

Multiple Choice Questions for Final Examination

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1. The factor of production "**capital**" is created when:
 - A. A share of stock in Microsoft is bought by one person from another person through a stock brokerage company
 - B. Palomar College builds a new classroom building
 - C. A person inherits \$1 million from a deceased relative
 - D. All of the above
2. You attend opening of a new movie, paying \$10 for the ticket. You could have spent the two hours working at \$10 per hour, attending a baseball game for \$15, or renting a movie for \$4. Your **opportunity cost** of attending the play is:
 - A. \$10, because this is the price of the ticket
 - B. \$20, because this is the value of the time sacrificed
 - C. \$30, because this is the value of everything that was sacrificed
 - D. \$15, because the baseball game is a substitute for the movie
 - E. \$ 4, because this is the minimum cost of an alternative action
3. Assume that you have to choose how many courses to take during a semester. According to the procedures of rational decision-making, you should take the number of courses for which
 - A. The marginal benefit is greater than zero
 - B. The marginal opportunity cost is greatest
 - C. The marginal benefit exceeds the marginal opportunity cost by the greatest amount
 - D. The marginal benefit is equal to the marginal opportunity cost

| 4. Price Per Gallon | Quantity Demanded | Quantity Supplied |
|---------------------|-------------------|-------------------|
| \$2.80 | 3,000 | 7,000 |
| 2.50 | 4,000 | 6,000 |
| 2.20 | 5,000 | 5,000 |
| 1.90 | 6,000 | 4,000 |
| 1.60 | 7,000 | 3,000 |

Using the numbers in this table, which of the following is true?

- A. The **equilibrium price** is \$1.90
- B. If the price were \$1.60, there would be a **surplus** of 10,000
- C. If the price were \$1.90, there would be a **shortage** of 2,000
- D. All of the above

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5. Which of the following statements would be considered an example of **positive economics**?
- A. An increase in the price of gasoline will reduce the quantity demanded of gasoline
 - B. The price elasticity of demand for cigarettes is 0.4
 - C. Electricity is produced using a capital-intensive method of production
 - D. All of the above
6. The **price elasticity of demand** is the:
- A. change in quantity demanded divided by the dollar change in price
 - B. percentage change in quantity demanded divided by the percentage change in quantity supplied
 - C. percentage change in quantity demanded divided by the percentage change in price
 - D. percentage change in price divided by the percentage change in quantity demanded
7. If the **price elasticity of demand** equals 0.5, the demand for the product is:
- A. relatively elastic B. perfectly elastic C. relatively inelastic D. unit elastic
8. In the summer of 2002, the state of New York raised the tax on cigarettes so that cigarettes in New York State would sell for about \$7.50 per pack. The state's purpose in doing this was to increase its tax revenues. New York State must have assumed that the demand for cigarettes is:
- A. Relatively Inelastic C. Relatively Elastic
 - B. Unit Elastic D. Perfectly Elastic
9. Which of the following would cause the **demand** for a product to **shift to the right**?
- A. An increase in the price of a complementary good
 - B. An increase in the price of a substitute good
 - C. An increase in a cost of production
 - D. An increase in the price of the product
10. Which of the following would cause the **supply** of wheat to **shift to the right**?
- A. technological changes which lower the costs of production
 - B. an increase in wages paid to agricultural workers
 - C. wheat farmers going out of business and moving to the cities
 - D. an increase in the price of corn
11. If we observe that the price of the product has **fallen** and the quantity of the product sold has also **fallen**, which of the following must have occurred?
- A. Demand has shifted to the right C. Supply has shifted to the right
 - B. Demand has shifted to the left D. Supply has shifted to the left
12. In a pure market economy, which of the following is a **function of the price**?
- I. provide information to sellers and buyers II. provide incentives to sellers and buyers
 - A. I only B. II only C. both I and II D. neither I nor II

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13. The teams in the World series sell tickets to their games with what is in effect a **price ceiling**. The price of the tickets is set by the team at \$50 to \$75 each. Anyone buying the tickets will pay that price. There are 60,000 tickets for sale. About 250,000 people are willing to pay that price to see the game in person. As a result of this, which of the following would you **NOT** expect might occur?

- A. Long lines for San Diego Charger tickets
- B. Empty seats at San Diego Charger football games
- C. San Diego Charger tickets being sold through newspapers for \$200 or more per ticket
- D. The San Diego Chargers selling tickets only to season ticket holders and not to others

14. You take \$100,000 out of a savings account to start a business. This money had been earning an interest rate of 5% (that is, \$5,000 of interest earned each year). You also quit your job to work in your business. Your job had paid \$40,000 per year. In your first year, your capital cost you \$10,000, your hired workers cost you \$30,000, and your natural resources cost you \$15,000. Your sales revenue was \$100,000. Your **economic profit** is equal to:

- A. \$100,000 B. \$45,000 C. \$55,000 D. 0 E. -\$95,000

15. According to the **law of diminishing (marginal) returns**, if at least one factor of production is fixed (usually capital), then as more of a variable factor (usually labor) is added, beyond some point,

- A. **Total Physical Product** decreases
- B. **Marginal Physical Product** decreases
- C. **Total Revenue** decreases
- D. **Total Profit** decreases

16. As the **marginal physical product** decreases, the **marginal cost**:

- A. decreases B. increases C. stays the same

| 17. Quantity | Total Fixed Cost | Total Variable Cost | Total Cost |
|--------------|------------------|---------------------|------------|
| 1 | \$100 | \$50 | \$150 |
| 2 | \$100 | \$150 | \$250 |
| 3 | \$100 | \$350 | \$450 |
| 4 | \$100 | \$650 | \$750 |
| 5 | \$100 | \$1050 | \$1150 |

If three units of this product are produced, the **Average Total Cost** is equal to \$_____.

