

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Economists assume that rational people do all of the following *except* 1) _____
A) undertake activities that benefit others and hurt themselves.
B) respond to economic incentives.
C) weigh the benefits and costs of all possible alternative actions.
D) use all available information as they act to achieve their goals.
- 2) Economists reason that the optimal decision is to continue any activity up to the point where the 2) _____
A) marginal benefit equals the marginal cost.
B) marginal cost is zero.
C) marginal benefit is zero.
D) marginal benefit is greater than the marginal cost.
- 3) The idea that because of scarcity, producing more of one good or service means producing less of 3) _____
another good or service refers to the economic concept of
A) equity. B) trade-off. C) optimization. D) efficiency.
- 4) Which of the following is a positive economic statement? 4) _____
A) The government should revamp the health care system.
B) The standard of living in the United States should be higher.
C) If the price of iPhones falls, a larger quantity of iPhones will be purchased.
D) The U.S. government should not have bailed out U.S. auto manufacturers.
- 5) Which of the following is a normative economic statement? 5) _____
A) The state of Texas is considering increasing funds for light-rail development to promote the use of public transportation.
B) With rising mortgage rates and rising unemployment rates, the number of unsold homes has increased.
C) Pharmaceutical manufacturers should not be allowed to patent their products so prescription drugs would be more affordable.
D) Rising global demand for coal has led to increases in the price of coal.
- 6) Scarcity 6) _____
A) is a bigger problem in market economies than in socialist economies.
B) can be eliminated by rationing products.
C) can be overcome by discovering new resources.
D) stems from the incompatibility between limited resources and unlimited wants.
- 7) Increasing opportunity cost is represented by a _____ production possibilities frontier. 7) _____
A) bowed in B) vertical C) linear D) bowed out
- 8) Economic decline (negative growth) is represented on a production possibilities frontier model by 8) _____
the production possibility frontier
A) shifting outward. B) becoming flatter.
C) becoming steeper. D) shifting inward.

- 9) If society decides it wants more of one good and all resources are fully utilized, then
- A) more unemployment will occur.
 - B) it is unable to do this unless technology advances.
 - C) it has to give up some of another good and incur some opportunity costs.
 - D) additional resource supplies will have to be found.

9) _____

Figure 2-7

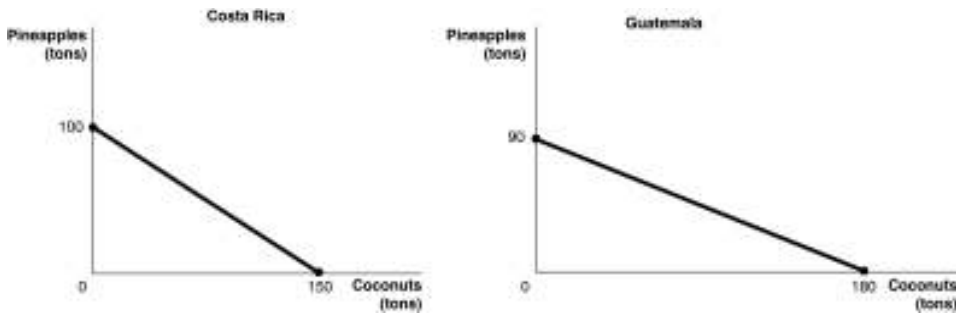


Figure 2-7 shows the production possibilities frontiers for Costa Rica and Guatemala. Each country produces two goods, pineapples and coconuts.

