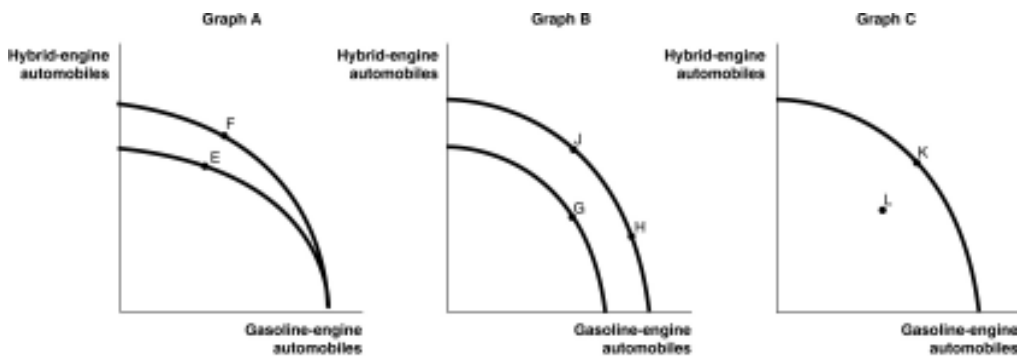


**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

- 1) Economists assume that rational people do all of the following *except* 1) \_\_\_\_\_  
A) respond to economic incentives.  
B) use all available information as they act to achieve their goals.  
C) weigh the benefits and costs of all possible alternative actions.  
D) undertake activities that benefit others and hurt themselves.
- 2) Suppose the U.S. government encouraged new medical school graduates to take over existing practices from doctors wishing to retire by paying both the new and retiring doctors \$100,000. These doctors would be exemplifying the economic idea that 2) \_\_\_\_\_  
A) equity is more important than efficiency.  
B) optimal decisions are made at the margin.  
C) people respond to economic incentives.  
D) people are rational.
- 3) Society faces a trade-off in all of the following situations *except* 3) \_\_\_\_\_  
A) when deciding who will receive the goods and services produced.  
B) when deciding what goods and services will be produced.  
C) when some previously unemployed workers find jobs.  
D) when deciding how goods and services will be produced.
- 4) The highest valued alternative that must be given up to engage in an activity is the definition of 4) \_\_\_\_\_  
A) marginal benefit. B) opportunity cost.  
C) marginal cost. D) economic equity.
- 5) Markets promote 5) \_\_\_\_\_  
A) competition and voluntary exchange. B) voluntary exchange and equality.  
C) equity and equality. D) equity and competition.
- 6) Scarcity 6) \_\_\_\_\_  
A) stems from the incompatibility between limited resources and unlimited wants.  
B) is a bigger problem in market economies than in socialist economies.  
C) can be eliminated by rationing products.  
D) can be overcome by discovering new resources.
- 7) The production possibilities frontier shows the \_\_\_\_\_ combinations of two products that may be produced in a particular time period with available resources. 7) \_\_\_\_\_  
A) minimum attainable B) equitable  
C) only D) maximum attainable
- 8) A production possibilities frontier with a bowed outward shape indicates 8) \_\_\_\_\_  
A) decreasing opportunity costs as more and more of one good is produced.  
B) increasing opportunity costs as more and more of one good is produced.  
C) constant opportunity costs as more and more of one good is produced.  
D) the possibility of inefficient production.

Figure 2-6



General Motors recently approved for production the Cadillac Converj, an electric car based on its Chevy Volt. The Converj will feature a "Generation 1.5 Voltec" powertrain, with a hybrid engine that runs on a combination of electricity and gasoline. Assume GM chooses to produce both hybrid-engine vehicles and gasoline-engine vehicles for its Cadillac brand. Figure 2-6 shows changes to its production possibilities frontier in response to new developments and different strategic production decisions.

- 9) *Refer to Figure 2-6.* Assume a technological advancement greatly reduces the cost to produce hybrid-engine vehicles. This is best represented by the \_\_\_\_\_
- A) movement from K to L in Graph C.      B) movement from H to J in Graph B.  
C) movement from G to H in Graph B.      D) movement from E to F in Graph A.

- 10) Specializing in the production of a good or service in which one has a comparative advantage enables a country to do all of the following *except* \_\_\_\_\_
- A) increase the variety of products that it can consume with no increase in resources.  
B) produce a combination of goods that lies outside its own production possibilities frontier.  
C) consume a combination of goods that lies outside its own production possibilities frontier.  
D) engage in mutually beneficial trade with other nations.

