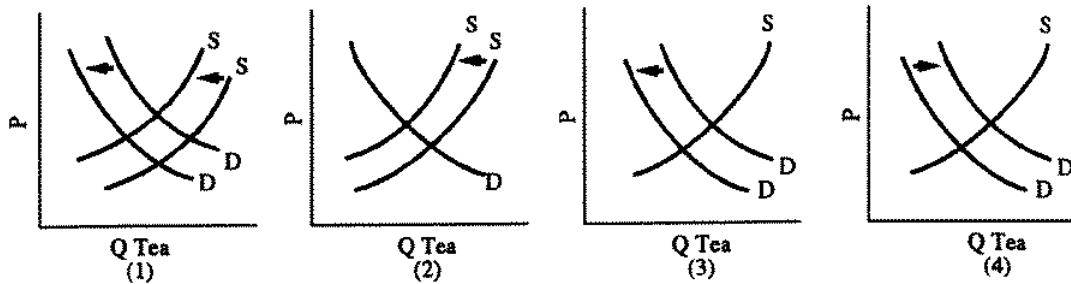
- ____ 128. Grapes can be used for wine or for raisins. Which graph in Figure 4-6 best depicts the effects on the U.S. raisin market of an increase in imports of foreign wines?
- 1
 - 2
 - 3
 - 4

Figure 4-8



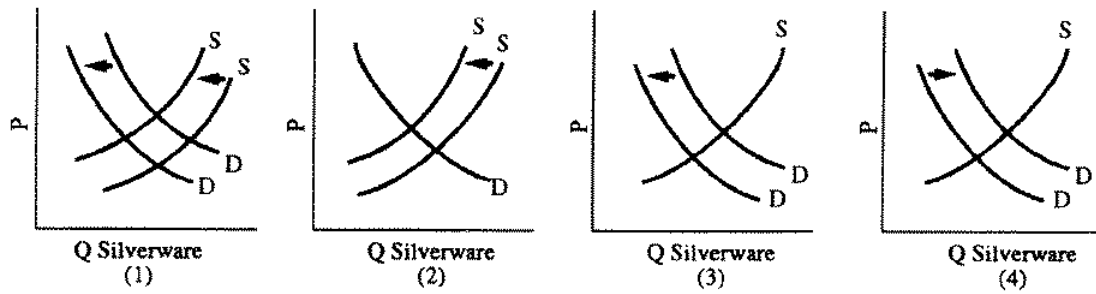
129. Women today are having more babies than women did fifteen years ago. The result is that mothers today have trouble finding baby-sitters and are shocked at what they must pay for child care. Which graph in Figure 4-8 best illustrates how the situation has changed?
- 1
 - 2
 - 3
 - 4

Figure 4-11



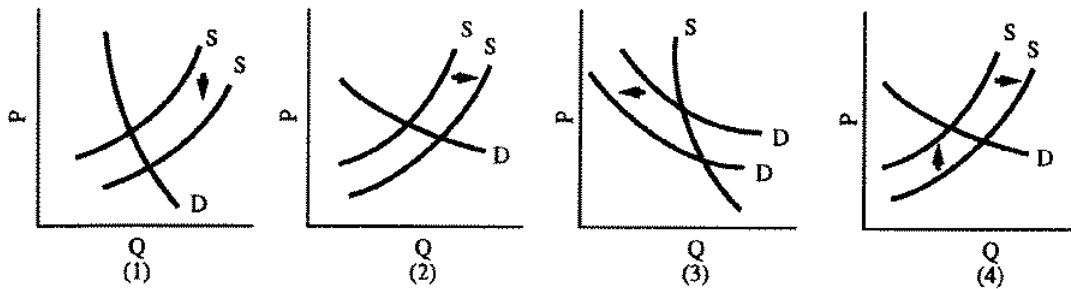
130. The Russian government has restricted sugar availability to reduce the supply of illegal liquor (sugar is used to increase alcohol content). Russians also like to sweeten their tea with jam, another sugar product. Which graph in Figure 4-11 depicts the impact of sugar rationing on the Russian tea market?
- 1
 - 2
 - 3
 - 4

Figure 4-12



131. The silverware industry has been in serious decline since the 1980s. Family dining habits are less formal so people purchase less silverware. Also, in 1979-1980, the price of silver increased from \$5 to \$21 per ounce. Which graph in Figure 4-12 best illustrates these developments?
- 1
 - 2
 - 3
 - 4

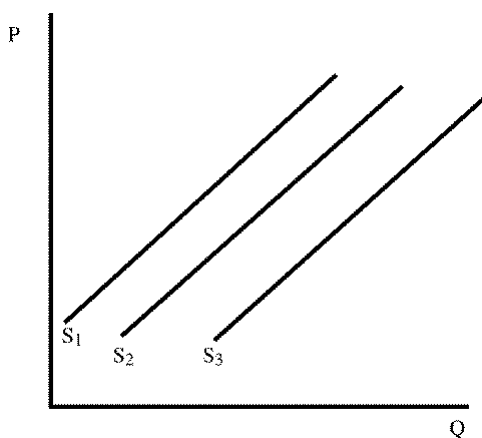
Figure 4-15



132. Recycling of newspapers has been undermined by its success. The supply of old papers, gathered diligently by those concerned with the environment, has increased dramatically, as has the number of firms that convert the material into recycled newsprint. Demand has remained stable despite falling prices because newspapers consider recycled newsprint an inferior substitute for regular newsprint. Consequently, the price of recycled newsprint has fallen below the cost of production; recycling firms are going out of business; mountains of old newspapers are left behind. Which graph in Figure 4-15 best illustrates this situation?
- 1
 - 2
 - 3
 - 4
133. How will a decrease in price tend to affect supply?
- Supply will increase.
 - Supply will decrease.
 - Supply will not change.
 - Uncertain.

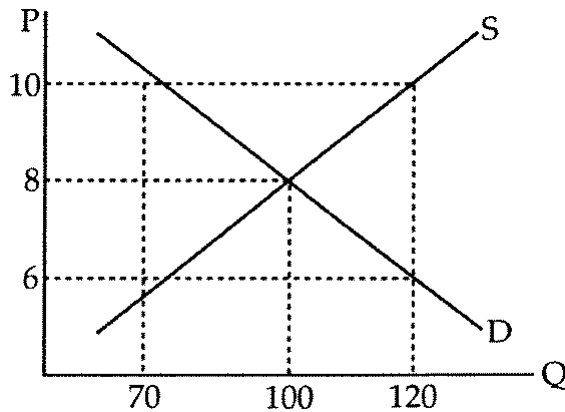
- ____ 134. The number of home computers has risen dramatically in the past twenty-five years. One of the major factors behind this is the fact that the
- supply of computers has decreased dramatically.
 - supply of computers has increased dramatically.
 - demand for computers has decreased dramatically.
 - demand for computers has increased dramatically.