- 10) *Refer to Figure 2-7.* Which country has a comparative advantage in the production of coconuts?
- A) Costa Rica
 - B) neither country
 - C) They have equal productive abilities.
 - D) Guatemala

10) _____

- 11) *Refer to Figure 2-7.* What is the opportunity cost of producing 1 ton of pineapples in Costa Rica?
- A) 100 tons of coconuts
 - B) 1 1/2 tons of coconuts
 - C) 2/3 of a ton of coconuts
 - D) 3/8 of a ton of coconuts

11) _____

- 12) Specializing in the production of a good or service in which one has a comparative advantage enables a country to do which of the following?
- A) produce a combination of goods that lies outside its own production possibilities frontier
 - B) never have to engage in trade with other nations
 - C) increase the variety of products that it can produce with a decrease in resources
 - D) consume a combination of goods that lies outside its own production possibilities frontier

12) _____

- 13) The natural resources used in production are made available in the
- A) goods and services market.
 - B) government market.
 - C) product market.
 - D) factor market.

13) _____

- 14) When you purchase a new pair of jeans you do so in the
- A) input market.
 - B) resource market.
 - C) product market.
 - D) factor market.

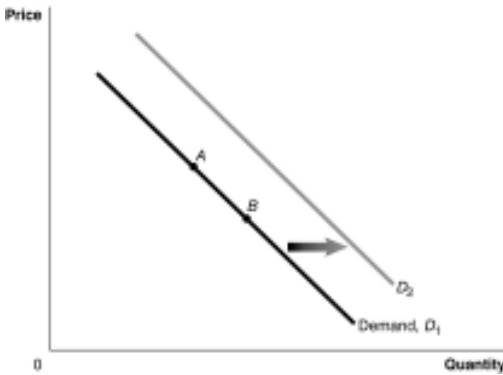
14) _____

- 15) A movement along the demand curve for toothpaste would be caused by
- A) a change in the price of toothpaste.
 - B) a change in consumer income.
 - C) a change in population.
 - D) a change in the price of toothbrushes.

15) _____

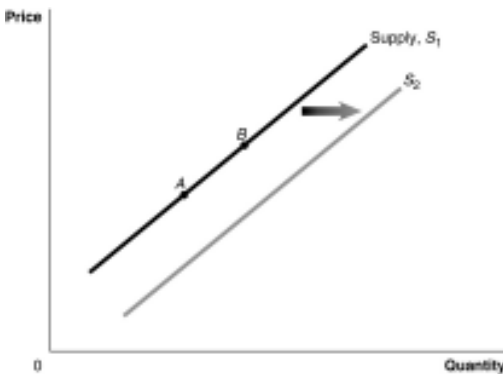
- 16) If an increase in income leads to an increase in the demand for peanut butter, then peanut butter is _____
 is
 A) a normal good. B) a neutral good. C) a complement. D) a necessity.

Figure 3-1



- 17) Refer to Figure 3-1. An increase in population would be represented by a movement from _____
 A) B to A. B) A to B. C) D_1 to D_2 . D) D_2 to D_1 .

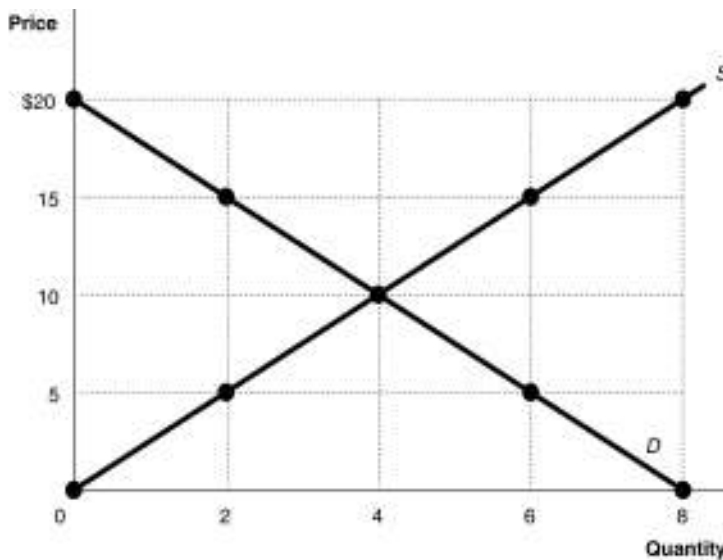
Figure 3-2



- 18) Refer to Figure 3-2. A decrease in the price of the product would be represented by a movement from _____
 A) A to B. B) S_1 to S_2 . C) B to A. D) S_2 to S_1 .
- 19) Ranchers can raise either cattle or sheep on their land. Which of the following would cause the supply of sheep to increase? _____
 A) a decrease in the price of cattle B) an increase in the price of sheep feed
 C) an increase in the price of sheep D) an increase in the demand for cattle