Figure 2-7

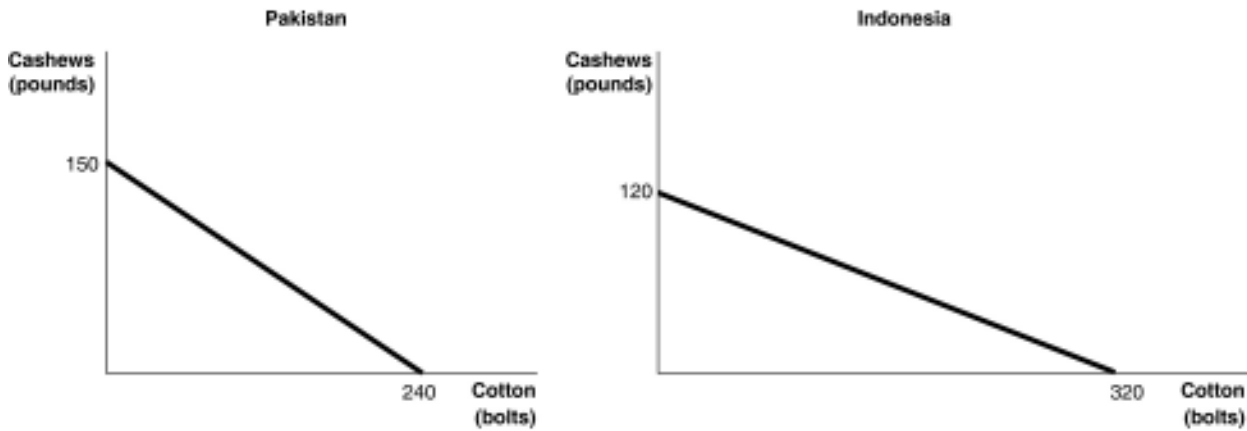
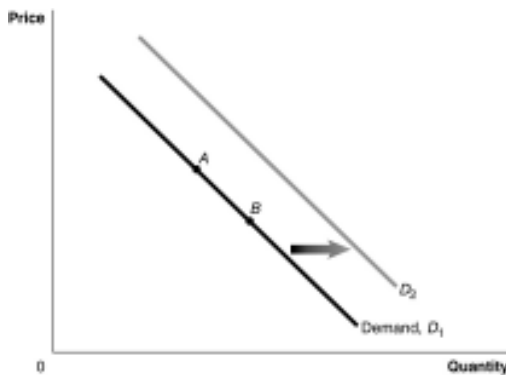


Figure 2-7 shows the production possibilities frontiers for Pakistan and Indonesia. Each country produces two goods, cotton and cashews.

- 11) Refer to Figure 2-7. Which country has a comparative advantage in the production of cotton? 11) \_\_\_\_\_  
 A) Pakistan B) Indonesia  
 C) They have equal productive abilities. D) neither country
- 12) Refer to Figure 2-7. What is the opportunity cost of producing 1 pound of cashews in Pakistan? 12) \_\_\_\_\_  
 A)  $\frac{3}{8}$  of a bolt of cotton B) 240 bolts of cotton  
 C)  $1\frac{3}{5}$  bolts of cotton D)  $\frac{5}{8}$  of a bolt of cotton
- 13) If an increase in income leads to a decrease in the demand for popcorn, then popcorn is 13) \_\_\_\_\_  
 A) a neutral good. B) a normal good.  
 C) a necessity. D) an inferior good.

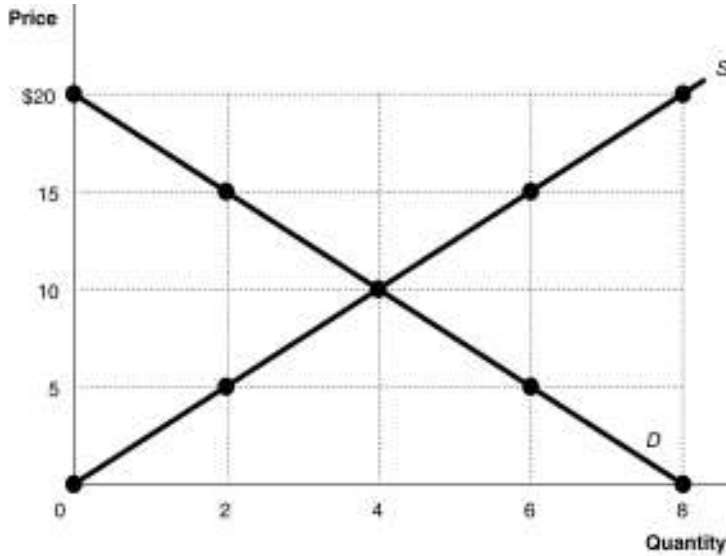
Figure 3-1



- 14) Refer to Figure 3-1. A decrease in the price of the product would be represented by a movement from 14) \_\_\_\_\_  
 from  
 A) D<sub>1</sub> to D<sub>2</sub>. B) A to B. C) B to A. D) D<sub>2</sub> to D<sub>1</sub>.