Figure 4-16



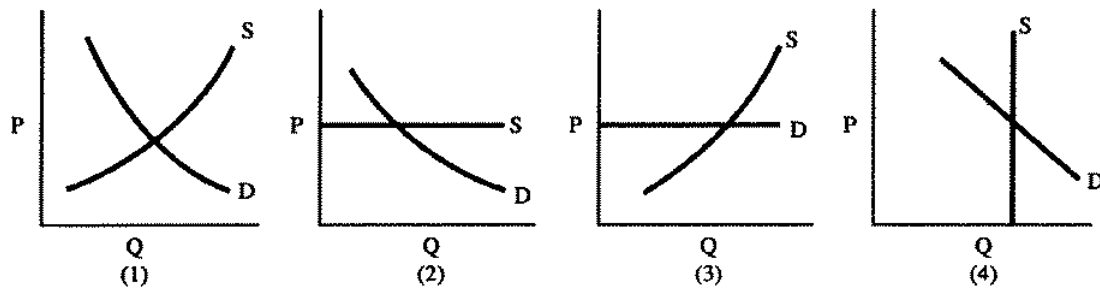
- ____ 135. Assume that Figure 4-16 shows the supply of orange juice. A decrease in the wage rate paid to workers in the orange juice industry will shift supply from
- S_1 to S_2 .
 - S_2 to S_1 .
 - S_3 to S_2 .
 - S_3 to S_1 .
- ____ 136. Assume that Figure 4-16 shows the supply of steak. An increase in the price of pork will change the supply from
- S_1 to S_2 .
 - S_2 to S_1 .
 - S_2 to S_3 .
 - S_1 to S_3 .
- ____ 137. An increase in supply will have what effect on equilibrium price and quantity?
- Price will increase; quantity will decrease.
 - Price will decrease; quantity will increase.
 - Both price and quantity will increase.
 - Both price and quantity will decrease.
- ____ 138. Which of the following is the correct way to describe equilibrium in a market?
- At equilibrium, demand equals supply.
 - At equilibrium, quantity demanded equals quantity supplied.
 - At equilibrium, market forces are no longer at work.
 - Equilibrium is a tendency, a state of perpetual motion.
 - Equilibrium is the best combination of price and quantity.

Figure 4-18



- ___ 139. In Figure 4-18, there would be a surplus of T-shirts if the price were
- \$10.
 - \$8.
 - below \$8.
 - between \$8 and \$6.
- ___ 140. A market will experience a ___ when the price is above equilibrium and a ___ when the price is below equilibrium.
- shortage, shortage
 - surplus, surplus
 - shortage, surplus
 - surplus, shortage

Figure 4-19



- ___ 141. After a strike against the Financial News in London began, the number of copies of the Broad Street Journal sold in England increased dramatically, yet there was no increase in price. Which supply and demand graph in Figure 4-19 represents the situation for the Broad Street Journal *before* the strike started.
- 1
 - 2
 - 3
 - 4

- ____ 142. Equilibrium in a market is
- a situation in which there are no inherent forces that produce change.
 - the natural state of affairs in the market.
 - the actual price and quantity that will exist in a market.
 - the best price and quantity that can exist in a market.
 - All of the above are correct.

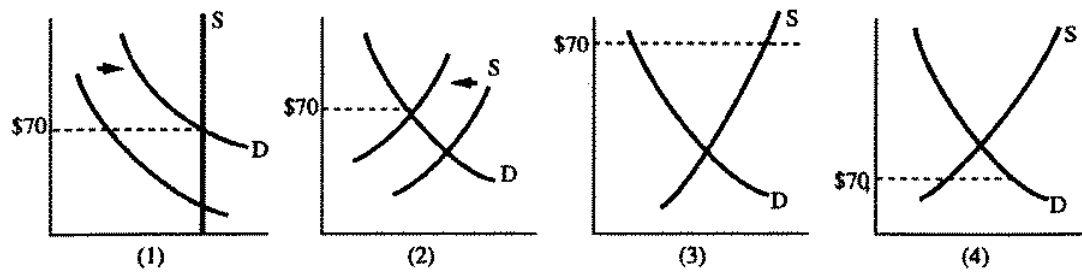
Table 4-1

Use this table for the following questions.

<u>Price</u>	<u>Quantity Demanded</u>	<u>Quantity Supplied</u>
\$10	1,000	5,500
9	2,000	5,000
8	3,000	4,500
7	4,000	4,000
6	5,000	3,500
5	6,000	3,000
4	7,000	2,500
3	8,000	2,000
2	9,000	1,500
1	10,000	1,000

- ____ 143. Refer to Table 4-1. At \$4, what is the shortage?
- 0
 - 1,500
 - 3,000
 - 4,500
 - 6,000
- ____ 144. If the price of a good is below the equilibrium price,
- suppliers will find inventories building; they will cut output and raise prices.
 - suppliers will find inventories being depleted. They will increase production and raise prices.
 - the demand curve will shift down until an equilibrium is established at the existing price.
 - the supply curve will shift up until an equilibrium is established at the existing price.
- ____ 145. Throughout history, governments have used price controls to
- protect buyers.
 - protect sellers.
 - serve the "public interest."
 - All of the above are correct.

Figure 4-22



- ____ 146. Because of falling oil prices, Libya can afford fewer imported goods. Government controls were established to limit imports of cigarettes. In 1985, the market price of Marlboros rose to \$70 a carton. Which graph in Figure 4-22 best depicts this situation?
- 1
 - 2
 - 3
 - 4
- ____ 147. In 1989, Hurricane Hugo devastated Charleston, South Carolina, leaving residents with no electricity for light or refrigeration, and completely cut off from the outside world by fallen trees and washed-out roads. Consequently, the price of ice rose 1,000 percent and generators 300 percent. Tree removal firms were charging \$4,000 to cut up a single tree. Outraged, the city government enacted an emergency law prohibiting price "gouging." This law is an example of
- the cost disease of services.
 - a price ceiling.
 - the laissez-faire rule.
 - the indispensable necessity syndrome.
- ____ 148. In a move to free the economy from unnecessary regulation, Congress decides to remove sugar price supports. What would most likely happen to the number of producers of sugar?
- It would decrease, because sugar prices would fall.
 - It would decrease, because sugar prices would rise.
 - It would increase, because sugar prices would fall.
 - It would increase, because sugar prices would rise.
- ____ 149. How do legal controls on prices lead to corruption?
- Persons who benefit from the controls are willing to bribe officials to keep the controls in place.
 - Persons who make the laws may favor certain groups at the expense of others.
 - Selling in the black market is very profitable, and persons therefore willingly break the law.
 - Discrimination may occur as a means to limit buying or selling select groups.
 - All of the above are correct.
- ____ 150. Tampering with the price mechanism
- can be efficient for a while.
 - cannot be attempted in a market economy.
 - can enhance societal welfare if done properly.
 - often produces undesired side effects.

- ____ 151. In high schools, all teachers are paid the same based on years of service and regardless of specialization. Beginning in the 1970s, a shortage of science and math teachers developed as private industry paid more for math and science skills than schools could offer. At the same time, a decline in the number of school-age children tended to reduce the demand for all other teachers, which led to a surplus. The economist's solution to this problem would be
- merit pay to reward the best teachers.
 - recognition that all teachers do comparable work and should be paid the same.
 - to raise the wages of all teachers.
 - to raise the wages of teachers in fields that are in short supply and lower those of others.
- ____ 152. In an attempt to reduce poaching of elephant tusks for ivory, officials in Kenya burned illegally gathered ivory. Economists tend to point out that
- poaching can be reduced with price supports for ivory.
 - the supply of ivory has fallen, leading to an increase in price and reward for poaching.
 - burning ivory decreases demand, leading to lower prices and reward for poaching.
 - the demand for ivory is higher, leading to an increase in price and reward for poaching.
 - burning ivory raises demand, and controlled prices will lead to even greater poaching.
- ____ 153. What is the economic reasoning behind the proposal to legalize drugs?
- Legal drugs will greatly increase the supply, which will reduce the price Americans pay to foreign producers of the drugs.
 - All forms of government restrictions on behavior are immoral, and ought to be removed.
 - Legal drugs will be much cheaper than illegal drugs, which will reduce incentive for crime to obtain money for drugs and to protect drug "businesses."
 - Legal drugs will be more expensive than illegal drugs, and the market system will encourage more production, thus lowering the price.
 - Dealing with supply is always easier than dealing with demand, and legalization accomplishes that.
- ____ 154. Macroeconomists are distinguished from microeconomists because macroeconomists are more interested in
- inflation and unemployment than in individual markets.
 - large corporations rather than small businesses.
 - inflation in the United States rather than inflation in Costa Rica.
 - the demand for oil rather than the demand for corn.
- ____ 155. Macroeconomists think that
- most questions about individual markets are more important than the overall economy.
 - questions of overall unemployment are less important than the jobs of particular workers.
 - the details of resource allocation and individual market prices are less important than the amount of national output.
 - the causes of unemployment usually lie with the personalities of individual workers.
 - the price of particular products is more important than the overall price level.
- ____ 156. An economist who studies the sales and profits of a large corporation would be classified as a(n)
- macroeconomist.
 - equity analyst.
 - stock broker.
 - microeconomist.
 - social economist.