- 20) What is the difference between an "increase in supply" and an "increase in quantity supplied"? 20) _____
- A) There is no difference between the two terms; they both refer to a shift of the supply curve.
 - B) There is no difference between the two terms; they both refer to a movement along a given supply curve.
 - C) An "increase in supply" means the supply curve has shifted to the right while an "increase in quantity supplied" means at any given price supply has increased.
 - D) An "increase in supply" means the supply curve has shifted to the right while an "increase in quantity supplied" refers to a movement along a given supply curve in response to an increase in price.
- 21) The supply curve for watches 21) _____
- A) shows the supply of watches consumers are willing and able to buy at any given price.
 - B) shows the relationship between the price of watches and the quantity of watches supplied.
 - C) is downward sloping.
 - D) shows the relationship between the quantity of watches firms are willing and able to supply and the quantity of watches consumers are willing and able to purchase.

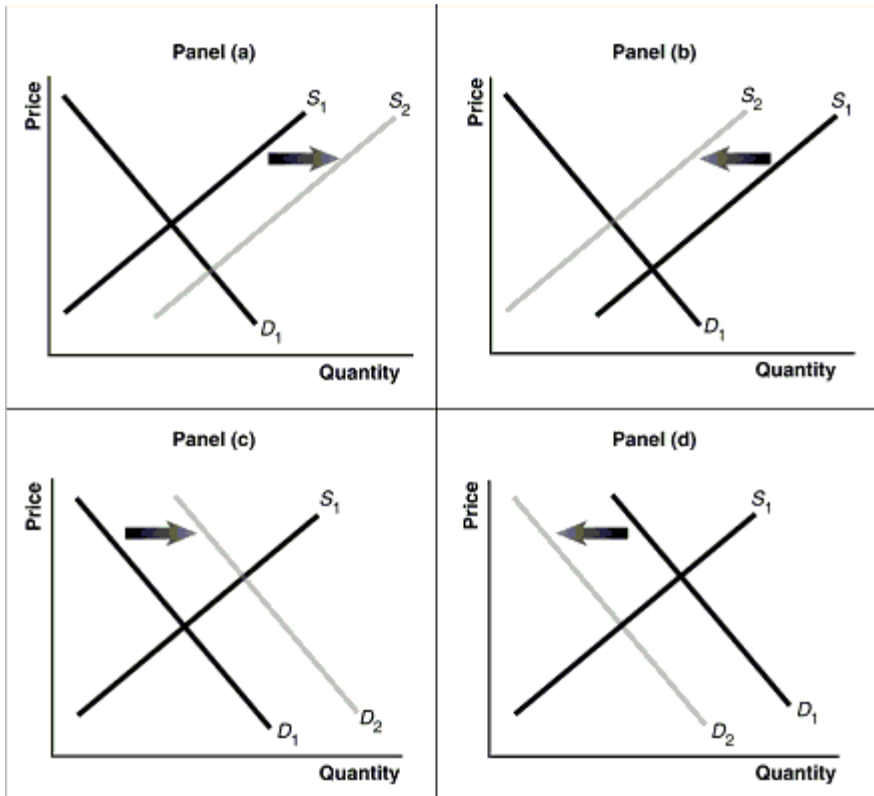
Figure 3-5



- 22) Refer to Figure 3-5. At a price of \$15, 22) _____
- A) there would be a shortage of 2 units.
 - B) there would be a surplus of 4 units.
 - C) there would be a shortage of 4 units.
 - D) there would be a surplus of 6 units.
- 23) Refer to Figure 3-5. In a free market such as that depicted above, a surplus is eliminated by 23) _____
- A) a price increase, increasing the quantity supplied and decreasing the quantity demanded.
 - B) a price decrease, decreasing the quantity supplied and increasing the quantity demanded.
 - C) a price decrease, decreasing the supply and increasing the demand.
 - D) a price increase, increasing the supply and decreasing the demand.
- 24) In a perfectly competitive market, there are _____ buyers and _____ sellers. 24) _____
- A) few; few
 - B) many; many
 - C) many; few
 - D) few; many

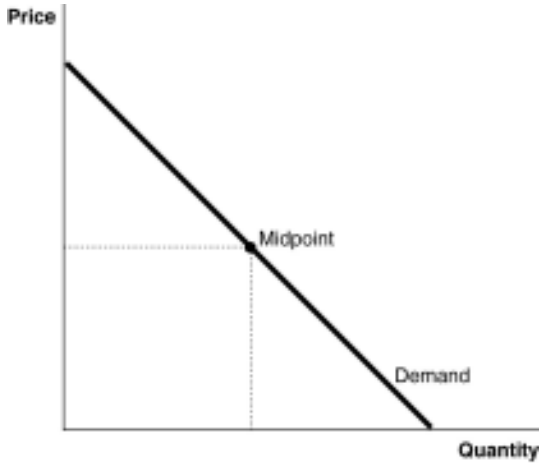
- 25) Which of the following is the correct way to describe equilibrium in a market? 25) _____
- A) At equilibrium, demand equals supply.
 - B) At equilibrium, scarcity is eliminated.