- 15) If, in the market for oranges, the supply has increased then 15) \_\_\_\_\_  
A) there has been a movement upwards along the supply curve for oranges.  
B) there has been a movement downwards along the supply curve for oranges.  
C) the supply curve for oranges has shifted to the right.  
D) the supply curve for oranges has shifted to the left.
- 16) In January, market analysts predict that the price of platinum will fall in February. What happens 16) \_\_\_\_\_  
in the platinum market in January, holding everything else constant?  
A) The supply curve shifts to the left.  
B) The supply curve shifts to the right.  
C) The demand curve shifts to the right.  
D) The quantity demanded and the quantity supplied of platinum increase.
- 17) Ranchers can raise either cattle or sheep on their land. Which of the following would cause the 17) \_\_\_\_\_  
supply of sheep to increase?  
A) an increase in the price of sheep feed                      B) a decrease in the price of cattle  
C) an increase in the demand for cattle                      D) an increase in the price of sheep
- 18) Last year, Cup O Joe supplied 18,000 bagels at \$3.50 each. This year, the company supplied the 18) \_\_\_\_\_  
same quantity of bagels at \$4.00 each. Based on this evidence, Cup O Joe has experienced  
A) an increase in supply.    B) an increase in the quantity supplied.  
C) a decrease in supply.    D) a decrease in the quantity supplied.
- 19) Which of the following is the correct way to describe equilibrium in a market? 19) \_\_\_\_\_  
A) At equilibrium, scarcity is eliminated.  
B) At equilibrium, quantity demanded equals quantity supplied.  
C) At equilibrium, demand equals supply.  
D) At equilibrium, market forces no longer apply.

Figure 3-5



- 20) Refer to Figure 3-5. In a free market such as that depicted above, a surplus is eliminated by \_\_\_\_\_
- A) a price decrease, decreasing the supply and increasing the demand.  
 B) a price decrease, decreasing the quantity supplied and increasing the quantity demanded.  
 C) a price increase, increasing the supply and decreasing the demand.  
 D) a price increase, increasing the quantity supplied and decreasing the quantity demanded.
- 21) In a perfectly competitive market, there are \_\_\_\_\_ buyers and \_\_\_\_\_ sellers. \_\_\_\_\_
- A) many; few                      B) few; many                      C) many; many                      D) few; few
- 22) Which of the following is evidence of a surplus of bananas? \_\_\_\_\_
- A) The price of bananas is lowered in order to increase sales.  
 B) The quantity demanded of bananas is greater than the quantity supplied.  
 C) Firms raise the price of bananas.  
 D) The equilibrium price of bananas rises due to an increase in demand.
- 23) Which of the following would cause the equilibrium price of white bread to decrease and the equilibrium quantity of white bread to increase? \_\_\_\_\_
- A) an increase in the price of rye bread, a substitute for white bread  
 B) a decrease in the price of flour  
 C) an increase in the price of butter, a complement for white bread  
 D) an increase in the price of flour
- 24) Assume that the hourly price for the services of tarot card readers has risen and sales of these services have also risen. One can conclude that \_\_\_\_\_
- A) tarot card readers are deliberately charging high prices because they provide services for superstitious clients.  
 B) the demand for tarot card readers has increased.  
 C) the law of demand has been violated.  
 D) the number of tarot card readers has increased.