- ____ 157. Combining various goods and services into a convenient grouping is called
- conglomeration.
 - blending.
 - congregation.
 - agglomeration.
 - aggregation.
- ____ 158. Economists define an aggregate as
- a concrete object.
 - a specific principle.
 - a representative good or service.
 - a useful abstraction.
 - something unmeasurable.
- ____ 159. If a macroeconomist aggregates many markets into one, then
- individual market differences are eliminated.
 - one must not confuse ravioli and hot dogs.
 - she is performing a meaningless exercise.
 - differences between products must still be noted.
- ____ 160. China is the world's largest wheat producer. If China's domestic product grew by eleven percentage in the previous year, it implies that
- production of wheat grew by more than eleven percent.
 - products other than wheat grew by less than eleven percent.
 - China's overall output grew by eleven percent.
 - production of wheat is declining in China.
- ____ 161. It might be useful to think of macroeconomics as a study of ____ and microeconomics as a study of ____.
- big corporations, small businesses
 - oceans, fish
 - the long run, the short run
 - abstract, concrete
 - theory, reality
- ____ 162. An example of an abstraction used in macroeconomics is
- the price level.
 - total costs.
 - the tax rate.
 - the treasury bill rate.
 - proprietor's income.
- ____ 163. While their respective subject matters differ greatly, both microeconomists and macroeconomists rely on the same basic tools; that is, both rely on
- government contracts to promote research and publications.
 - demand-and-supply analysis.
 - the economic theory of John Maynard Keynes.
 - consumer protection laws and antitrust legislation.
- ____ 164. If aggregate demand shifts outward over a long period of time, with aggregate supply held constant, the economy should experience
- unemployment.
 - recession.
 - budget surpluses.
 - inflation.

- ____ 165. A recession is a period during which
- aggregate demand, production, and unemployment rises.
 - aggregate demand, production, and unemployment falls.
 - aggregate demand, production, and unemployment remains the same.
 - aggregate demand and production rises while unemployment remains the same.
 - aggregate demand and production falls while unemployment rises.
- ____ 166. In the aggregate demand-aggregate supply model, economic growth can be illustrated by an
- outward shift of the aggregate demand curve.
 - inward shift of the aggregate demand curve.
 - inward shift of the aggregate supply curve.
 - All of the above.
- ____ 167. Real GDP
- is nominal GDP adjusted for changes in the price level.
 - is also called nominal GDP.
 - measures GDP minus depreciation of capital.
 - will always change when prices change.
- ____ 168. Which of the following is a true measure of national output?
- GDP at market price
 - Nominal GDP
 - GDP in current dollars
 - GDP in constant dollars
- ____ 169. Aneta has owned an Italian sports car for several years and now she wants to sell it. She paid \$8,500 for it in 1993 and she has just sold it for \$19,000 in 2001. How is this sale included in the GDP for 2001?
- \$8,500 is included in 2001 GDP
 - \$19,000 is included in 2001 GDP
 - The increase in value of \$10,500 is included in 2001 GDP
 - It is not included in 2001 GDP
- ____ 170. Intermediate goods, like milk sold by a farmer to a supermarket, are
- included in GDP.
 - included in GDP at market value.
 - included if it is imported.
 - are not included in GDP.
- ____ 171. General Motors Corporation (a U.S.-based firm) produces a Saab vehicle in Sweden, and sells it in the United States. In which country's GDP is it included?
- Sweden and the United States
 - The United States because it was sold there
 - The United States because GM is a U.S. company
 - Sweden because it was produced there
- ____ 172. If Honda (a Japan-based firm) produces a car in Ohio and exports it to Japan, in which country's GDP will the car be counted?
- Japan's, because Honda is a Japanese company
 - Japan's because that is where the car is purchased
 - The GDP of the United States because that is where it was built
 - Both Japan and the United States

- ____ 173. E&S Cooling Co. installs air conditioning systems in new houses for homebuilders, and replacement systems for homeowners. Sales of which systems are included in this year's GDP?
- Sales of replacement systems
 - Sales of both systems
 - Sales of systems in new houses
 - Neither systems would be included, because they are always intermediate goods.
- ____ 174. In periods of generally rising prices,
- real GDP will grow faster than nominal GDP.
 - nominal GDP will grow slower than real GDP.
 - real GDP will grow slower than nominal GDP.
 - real GDP and nominal GDP will grow at the same rate.
- ____ 175. Suppose that in 2001 you paid \$100,000 for a house that was built in 1985 and sold that year for \$80,000. The amount this transaction would add to the GDP in 2001 is
- \$0.
 - \$100,000.
 - \$80,000.
 - \$180,000
- ____ 176. An example of an intermediate good would be a(n)
- new car.
 - used car.
 - new tire for a used car.
 - tire for a new car.
 - All of the above.
- ____ 177. The definition of Gross Domestic Product is
- the total value of all sales in the economy.
 - the total value of production in the domestic economy plus the production of domestic firms in foreign countries.
 - the total value of all sales of final and intermediate goods in the domestic economy.
 - the total of the money values of all final goods and services produced in the domestic economy within a specific time period.
- ____ 178. Dissatisfaction with public school education has led many parents to try home schooling for their children. If parents cut back on their jobs outside the home in order to spend time teaching their children at home, how will this affect GDP?
- GDP will increase.
 - Real GDP will increase and nominal GDP will decrease.
 - Both real and nominal GDP will increase.
 - GDP will decrease.
- ____ 179. Gross Domestic Product is an economic aggregate that represents the
- potential output of a country.
 - total product of a nation's economy.
 - total income earned from all sales.
 - total product that a country exports.
- ____ 180. Gross Domestic Product is a dollar measure of
- total gross investment in an economy.
 - total industrial sales in a particular time period.
 - the total physical product of the economy.
 - the value of all final goods and services produced in one time period.