- A. \$150 B. \$200 C. \$450 D. \$300 E. \$33.33

18. Using the numbers in Question 17, if a company sells its product in a **perfectly competitive** market at a price of \$300, the profit-maximizing quantity to produce is:

- A. 1 B. 2 C. 3 D. 4 E. 5

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19. **Economies of scale** exist if:

- A. As the amount of capital increases, the cost of producing per unit rises
- B. As the amount of capital increases, the cost of producing per unit falls
- C. As the amount of capital increases, the marginal cost rises
- D. As the amount of capital increases, the marginal physical product falls

20. You own a store that presently opens at 9.00 in the morning. You are considering moving the time of opening to 6.00 in the morning. If your goal is to increase your profits, you should open at 6.00 in the morning as long as the Total Revenue you expect to receive between 6.00 a.m. and 9.00 a.m. is greater than

- A. The Marginal Cost of Producing
- B. The Marginal Revenue
- C. The Total Variable Cost of Producing
- D. The Total Fixed Cost of Producing

21. Assume the **Demand** and **Total Cost** are given by the following:

| Quantity | Price | Total Cost |
|----------|-------|------------|
| 0 | \$120 | \$ 50 |
| 1 | 100 | 105 |
| 2 | 80 | 165 |
| 3 | 90 | 235 |
| 4 | 80 | 310 |
| 5 | 70 | 390 |

To maximize profits, this **monopolist** should produce a quantity of:

- A. 0
- B. 2
- C. 3
- D. 4
- E. 5

22. If a monopoly company were broken up into one thousand competing companies:

- A. The price of the product would be higher and the quantity produced would be lower
- B. Production of the product would be more efficient
- C. The economic profits would be greater
- D. All of the above

23. Which of the following is necessary for there to be a "**natural monopoly**"?

- A. The company is in a very large market
- B. Capital Costs are a very high proportion of the Total Cost of Production
- C. Diseconomies of Scale exist over the entire market
- D. Price is greater than Marginal Revenue

24. People who buy hardback books pay a higher price than those who buy paperback books (beyond the difference in the cost of production) because

- A. Those who buy hardback books have higher incomes than those who don't
- B. Hardback books have diseconomies of scale in production
- C. There are more people who buy hardback books
- D. Those who buy hardback books have a more inelastic demand

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| 25. Labor | Total Physical Product |
|-----------|------------------------|
| 1 | 5 |
| 2 | 15 |
| 3 | 30 |
| 4 | 40 |
| 5 | 48 |
| 6 | 53 |
| 7 | 55 |

Assume that this company sells its product in perfect competition at a market price of \$100. It also hires its labor in perfect competition at a market wage of \$800. How many workers will this company hire?

- A. 4 B. 5 C. 6 D. 7 E. 8
26. If the **minimum wage** were raised to \$10 per hour, the number of people who would lose their jobs would be greater if:
- A. It is easy to substitute machines for those previously making less than \$10 per hour
 - B. The products produced by those previously making less than \$10 per hour have relatively inelastic demand
 - C. The wages of those previously making less than \$10 per hour are a low proportion of the total cost of making the products
 - D. There is only a short time period involved
27. An example of a **positive externality (external benefit)** would be:
- A. Production of a good that makes a no profit
 - B. An innovation lowers costs of production in one industry and also in another industry
 - C. Hiring workers who turn out to be inefficient
 - D. An increase in lead emissions from automobiles causing lung disease
28. There are six companies in an industry. Company A sells 30% of the total sales. Company B sells 20%. Company C sells 20%. Company D sells 10%. Company E sells 10%. And Company F sells 10%. The **concentration ratio** in this industry is:
- A. 30% B. 50% C. 70% D. 80% E. 100%
29. Which of the following statements is true regarding the **distribution of income** in the United States?
- A. The distribution of income in the United States now less equal than it was in the 1960s
 - B. The distribution of income in the United States is more equal than in most European countries
 - C. The distribution of income in the United States is less equal than the distribution of wealth
 - D. The number of people who are officially in poverty is much lower now than it was in the 1960s
30. The largest **transfer** in the federal budget is:
- A. defense B. education C. social security D. welfare E. police