 - C) At equilibrium, quantity demanded equals quantity supplied.
 - D) At equilibrium, market forces no longer apply.
- 26) Which of the following would cause both the equilibrium price and equilibrium quantity of cotton (assume that cotton is a normal good) to increase? 26) _____
- A) a decrease in consumer income
 - B) a drought that sharply reduces cotton output
 - C) an increase in consumer income
 - D) unusually good weather that results in a bumper crop of cotton
- 27) Which of the following would cause a decrease in the equilibrium price and an increase in the equilibrium quantity of salmon? 27) _____
- A) a decrease in demand and an increase in supply
 - B) a decrease in demand and a decrease in supply
 - C) an increase in supply and an increase in demand greater than the increase in supply
 - D) an increase in supply
- 28) The demand for lobster is higher in the summer than in the spring. If the price of lobster is lower in summer than in spring then 28) _____
- A) consumers' tastes for lobster are greater in spring than in summer.
 - B) the supply of lobster is lower in spring than in summer.
 - C) there are more substitutes for lobster in summer than there are in spring.
 - D) there is a surplus of lobster in summer and a shortage of lobster in spring.
- 29) Which of the following would cause the equilibrium price of white bread to decrease and the equilibrium quantity of white bread to increase? 29) _____
- A) a decrease in the price of flour
 - B) an increase in the price of butter, a consumption complement for white bread
 - C) an increase in the price of rye bread, a consumption substitute for white bread
 - D) an increase in the price of flour
- 30) A decrease in the demand for eggs due to changes in consumer tastes, accompanied by a decrease in the supply of eggs as a result of an outbreak of Avian flu, will result in 30) _____
- A) a decrease in the equilibrium price of egg; the equilibrium quantity may increase or decrease.
 - B) a decrease in the equilibrium price of eggs and no change in the equilibrium quantity.
 - C) a decrease in the equilibrium quantity of eggs and no change in the equilibrium price.
 - D) a decrease in the equilibrium quantity of eggs; the equilibrium price may increase or decrease.