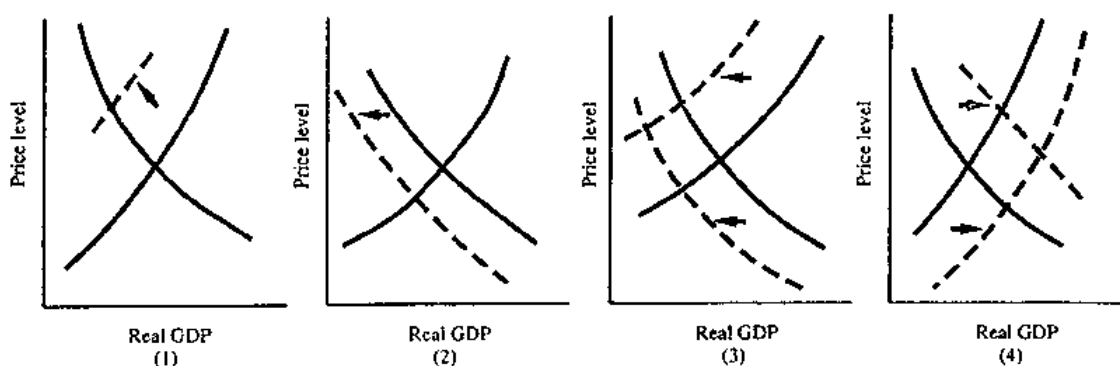
- ____ 181. The Italian government collects a smaller amount of the taxes it is owed than the U.S. government. Other things being equal,
- U.S. and Italian GDP should be equal.
 - U.S. GDP should be higher than Italian GDP.
 - U.S. GDP should be lower than Italian GDP.
 - U.S. residents are better off than Italian residents.
- ____ 182. In her book on the American work week, economist Juliet Schorr argues that Americans work too much. Her argument may be interpreted as concluding that this behavior
- increases GDP but decreases well being.
 - decreases well-being.
 - decreases GDP and decreases well being.
 - decreases GDP and increases well being.
- ____ 183. Large sport utility vehicles (SUVs) add significantly to air pollution because they do not have to meet passenger auto emission standards. The purchase of an SUV
- adds less to GDP since the pollution costs are subtracted from GDP.
 - adds to nominal but not real GDP because of the pollution costs.
 - is a net loss to GDP because the pollution costs are so large.
 - increases GDP.
- ____ 184. How does the calculation of GDP include the costs of natural resource depletion that occurs when output is produced?
- The value of resource depletion is added to GDP.
 - The cost of resource depletion is not measured in GDP.
 - The cost of resource depletion is added to real but not nominal GDP.
 - Resource depletion causes GDP to overstate well being.
- ____ 185. The Great Depression of the 1930s
- confirmed the value of a "hands off" policy for governments.
 - was exacerbated by an expansionary monetary policy.
 - was a worldwide event.
 - continued throughout the 1940s without any interruption.
- ____ 186. One major effect of the Great Depression was
- it reaffirmed everyone's faith that capitalism was a self-correcting system.
 - it encouraged voters to limit the role of government.
 - the creation of the rational expectations school of economic theory.
 - a decreased faith in the ability of economies to automatically correct major problems.
- ____ 187. In the past 100 years the U.S. economy has primarily experienced
- deflation.
 - unemployment.
 - inflation.
 - depression.
- ____ 188. In the period of U.S. economic history known as the Great Depression, the rate of inflation was generally
- trending upward.
 - positive.
 - uncertain.
 - negative.

- ____ 189. John Maynard Keynes wrote *The General Theory of Employment, Interest, and Money* (1936) to
- improve the gold supply balances of the British government.
 - prove that the punitive nature of the Treaty of Versailles would ultimately lead to recession in Europe.
 - prove that active government policy would produce unemployment and high rates of inflation.
 - demonstrate that pessimistic consumers and businesspersons could reduce their spending and condemn the economy to long-run stagnation.
- ____ 190. In *The General Theory of Employment, Interest, and Money*, Keynes rejected the idea that
- a capitalist economy always gravitates toward high levels of employment.
 - budget deficits necessarily cause recessions and inflation.
 - the ultimate breakdown of the capitalist system is inevitable.
 - international trade always helps to achieve economic stability.
- ____ 191. The most severe depression in the United States was the 30 percent decrease in real GDP that occurred between
- 1899 and 1913.
 - 1929 and 1933.
 - 1959 and 1963.
 - 1979 and 1983.
- ____ 192. The price controls on consumer goods during World War II led to
- permanent surpluses.
 - stable long-term prices.
 - a burst of inflation when they were ended.
 - increased production of consumer goods to satisfy demand.
- ____ 193. The successes of the 1960s were ascribed to the effects of
- the "Age of Transitions."
 - the "Age of Aquarius."
 - the "New Paradigm."
 - the "New Economics."
 - the "New Frontier."
- ____ 194. The international organization most responsible for rising prices during the 1970s was
- the WTO.
 - OPEC.
 - the CIA.
 - the World Bank.
 - the Trilateral Commission.
- ____ 195. The macroeconomic conditions during the mid-1990s confounded many economists because of the simultaneous occurrence of
- low unemployment and decreasing inflation rates.
 - low unemployment and increasing budget deficits.
 - low unemployment and increasing interest rates.
 - high unemployment and increasing inflation rates.

- ___ 196. The name given to government programs implemented to prevent or shorten recessions and counteract inflation is
- supply-side economics.
 - contractionary policy.
 - monetary policy.
 - stabilization policy.
- ___ 197. In contrast to the post-World War II period, before 1940 the government
- actively intervened in the economy for stabilization purposes.
 - used aggregate demand management to avoid recessions.
 - rarely intervened in the economy to influence inflation or unemployment rates.
 - used government ownership to guarantee full employment.

Aggregate demand and supply curves have been widely used to analyze the performance of the macroeconomy. Figure 5-3 shows four diagrams that represent different changes in the macroeconomy. Choose the diagram that best represents the situations described in the following questions.

Figure 5-3



- ___ 198. Which graph in Figure 5-3 best represents the aggregate demand-induced Great Depression of the 1930s?
- 1
 - 2
 - 3
 - 4
- ___ 199. Which graph in Figure 5-3 best represents the favorable macroeconomy of the late 1990s?
- 1
 - 2
 - 3
 - 4
- ___ 200. A rightward shift in the aggregate demand curve is most likely to result in
- inflation.
 - recession.
 - economic growth.
 - an increase in real GDP.

- ____ 201. Recessions
- almost never occur in the American economy.
 - follow a regular and predictable cycle.
 - are a common feature of the American economy.
 - have been abolished by wise macroeconomic policy.
- ____ 202. You can generally distinguish an aggregate supply-caused recession from an aggregate demand-caused recession because
- real GDP will rise in an aggregate supply recession.
 - the price level will fall in an aggregate supply recession.
 - the price level will fall in an aggregate demand recession.
 - real GDP will rise in an aggregate demand recession.
- ____ 203. According to the text, the government can use aggregate demand management policies to reduce unemployment rates. A byproduct of this policy will be
- an increase in the price level.
 - a decrease in real GDP.
 - a decrease in the price level.
 - an increase in the budget surplus.
- ____ 204. If the aggregate demand curve shifts to the left and the aggregate supply curve shifts to the right, the result will be a
- decrease in the level of output.
 - decrease in the price level.
 - higher price level.
 - higher unemployment rate.
- ____ 205. Since the end of World War II, the economy of the United States has been more influenced by stabilization policy. One of the undesirable side effects of this has been that the economy now has a greater tendency to suffer from
- more severe recessions and depressions.
 - higher levels of unemployment and lower rates of employment growth.
 - lower rates of growth in real and nominal GDP.
 - more persistent periods of inflation.
- ____ 206. Policy should create an environment in which the economy can expand its productive capacity rapidly, because that is the ultimate source of higher living standards. This task is the realm of
- growth policy.
 - stabilization policy.
 - labor policy.
 - inflation policy.
- ____ 207. If the capital stock increases, then the economy can produce ____ output with the ____ amount of labor.
- same, same
 - less, same
 - more, same
 - less, less
- ____ 208. The growth rate of potential GDP depends, among other factors, on the
- rate of technological progress.
 - unemployment rate.
 - size of the labor force.
 - rate of capital stock depreciation.

- ____ 209. If the rate of technical progress decreases, then the growth
- of the labor force will decrease.
 - of the capital stock will decrease.
 - rate of potential GDP will decrease.
 - rate of unemployment will decrease.
- ____ 210. Increasing economic growth may be beneficial because
- mass poverty is a serious problem in the United States.
 - most Americans do not have the basic goods and services necessary for a decent life.
 - the price level falls only if the economy is growing.
 - most of the world is still below the poverty level of income.
- ____ 211. The growth rates of actual and potential GDP
- are similar in both the short and long run.
 - are similar in the short run but not the long run.
 - are similar in the long run but not the short run.
 - are different in both the short and long run.
- ____ 212. When the growth rates of actual and potential GDP diverge, they usually diverge because
- actual GDP growth equals potential GDP growth.
 - actual GDP growth falls below potential GDP growth.
 - potential GDP growth rates fall below actual GDP growth rates.
 - potential GDP growth rates fluctuate while actual GDP growth rates remain stable.
- ____ 213. Labor productivity is calculated by dividing GDP by
- population.
 - the price level.
 - capital stock
 - labor force.
- ____ 214. If economic output is increased by increasing the number of people working in the economy, then
- both GDP per capita and labor productivity will increase.
 - both GDP per capita and labor productivity will decrease.
 - GDP per capita will increase.
 - Labor productivity will increase.
- ____ 215. The growth rate of potential GDP depends on
- the rate of technical progress.
 - the growth rate of the capital stock.
 - the growth rate of the labor force.
 - all of the above.
- ____ 216. In the united states, labor productivity is approximately
- \$49 per hour.
 - \$4.90 per hour.
 - \$490 per hour.
 - \$4,900 per hour.
- ____ 217. The unemployment rate is the number of unemployed people, expressed as
- a ratio of total employed to the population.
 - a ratio of unemployed to the total employed.
 - a percentage of the labor force.
 - a percentage of the population.