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31. A person had an income of \$20,000 last year and paid \$5,000 in tax. This year, the person had an income of \$120,000 and paid \$55,000 in tax. The person's **marginal tax rate** is:
A. 20% B. 25% C. 50% D. 100%
32. The tax in question 31 is:
A. progressive B. regressive C. proportional
33. Assume that there are two goods, A and B. In 1996, Americans produced 10 units of A at a price of \$10 and 20 units of B at a price of \$20. In 2002, Americans produced 50 units of A at a price of \$20 and 100 units of B at a price of \$50. The **Nominal Gross Domestic Product (GDP)** for 2002 is equal to:
A. \$1,000 B. \$5,000 C. \$6,000 D. \$500
34. Using the numbers in Question 33, the **Real Gross Domestic Product (Real GDP)** for 2002 is equal to:
A. \$400 B. \$500 C. \$2,000 D. \$2,500 E. \$6,000
35. Which of the following is an example of **business investment spending**?
A. a person buys stock in the stock market C. a person opens a money market fund
B. a person buys Treasury Bills D. a business builds a new factory
36. The period of the **business cycle** in which **Real GDP is increasing** is called the:
A. expansion B. peak C. recession D. trough
37. A type of **unemployment** in which workers are either under-qualified or over-qualified for the jobs that are vacant is called _____ unemployment:
A. frictional B. cyclical C. structural D. turnover
38. Which of the following is a "**winner**" from **unexpected inflation**?
A. workers with COLAs C. people who have savings accounts
B. the upper class D. people who own homes and have fixed-rate mortgages
39. If the nominal interest rate on a checking account is 5% and the inflation rate is 3% this year, the **real interest rate** is:
A. 5% B. 2% C. 8% D. 3/5% E. -2%
40. Assume that production in the United States is valued at \$10,000. National Income is therefore \$10,000. Of their income, workers pay \$1,000 in taxes, save \$500, spend \$8,000 on consumer goods produced in the United States, and spend \$500 on imports. Businesses spend \$1,000 in new investment spending. The government spends the \$1,000 that it receives in tax revenues. And, foreigners spend \$500 on exports. This economy will experience:
A. Inflation C. Both Inflation and Recession
B. Recession D. Neither Inflation nor Recession

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41. In 2001, the American economy experienced a recession. Unemployment was above the level considered to be “full-employment” for most of 2001 and 2002. Which of the following would be an **appropriate fiscal policy** to help solve this problem?
- A. Increase government spending on defense
 - B. Raise personal income tax rates
 - C. Increase the money supply to lower interest rates
 - D. Pay off the National Debt
42. Which of the following is **NOT** an **automatic stabilizer**?
- A. defense spending
 - B. unemployment benefits
 - C. welfare spending
 - D. the progressive income tax
43. **Budget deficits** are considered “bad” for an economy because
- A. Budget deficits can cause inflation
 - B. Budget deficits cause crowding out
 - C. Budget deficits increase imports and decrease exports
 - D. All of the above
44. Which of the following is included in **M-1**?
- A. gold
 - B. credit cards
 - C. checkable deposits
 - D. CDs
 - E. stocks
45. Which of the following is true about **the Federal Reserve System (Fed)**?
- A. its seven Board members are elected by a vote of the people
 - B. its main policy-making body is called the FOMC
 - C. it insures checking accounts against bank failure
 - D. it accepts deposits from individuals and makes loans for mortgages
 - E. all of the above
46. Assume that the Federal Reserve increases the **Monetary Base** by \$1 billion. The reserve requirement is 1/10. (Assume that no one holds any currency and that banks hold no excess reserves.) The money supply will:
- A. increase by \$1 billion
 - B. decrease by \$1 billion
 - C. increase by \$10 billion
 - D. increase by \$0.1 billion
47. The interest rate charged by the Federal Reserve Bank to a commercial bank is called the:
- A. discount rate
 - B. prime rate
 - C. Treasury bill rate
 - D. federal funds rate
48. If the **Federal Reserve wishes to increase (ease) the money supply**, it should:
- A. buy Treasury securities in the open market
 - B. lower the discount rate
 - C. lower the reserve requirements
 - D. All of the above

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49. Which of the following is an example of **portfolio investment**?
- A. An American buys a Toyota made in Japan
 - B. Disney builds a theme park in France
 - C. An American opens a bank account (a CD) in a Canadian bank
 - D. A Japanese person buys a Honda that was built in Ohio
50. Assume that interest rates increase in the United States but do not change in Japan. Which of the following statements is true?
- A. The demand for Japanese yen will increase
 - B. The supply of Japanese yen will decrease
 - C. The American dollar will appreciate
 - D. American exports to Japan will increase while American imports from Japan will decrease

End of Examination

Answers:

1. B 2. C 3. D 4. C 5. D 6. C 7. C 8. A 9. B 10. A
11. B 12. C 13. B 14. D 15. B 16. B 17. A 18. D 19. B 20. C
21. B 22. B 23. B 24. D 25. B 26. A 27. B 28. D 29. A 30. C
31. C 32. A 33. C 34. D 35. D 36. A 37. C 38. D 39. B 40. A
41. A 42. A 43. D 44. C 45. B 46. C 47. A 48. D 49. C 50. C