Figure 3-7



- 31) Refer to Figure 3-7. Assume that the graphs in this figure represent the demand and supply curves for rice. What happens in this market if buyers expect the price of rice to fall? 31) _____
 A) Panel (a) B) Panel (b) C) Panel (c) D) Panel (d)
- 32) If the percentage increase in price is 15 percent and the value of the price elasticity of demand is -3, then quantity demanded 32) _____
 A) will increase by 45 percent. B) will increase by 5 percent.
 C) will decrease by 5 percent. D) will decrease by 45 percent.
- 33) A demand curve which is _____ represents perfectly inelastic demand, and a demand curve which is _____ represents inelastic demand. 33) _____
 A) downward sloping; vertical B) horizontal; downward sloping
 C) vertical; downward sloping D) upward sloping; horizontal
- 34) Suppose a hurricane decreased the supply of oranges so that the price of oranges rose from \$120 a ton to \$180 a ton and quantity sold decreased from 800 tons to 240 tons. What is the absolute value of the price elasticity of demand? 34) _____
 A) 0.11 B) 0.37 C) 9.33 D) 2.69

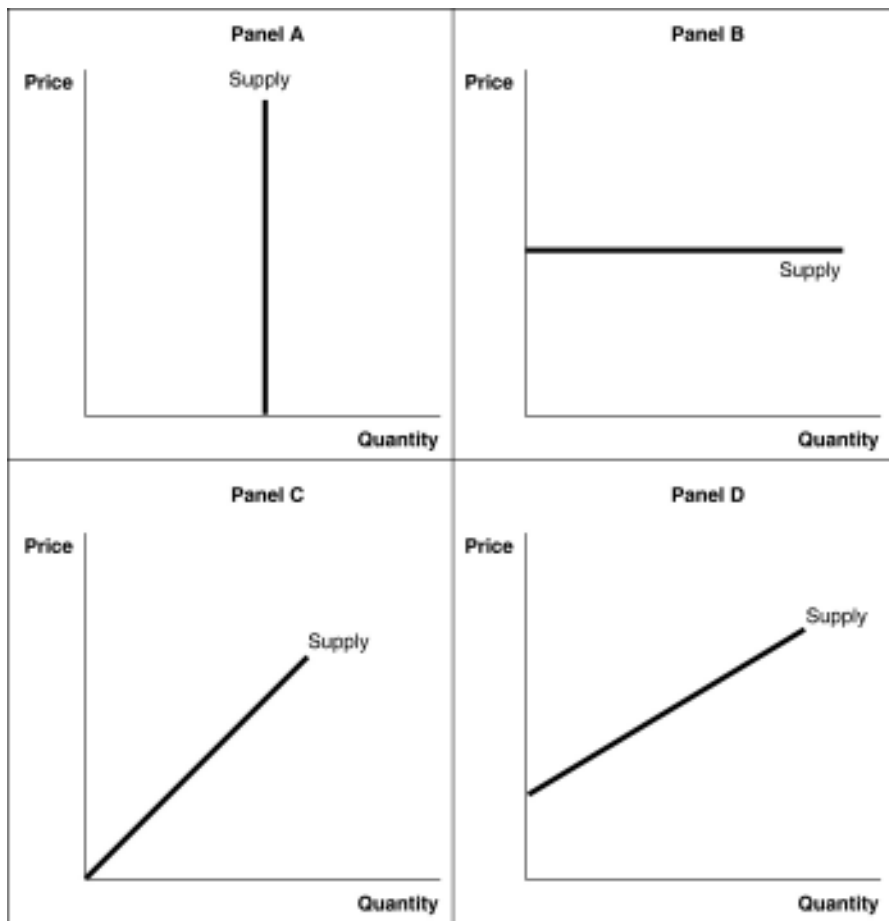
Figure 6-4



- 35) Refer to Figure 6-4. The inelastic segment of the demand curve 35) _____
 A) is coincident with the horizontal axis. B) is coincident with the vertical axis.
 C) lies below the midpoint of the curve. D) lies above the midpoint of the curve.
- 36) If the demand for a life-saving drug was perfectly inelastic and the price doubled, the quantity demanded would 36) _____
 A) decrease by 50%. B) also double.
 C) be cut in half. D) remain constant.
- 37) When there few close substitutes available for a good, demand tends to be 37) _____
 A) relatively inelastic. B) perfectly inelastic.
 C) perfectly elastic. D) relatively elastic.
- 38) If the market for a product is broadly defined, then 38) _____
 A) there are few substitutes for the product and the demand for the product is relatively inelastic.
 B) the good has many complements.
 C) the expenditure on the good is likely to make up a large share of one's budget.
 D) there are many substitutes for the product and the demand for the product is relatively elastic.
- 39) When demand is elastic, a fall in price causes total revenue to rise because 39) _____
 A) the demand curve shifts.
 B) the percentage increase in quantity demanded is less than the percentage fall in price.
 C) the increase in quantity sold is large enough to offset the lower price.
 D) when price falls, quantity sold increases so total revenue automatically rises.
- 40) Olivia, a college student working part-time receives a wage increase. An avid movie buff, she increased her purchases of Blu-ray discs and reduced her purchases of DVDs. Based on this information, 40) _____
 A) Blu-ray discs are normal goods and DVDs are inferior goods.
 B) DVDs and Blu-ray discs are substitutes.
 C) the cross-price elasticity between DVDs and Blu-ray discs is negative.
 D) DVDs and Blu-ray discs are normal goods.