- ____ 218. The shortfall between actual real GDP and potential GDP
- decreases as the unemployment rate rises.
 - increases as the unemployment rate rises.
 - increases as the employment rate rises.
 - decreases as the labor force increases.
- ____ 219. Compared to the unemployed during the Great Depression, persons unemployed in today's economy are
- worse off due to higher price levels.
 - worse off due to higher rates of unemployment in the 1990s.
 - better off due to unemployment insurance.
 - better off due to lower price levels.
- ____ 220. Which of the following groups would have the highest unemployment rates?
- married men
 - white workers
 - college graduates
 - teenagers
- ____ 221. Which of the following groups would have the lowest unemployment rates?
- high-school dropouts
 - married women
 - nonwhite teenagers
 - nonwhite women
- ____ 222. Discouraged workers are included in the
- labor force category.
 - unemployed category.
 - not in the labor force category.
 - employed category.
- ____ 223. The unemployment rate is equal to
- the number unemployed divided by the labor force.
 - the number unemployed divided by the population.
 - the number unemployed divided by the number employed.
 - the labor force divided by the population.
- ____ 224. The term *frictional unemployment* refers to persons who are out of work
- due to technological change.
 - due to strikes or lockouts.
 - and have given up looking for work.
 - for a short period.
- ____ 225. One of the factors contributing to the existence of frictional unemployment is
- automation.
 - labor union strikes.
 - occupational mobility.
 - falling real GDP.
- ____ 226. One of the social benefits of frictional unemployment is that
- workers get time off from work.
 - economic growth is limited.
 - workers move from less to more valuable firms.
 - wage rates decrease.

- ____ 227. When some firms fail because their output is not demanded by society, workers may suffer
- structural unemployment.
 - frictional unemployment.
 - seasonal unemployment.
 - cyclical unemployment.
- ____ 228. Structural unemployment may be particularly severe for
- younger workers
 - college graduates.
 - older workers.
 - workers with "high tech" skills.
- ____ 229. Richard loses his job at the railroad due to a downturn in general business conditions. He is experiencing
- structural unemployment.
 - cyclical unemployment.
 - seasonal unemployment.
 - frictional unemployment.
- ____ 230. The unemployment rate that many economists believe represents full employment is
- 0 percent.
 - 0-4 percent.
 - 4-6 percent.
 - 6-8 percent.
 - 8-10 percent
- ____ 231. The program of unemployment insurance in the United States was created during the
- Great Depression.
 - Reagan recession.
 - Kennedy administration.
 - Great Society.
- ____ 232. The most likely group of the following that would be eligible for unemployment insurance benefits is
- new college graduates looking for their first job.
 - mothers returning to the labor force after caring for young children.
 - workers who quit their jobs.
 - experienced workers recently laid off.
- ____ 233. The principal benefit of unemployment insurance is that it
- reduces the occurrence of unemployment in the economy.
 - replaces income lost due to unemployment.
 - increases labor force participation.
 - helps reduce the period of unemployment.
- ____ 234. When inflation occurs,
- real wages must necessarily fall.
 - real wages must necessarily rise.
 - workers will experience falling real incomes.
 - workers' real income may rise or fall.
- ____ 235. If the price of pizzas has risen from \$4 to \$5 at the same time that the price of an hour of spinning class has risen from \$20 to \$30, then
- pizzas have become relatively more expensive.
 - aerobics' classes have become relatively more expensive.
 - the relative prices of pizzas and aerobics classes have remained constant.
 - workers' real income must have decreased.

- ____ 236. During inflationary periods
- all prices rise at the rate of inflation.
 - real wages must necessarily decline.
 - some prices may fall.
 - relative prices do not change.
- ____ 237. Workers are generally in a better position to protect themselves from inflation in comparison to retired persons because workers' incomes
- are more likely to be fixed.
 - are more likely to be variable.
 - always rise during inflation.
 - are guaranteed by the federal government.
- ____ 238. When prices rise
- the rich benefit at the expense of the poor.
 - the poor benefit at the expense of the rich.
 - both the rich and poor lose real income.
 - the effect in the rich and poor is uncertain.
- ____ 239. If borrowers and lenders expect a higher rate of inflation,
- nominal interest rates should decrease.
 - nominal interest rates should remain constant.
 - nominal interest rates should increase.
 - real interest rates should increase.
- ____ 240. The arithmetic difference between the nominal rate of interest and the expected rate of inflation is the
- expected interest rate.
 - real interest rate.
 - implied interest rate.
 - contractual interest rate.
- ____ 241. Rachel agrees to lend Phoebe \$100 for six months and charges her interest of 2 percent. At the end of the six-month period, prices have risen by 4 percent.
- Purchasing power has been redistributed to Rachel.
 - No purchasing power has been redistributed.
 - Purchasing power has been redistributed to Phoebe.
 - Both Rachel and Phoebe received extra purchasing power.
- ____ 242. Over the past few decades, nominal interest rates have been higher than real rates of interest. This means that
- lenders must have expected inflation.
 - borrowers must have expected deflation.
 - lenders must have expected prices to fall.
 - borrowers must have expected prices to fall.
- ____ 243. If a borrower arbitrarily gains purchasing power as the result of a particular loan agreement, then
- actual inflation was greater than expected inflation.
 - actual inflation was equal to expected inflation.
 - actual inflation was less than expected inflation.
 - the real interest rate was greater than the nominal interest rate.

- ____ 244. When a lender underestimates the rate of inflation,
- purchasing power is redistributed to the lender.
 - purchasing power is redistributed to the borrower.
 - the real rate of interest will be higher than expected.
 - the nominal interest rate was set too low.
- ____ 245. If expected inflation is 12 percent and the publicly regulated electric utility company is legally limited to a 10 percent rate of return, then we should expect
- increased investment by the utility.
 - expansion of electric power generating capacity.
 - future power shortages.
 - excess investment by the electric utility.
- ____ 246. Sharon buys some common stock in 1990 for \$10,000 and sells it in 2000 for \$15,000. During the same period, prices have risen by 75 percent. The net result of Sharon's stock purchases is that she will
- pay no taxes because she earned negative real capital gains.
 - lose purchasing power and have to pay taxes anyway.
 - earn a real capital gain of \$5,000 plus 75 percent.
 - earn a real capital gain of \$15,000 minus 75 percent.
- ____ 247. When nominal interest rates are held below inflation rates, then households will have an incentive to
- consume.
 - save.
 - purchase financial assets.
 - postpone current consumption plans.
- ____ 248. Saving is often discouraged by usury laws during inflationary periods because
- nominal rates of interest are kept above real rates of interest.
 - nominal rates of interest are kept below inflation rates.
 - nominal rates of interest are kept above inflation rates.
 - real rates of interest are kept above inflation rates.
- ____ 249. As inflation rates increase, shoppers will be forced to
- shop more at a particular store.
 - spend less time comparing prices.
 - spend less time visiting other stores.
 - spend more time comparing prices.
- ____ 250. When governments rapidly increase the supply of money, the usual result is
- deflation.
 - low inflation.
 - hyperinflation.
 - increasing long-term investment.

Econ261, Pretest 1

Answer Section

MULTIPLE CHOICE

- | | | | |
|---|--------|----------------|--------------------------------------|
| 1. ANS: D | PTS: 1 | DIF: Moderate | NAT: Analytic |
| LOC: The Study of economics, and definitions in economics | | | TOP: Ideas for Beyond the Final Exam |
| 2. ANS: D | PTS: 1 | DIF: Easy | NAT: Reflective |
| LOC: The Study of economics, and definitions in economics | | | TOP: Ideas for Beyond the Final Exam |
| 3. ANS: C | PTS: 1 | DIF: Easy | NAT: Analytic |
| LOC: The Study of economics, and definitions in economics | | | TOP: Ideas for Beyond the Final Exam |
| 4. ANS: C | PTS: 1 | DIF: Moderate | NAT: Analytic |
| LOC: The Study of economics, and definitions in economics | | | TOP: Ideas for Beyond the Final Exam |
| 5. ANS: A | PTS: 1 | DIF: Difficult | NAT: Analytic |
| LOC: The Study of economics, and definitions in economics | | | TOP: Ideas for Beyond the Final Exam |
| 6. ANS: C | PTS: 1 | DIF: Easy | NAT: Analytic |
| LOC: The Study of economics, and definitions in economics | | | TOP: Ideas for Beyond the Final Exam |
| 7. ANS: B | PTS: 1 | DIF: Moderate | NAT: Analytic |
| LOC: The Study of economics, and definitions in economics | | | TOP: Ideas for Beyond the Final Exam |
| 8. ANS: B | PTS: 1 | DIF: Moderate | NAT: Analytic |
| LOC: The Study of economics, and definitions in economics | | | TOP: Ideas for Beyond the Final Exam |
| 9. ANS: A | PTS: 1 | DIF: Moderate | NAT: Analytic |
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| 10. ANS: E | PTS: 1 | DIF: Moderate | NAT: Analytic |
| LOC: The Study of economics, and definitions in economics | | | TOP: Ideas for Beyond the Final Exam |
| 11. ANS: A | PTS: 1 | DIF: Moderate | NAT: Analytic |
| LOC: The Study of economics, and definitions in economics | | | TOP: Ideas for Beyond the Final Exam |
| 12. ANS: B | PTS: 1 | DIF: Easy | NAT: Analytic |
| LOC: The Study of economics, and definitions in economics | | | TOP: Ideas for Beyond the Final Exam |
| 13. ANS: D | PTS: 1 | DIF: Easy | NAT: Analytic |
| LOC: The Study of economics, and definitions in economics | | | TOP: Ideas for Beyond the Final Exam |
| 14. ANS: A | PTS: 1 | DIF: Easy | NAT: Analytic |
| LOC: The Study of economics, and definitions in economics | | | TOP: Inside the Economist's Tool Kit |
| 15. ANS: D | PTS: 1 | DIF: Moderate | NAT: Analytic |
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| 16. ANS: A | PTS: 1 | DIF: Easy | NAT: Analytic |
| LOC: The Study of economics, and definitions in economics | | | TOP: Inside the Economist's Tool Kit |
| 17. ANS: C | PTS: 1 | DIF: Moderate | NAT: Analytic |
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| 19. ANS: B | PTS: 1 | DIF: Moderate | NAT: Analytic |
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| LOC: The Study of economics, and definitions in economics | | | TOP: Inside the Economist's Tool Kit |
| 21. ANS: E | PTS: 1 | DIF: Moderate | NAT: Analytic |
| LOC: The Study of economics, and definitions in economics | | | TOP: Inside the Economist's Tool Kit |
| 22. ANS: D | PTS: 1 | DIF: Easy | NAT: Analytic |

- LOC: The Study of economics, and definitions in economics TOP: Inside the Economist's Tool Kit
 23. ANS: E PTS: 1 DIF: Easy NAT: Analytic
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 24. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
 LOC: The Study of economics, and definitions in economics TOP: Inside the Economist's Tool Kit
 25. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
 LOC: The Study of economics, and definitions in economics TOP: Inside the Economist's Tool Kit
 26. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
 LOC: The Study of economics, and definitions in economics TOP: Appendix: Using Graphs: A Review
 27. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
 LOC: The Study of economics, and definitions in economics TOP: Appendix: Using Graphs: A Review
 28. ANS: C PTS: 1 DIF: Difficult NAT: Analytic
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 31. ANS: B PTS: 1 DIF: Difficult NAT: Analytic
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 35. ANS: A PTS: 1 DIF: Easy NAT: Analytic
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 36. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Measuring the Economy TOP: The American Economy: A Thumbnail Sketch
 37. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
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 38. ANS: B PTS: 1 DIF: Easy NAT: Analytic
 LOC: Markets, market failure, and externalities
 TOP: The American Economy: A Thumbnail Sketch
 39. ANS: D PTS: 1 DIF: Easy NAT: Analytic
 LOC: Reading and interpreting graphs TOP: The American Economy: A Thumbnail Sketch
 40. ANS: B PTS: 1 DIF: Easy NAT: Analytic
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 41. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Labor markets TOP: The American Economy: A Thumbnail Sketch
 42. ANS: C PTS: 1 DIF: Easy NAT: Analytic
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 44. ANS: A PTS: 1 DIF: Easy NAT: Analytic
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 45. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Productivity and growth TOP: The Inputs: Labor and Capital

46. ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: Productivity and growth TOP: The Inputs: Labor and Capital
47. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Productivity and growth TOP: The Inputs: Labor and Capital
48. ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: Gains from trade, specialization and trade TOP: The Inputs: Labor and Capital
49. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
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50. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: International trade and finance TOP: The Central Role of Business Firms
51. ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The role of government TOP: What's Missing from the Picture? Government
52. ANS: C PTS: 1 DIF: Easy NAT: Analytic
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53. ANS: A PTS: 1 DIF: Easy NAT: Analytic
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54. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government TOP: What's Missing from the Picture? Government
55. ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: Efficiency and equity TOP: What's Missing from the Picture? Government
56. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Efficiency and equity TOP: What's Missing from the Picture? Government
57. ANS: B PTS: 1 DIF: Easy NAT: Reflective
LOC: Understanding and Applying Economic Models
TOP: Scarcity, Choice, and Opportunity Cost
58. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Scarcity, Choice, and Opportunity Cost
59. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
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60. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
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68. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Markets, market failure, and externalities

- TOP: Scarcity, Choice, and Opportunity Cost
69. ANS: A PTS: 1 DIF: Moderate NAT: Reflective
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73. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Costs of production
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74. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
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75. ANS: A PTS: 1 DIF: Easy NAT: Reflective
 LOC: Productivity and growth
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85. ANS: C PTS: 1 DIF: Difficult NAT: Analytic
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86. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
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87. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Costs of production
 TOP: The Concept of Efficiency
88. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Efficiency and equity
 TOP: The Concept of Efficiency
89. ANS: E PTS: 1 DIF: Moderate NAT: Analytic