- 41) Suppose the cross-price elasticity of demand between grapefruit juice and orange juice is approximately -6. What does this mean? 41) _____
- A) The demand for orange juice is 6 times more than the demand for grapefruit juice.
 - B) A 1 percent decrease in the price of grapefruit juice leads to a 6 percent increase in orange juice consumption.
 - C) If the price of grapefruit juice rises by \$1, 6 more cartons of orange juice will be purchased.
 - D) A 6 percent increase in the price of grapefruit juice leads to a 1 percent increase in orange juice consumption.
- 42) If a firm is in an antitrust court case being accused of having a monopoly in a product, the firm would hire an economist to show 42) _____
- A) the cross-price elasticity of demand between the firm's good and another is negative.
 - B) the price elasticity of demand for the firm's good is highly inelastic.
 - C) the cross-price elasticity of demand between the firm's good and another is positive.
 - D) the income elasticity of the firm's good is inferior.
- 43) The cross-price elasticity of demand between an unlimited texting option and an unlimited call minutes option offered from a cell phone provider would be 43) _____
- A) positive if subscribers consider the services complements to each other.
 - B) negative no matter if subscribers consider the services substitutes or complements for each other.
 - C) positive if subscribers consider the services substitutes for each other.
 - D) negative if subscribers consider the services substitutes for each other.
- 44) Price elasticity of supply is used to gauge 44) _____
- A) how responsive suppliers are to changes in future prices.
 - B) how responsive suppliers are to price changes.
 - C) how responsive suppliers are to a change in demand.
 - D) how responsive sales are to a change in input prices
- 45) Suppose a 10 percent increase in price results in a 5 percent increase in the quantity supplied of a good. Calculate the price elasticity of supply and characterize the product. 45) _____
- A) 50%; The product is inelastic.
 - B) 0.2; The product is inelastic.
 - C) 2; The product is elastic.
 - D) 0.5; The product is inelastic.

Figure 6-6



- 46) Refer to Figure 6-6. A perfectly elastic supply curve is shown in _____
- A) Panel A. B) Panel B. C) Panel C. D) Panel D.
- 47) Suppose the demand curve for a product is represented by a typical downward-sloping curve. Now suppose the demand for this product decreases. Which of the following statements accurately predicts the resulting decrease in price? _____
- A) The increase in price is not affected by the elasticity of the supply curve.
- B) The more elastic the supply curve, the smaller the price decrease.
- C) The decrease in price will always be proportional to the magnitude of the demand shift.
- D) The more elastic the supply curve, the greater the price increase.

Answer Key

Testname: SAMPLE EXAM CHAPTER 1-4

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