- LOC: Costs of production TOP: The Concept of Efficiency
90. ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: Labor markets TOP: The Concept of Efficiency
91. ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: Labor markets TOP: The Concept of Efficiency
92. ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: Markets, market failure, and externalities
TOP: The Three Coordination Tasks of Any Economy
93. ANS: E PTS: 1 DIF: Moderate NAT: Analytic
LOC: Costs of production TOP: Specialization Fosters Efficient Resource Allocation
94. ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Specialization Fosters Efficient Resource Allocation
95. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Gains from trade, specialization and trade
TOP: Specialization Fosters Efficient Resource Allocation
96. ANS: A PTS: 1 DIF: Moderate NAT: Reflective
LOC: Productivity and growth TOP: Specialization Leads to Exchange
97. ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: Efficiency and equity TOP: Markets, Prices, and the Three Coordination Tasks
98. ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: Markets, market failure, and externalities
TOP: Markets, Prices, and the Three Coordination Tasks
99. ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: Understanding and Applying Economic Models TOP: The Invisible Hand
100. ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: Supply and demand TOP: The Invisible Hand
101. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Elasticity TOP: Demand and Quantity Demanded
102. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Elasticity TOP: Demand and Quantity Demanded
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104. ANS: C PTS: 1 DIF: Difficult NAT: Reflective
LOC: Supply and demand TOP: Demand and Quantity Demanded
105. ANS: B PTS: 1 DIF: Difficult NAT: Reflective
LOC: Supply and demand TOP: Demand and Quantity Demanded
106. ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: Supply and demand TOP: Demand and Quantity Demanded
107. ANS: A PTS: 1 DIF: Moderate NAT: Reflective
LOC: Supply and demand TOP: Demand and Quantity Demanded
108. ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: Supply and demand TOP: Demand and Quantity Demanded
109. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Supply and demand TOP: Demand and Quantity Demanded
110. ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: Supply and demand TOP: Demand and Quantity Demanded
111. ANS: C PTS: 1 DIF: Moderate NAT: Reflective
LOC: Supply and demand TOP: Demand and Quantity Demanded

112.	ANS: D	PTS: 1	DIF: Difficult	NAT: Reflective
	LOC: Elasticity	TOP: Demand and Quantity Demanded		
113.	ANS: A	PTS: 1	DIF: Moderate	NAT: Reflective
	LOC: Supply and demand	TOP: Demand and Quantity Demanded		
114.	ANS: B	PTS: 1	DIF: Easy	NAT: Analytic
	LOC: Elasticity	TOP: Supply and Quantity Supplied		
115.	ANS: C	PTS: 1	DIF: Easy	NAT: Analytic
	LOC: Elasticity	TOP: Supply and Quantity Supplied		
116.	ANS: B	PTS: 1	DIF: Moderate	NAT: Analytic
	LOC: Elasticity	TOP: Supply and Quantity Supplied		
117.	ANS: D	PTS: 1	DIF: Difficult	NAT: Analytic
	LOC: Supply and demand	TOP: Supply and Quantity Supplied		
118.	ANS: D	PTS: 1	DIF: Easy	NAT: Analytic
	LOC: The Study of economics, and definitions in economics	TOP: Supply and Quantity Supplied		
119.	ANS: C	PTS: 1	DIF: Moderate	NAT: Analytic
	LOC: Supply and demand	TOP: Supply and Quantity Supplied		
120.	ANS: A	PTS: 1	DIF: Moderate	NAT: Analytic
	LOC: Supply and demand	TOP: Supply and Quantity Supplied		
121.	ANS: B	PTS: 1	DIF: Moderate	NAT: Analytic
	LOC: Supply and demand	TOP: Supply and Quantity Supplied		
122.	ANS: D	PTS: 1	DIF: Difficult	NAT: Analytic
	LOC: Supply and demand	TOP: Supply and Quantity Supplied		
123.	ANS: A	PTS: 1	DIF: Easy	NAT: Analytic
	LOC: Supply and demand	TOP: Supply and Quantity Supplied		
124.	ANS: A	PTS: 1	DIF: Moderate	NAT: Analytic
	LOC: Supply and demand	TOP: Supply and Quantity Supplied		
125.	ANS: C	PTS: 1	DIF: Moderate	NAT: Analytic
	LOC: Supply and demand	TOP: Supply and Quantity Supplied		
126.	ANS: B	PTS: 1	DIF: Moderate	NAT: Reflective
	LOC: Elasticity	TOP: Supply and Quantity Supplied		
127.	ANS: A	PTS: 1	DIF: Difficult	NAT: Reflective
	LOC: Elasticity	TOP: Supply and Quantity Supplied		
128.	ANS: B	PTS: 1	DIF: Moderate	NAT: Reflective
	LOC: Reading and interpreting graphs	TOP: Supply and Quantity Supplied		
129.	ANS: D	PTS: 1	DIF: Difficult	NAT: Reflective
	LOC: Reading and interpreting graphs	TOP: Supply and Quantity Supplied		
130.	ANS: C	PTS: 1	DIF: Difficult	NAT: Reflective
	LOC: Reading and interpreting graphs	TOP: Supply and Quantity Supplied		
131.	ANS: A	PTS: 1	DIF: Difficult	NAT: Reflective
	LOC: Reading and interpreting graphs	TOP: Supply and Quantity Supplied		
132.	ANS: A	PTS: 1	DIF: Difficult	NAT: Reflective
	LOC: Reading and interpreting graphs	TOP: Supply and Quantity Supplied		
133.	ANS: C	PTS: 1	DIF: Easy	NAT: Analytic
	LOC: Supply and demand	TOP: Supply and Quantity Supplied		
134.	ANS: B	PTS: 1	DIF: Moderate	NAT: Reflective
	LOC: Supply and demand	TOP: Supply and Quantity Supplied		
135.	ANS: A	PTS: 1	DIF: Easy	NAT: Reflective
	LOC: Reading and interpreting graphs	TOP: Supply and Quantity Supplied		
136.	ANS: B	PTS: 1	DIF: Difficult	NAT: Reflective

137. LOC: Reading and interpreting graphs TOP: Supply and Quantity Supplied
ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Supply and demand TOP: Supply and Quantity Supplied
138. ANS: B PTS: 1 DIF: Difficult NAT: Analytic
LOC: Equilibrium TOP: Supply and Demand Equilibrium
139. ANS: A PTS: 1 DIF: Easy NAT: Reflective
LOC: Reading and interpreting graphs TOP: Supply and Demand Equilibrium
140. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Supply and demand TOP: Supply and Demand Equilibrium
141. ANS: B PTS: 1 DIF: Difficult NAT: Analytic
LOC: Reading and interpreting graphs TOP: Supply and Demand Equilibrium
142. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Equilibrium TOP: Supply and Demand Equilibrium
143. ANS: D PTS: 1 DIF: Moderate NAT: Reflective
LOC: Equilibrium TOP: Supply and Demand Equilibrium
144. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Equilibrium TOP: Supply and Demand Equilibrium
145. ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The role of government TOP: Fighting The Invisible Hand: The Market Fights Back
146. ANS: B PTS: 1 DIF: Moderate NAT: Reflective
LOC: Reading and interpreting graphs TOP: Fighting The Invisible Hand: The Market Fights Back
147. ANS: B PTS: 1 DIF: Moderate NAT: Reflective
LOC: Monetary and fiscal policy TOP: Fighting The Invisible Hand: The Market Fights Back
148. ANS: A PTS: 1 DIF: Easy NAT: Reflective
LOC: Supply and demand TOP: Fighting The Invisible Hand: The Market Fights Back
149. ANS: E PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government TOP: Fighting The Invisible Hand: The Market Fights Back
150. ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: Supply and demand TOP: Fighting The Invisible Hand: The Market Fights Back
151. ANS: D PTS: 1 DIF: Difficult NAT: Reflective
LOC: Supply and demand TOP: A Simple but Powerful Lesson
152. ANS: B PTS: 1 DIF: Moderate NAT: Reflective
LOC: Elasticity TOP: A Simple but Powerful Lesson
153. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government TOP: A Simple but Powerful Lesson
154. ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Drawing a Line Between Macroeconomics and Microeconomics
155. ANS: C PTS: 1 DIF: Difficult NAT: Reflective
LOC: The Study of economics, and definitions in economics
TOP: Drawing a Line Between Macroeconomics and Microeconomics
156. ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Drawing a Line Between Macroeconomics and Microeconomics
157. ANS: E PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Drawing a Line Between Macroeconomics and Microeconomics
158. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics

- TOP: Drawing a Line Between Macroeconomics and Microeconomics
159. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Measuring the Economy
TOP: Drawing a Line Between Macroeconomics and Microeconomics
160. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Measuring the Economy
TOP: Drawing a Line Between Macroeconomics and Microeconomics
161. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Drawing a Line Between Macroeconomics and Microeconomics
162. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Drawing a Line Between Macroeconomics and Microeconomics
163. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Supply and demand TOP: Supply and Demand in Macroeconomics
164. ANS: D PTS: 1 DIF: Difficult NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Supply and Demand in Macroeconomics
165. ANS: E PTS: 1 DIF: Difficult NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Supply and Demand in Macroeconomics
166. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: Supply and Demand in Macroeconomics
167. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics TOP: Gross Domestic Product
168. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics TOP: Gross Domestic Product
169. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Understanding and Applying Economic Models TOP: Gross Domestic Product
170. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Measuring the Economy TOP: Gross Domestic Product
171. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics TOP: Gross Domestic Product
172. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Measuring the Economy TOP: Gross Domestic Product
173. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics TOP: Gross Domestic Product
174. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics TOP: Gross Domestic Product
175. ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: Understanding and Applying Economic Models TOP: Gross Domestic Product
176. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics TOP: Gross Domestic Product
177. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics TOP: Gross Domestic Product
178. ANS: D PTS: 1 DIF: Difficult NAT: Analytic
LOC: Measuring the Economy TOP: Gross Domestic Product
179. ANS: B PTS: 1 DIF: Easy NAT: Analytic

- LOC: Measuring the Economy TOP: Gross Domestic Product
180. ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics TOP: Gross Domestic Product
181. ANS: B PTS: 1 DIF: Difficult NAT: Analytic
LOC: Measuring the Economy TOP: Gross Domestic Product
182. ANS: A PTS: 1 DIF: Difficult NAT: Analytic
LOC: Measuring the Economy TOP: Gross Domestic Product
183. ANS: D PTS: 1 DIF: Difficult NAT: Analytic
LOC: Measuring the Economy TOP: Gross Domestic Product
184. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Measuring the Economy TOP: Gross Domestic Product
185. ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: Measuring the Economy TOP: The Economy on a Roller Coaster
186. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Markets, market failure, and externalities TOP: The Economy on a Roller Coaster
187. ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: Measuring the Economy TOP: The Economy on a Roller Coaster
188. ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: Measuring the Economy TOP: The Economy on a Roller Coaster
189. ANS: D PTS: 1 DIF: Difficult NAT: Analytic
LOC: Markets, market failure, and externalities TOP: The Economy on a Roller Coaster
190. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Markets, market failure, and externalities TOP: The Economy on a Roller Coaster
191. ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: Measuring the Economy TOP: The Economy on a Roller Coaster
192. ANS: C PTS: 1 DIF: Difficult NAT: Analytic
LOC: Supply and demand TOP: The Economy on a Roller Coaster
193. ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics TOP: The Economy on a Roller Coaster
194. ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: Markets, market failure, and externalities TOP: The Economy on a Roller Coaster
195. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Measuring the Economy TOP: The Economy on a Roller Coaster
196. ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: The Problem Of Macroeconomic Stabilization: A Sneak Preview
197. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government
TOP: The Problem Of Macroeconomic Stabilization: A Sneak Preview
198. ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: Reading and interpreting graphs
TOP: The Problem Of Macroeconomic Stabilization: A Sneak Preview
199. ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: Reading and interpreting graphs
TOP: The Problem Of Macroeconomic Stabilization: A Sneak Preview
200. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: The Problem Of Macroeconomic Stabilization: A Sneak Preview
201. ANS: C PTS: 1 DIF: Easy NAT: Analytic

- LOC: Measuring the Economy
TOP: The Problem Of Macroeconomic Stabilization: A Sneak Preview
202. ANS: C PTS: 1 DIF: Difficult NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: The Problem Of Macroeconomic Stabilization: A Sneak Preview
203. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: The Problem Of Macroeconomic Stabilization: A Sneak Preview
204. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Aggregate demand and aggregate supply
TOP: The Problem Of Macroeconomic Stabilization: A Sneak Preview
205. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Monetary and fiscal policy
TOP: The Problem Of Macroeconomic Stabilization: A Sneak Preview
206. ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: Productivity and growth TOP: Productivity Growth: From Little Acorns...
207. ANS: C PTS: 1 DIF: Difficult NAT: Analytic
LOC: Productivity and growth
TOP: The Capacity to Produce: Potential GDP and The Production Function
208. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Productivity and growth TOP: The Growth Rate of Potential GDP
209. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Productivity and growth TOP: The Growth Rate of Potential GDP
210. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Productivity and growth TOP: The Growth Rate of Potential GDP
211. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics TOP: The Growth Rate of Potential GDP
212. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Productivity and growth TOP: The Growth Rate of Potential GDP
213. ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics TOP: The Growth Rate of Potential GDP
214. ANS: C PTS: 1 DIF: Difficult NAT: Analytic
LOC: Productivity and growth TOP: The Growth Rate of Potential GDP
215. ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: Productivity and growth TOP: The Growth Rate of Potential GDP
216. ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: Measuring the Economy TOP: The Growth Rate of Potential GDP
217. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Labor markets TOP: Part 2: The Goal of Low Unemployment
218. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Labor markets TOP: Part 2: The Goal of Low Unemployment
219. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Measuring the Economy TOP: The Human Costs of High Unemployment
220. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Labor markets TOP: The Human Costs of High Unemployment
221. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Labor markets TOP: The Human Costs of High Unemployment
222. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The Study of economics, and definitions in economics

- TOP: Counting the Unemployed: The Official Statistics
223. ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics
TOP: Counting the Unemployed: The Official Statistics
224. ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics TOP: Types of Unemployment
225. ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: Labor markets TOP: Types of Unemployment
226. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Labor markets TOP: Types of Unemployment
227. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Labor markets TOP: Types of Unemployment
228. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Labor markets TOP: Types of Unemployment
229. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Labor markets TOP: Types of Unemployment
230. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Labor markets TOP: How Much Employment is "Full Employment"?
231. ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: Labor markets TOP: Unemployment Insurance: The Invaluable Cushion
232. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Labor markets TOP: Unemployment Insurance: The Invaluable Cushion
233. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Labor markets TOP: Unemployment Insurance: The Invaluable Cushion
234. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Markets, market failure, and externalities TOP: Inflation: Myth and Reality
235. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Markets, market failure, and externalities TOP: Inflation: Myth and Reality
236. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Markets, market failure, and externalities TOP: Inflation: Myth and Reality
237. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Markets, market failure, and externalities
TOP: Inflation as a Redistributor of Income and Wealth
238. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Markets, market failure, and externalities
TOP: Inflation as a Redistributor of Income and Wealth
239. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Supply and demand TOP: Real Versus Nominal Interest Rates
240. ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: The Study of economics, and definitions in economics TOP: Real Versus Nominal Interest Rates
241. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Markets, market failure, and externalities TOP: Real Versus Nominal Interest Rates
242. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Markets, market failure, and externalities TOP: Real Versus Nominal Interest Rates
243. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Markets, market failure, and externalities TOP: Real Versus Nominal Interest Rates
244. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Markets, market failure, and externalities TOP: Real Versus Nominal Interest Rates
245. ANS: C PTS: 1 DIF: Moderate NAT: Analytic

- LOC: Markets, market failure, and externalities TOP: Inflation Distorts Measurements
246. ANS: B PTS: 1 DIF: Difficult NAT: Analytic
LOC: Markets, market failure, and externalities TOP: Other Costs of Inflation
247. ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Supply and demand TOP: Other Costs of Inflation
248. ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Markets, market failure, and externalities TOP: Other Costs of Inflation
249. ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Markets, market failure, and externalities TOP: Other Costs of Inflation
250. ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: The role of government TOP: The Costs of Low Versus High Inflation