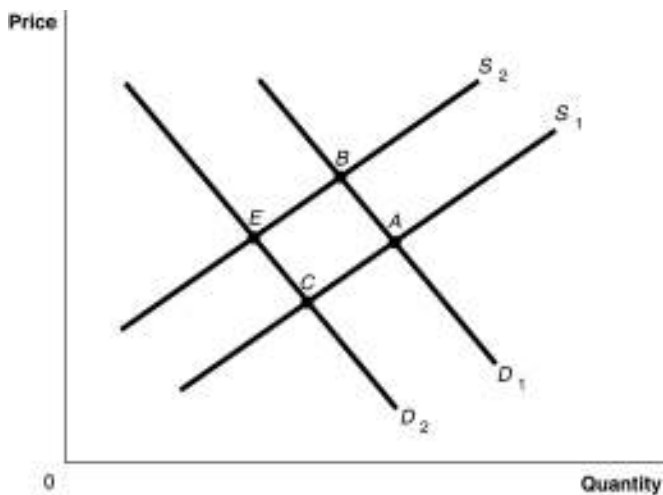
- 25) An increase in the demand for lobster due to changes in consumer tastes, accompanied by a decrease in the supply of lobster as a result bad weather reducing the number of fishermen trapping lobster, will result in
- A) a decrease in the equilibrium quantity of lobster; the equilibrium price may increase or decrease.
  - B) a decrease in the equilibrium quantity of lobster and no change in the equilibrium price.
  - C) an increase in the equilibrium price of lobster and no change in the equilibrium quantity.
  - D) an increase in the equilibrium price of lobster; the equilibrium quantity may increase or decrease.

25) \_\_\_\_\_

- 26) Assume that both the demand curve and the supply curve for MP3 players shift to the right but the demand curve shifts more than the supply curve. As a result
- A) the equilibrium price of MP3 players may increase or decrease; the equilibrium quantity will increase.
  - B) the equilibrium price of MP3 players will increase; the equilibrium quantity may increase or decrease.
  - C) the equilibrium price of MP3 players will decrease; the equilibrium quantity may increase or decrease.
  - D) both the equilibrium price and quantity of MP3 players will increase.

26) \_\_\_\_\_

Figure 3-8



- 27) Refer to Figure 3-8. The graph in this figure illustrates an initial competitive equilibrium in the market for apples at the intersection of  $D_2$  and  $S_2$  (point E). Which of the following changes would cause the equilibrium to change to point A?
- A) A positive change in the technology used to produce apples and decrease in the price of oranges, a substitute for apples.
  - B) A decrease in the wages of apple workers and an increase in the price of oranges, a substitute for apples.
  - C) An increase in the wages of apple workers and a decrease in the price of oranges, a substitute for apples.
  - D) An increase in the number of apple producers and a decrease in the number of apple trees as a result of disease.

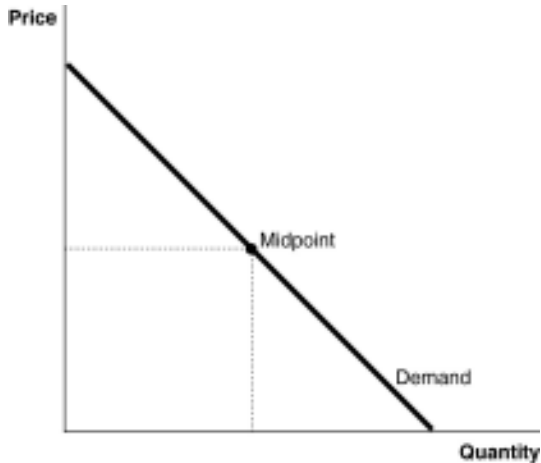
27) \_\_\_\_\_

28) 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?

- A) 9.33                      B) 2.69                      C) 0.37                      D) 0.11

28) \_\_\_\_\_

Figure 6-4



29) Refer to Figure 6-4. Which of the following statements is true about the price elasticity of demand?

- A) The elasticity coefficient is constant along the demand curve.  
 B) At the midpoint of the demand curve, the elasticity coefficient is zero.  
 C) The inelastic portion of the demand curve corresponds to the segment above the midpoint.  
 D) The elastic portion of a straight-line downward sloping demand curve corresponds to the segment above the midpoint.

29) \_\_\_\_\_

30) If, for a given percentage increase in price, quantity demanded falls by a proportionately smaller percentage, then demand is

- A) relatively inelastic.                      B) unit-elastic.  
 C) perfectly elastic.                      D) relatively elastic.

30) \_\_\_\_\_

31) If the demand for a life-saving drug was perfectly inelastic and the price doubled, the quantity demanded would

- A) be cut in half.                      B) decrease by 50%.  
 C) remain constant.                      D) also double.

31) \_\_\_\_\_

32) Which of the following would result in a higher absolute value of the price elasticity of demand for a product?

- A) A wide variety of substitutes are available for the good.  
 B) The good is a necessity.  
 C) The expenditure on the good is small relative to one's budget.  
 D) The time period under consideration is short.

32) \_\_\_\_\_

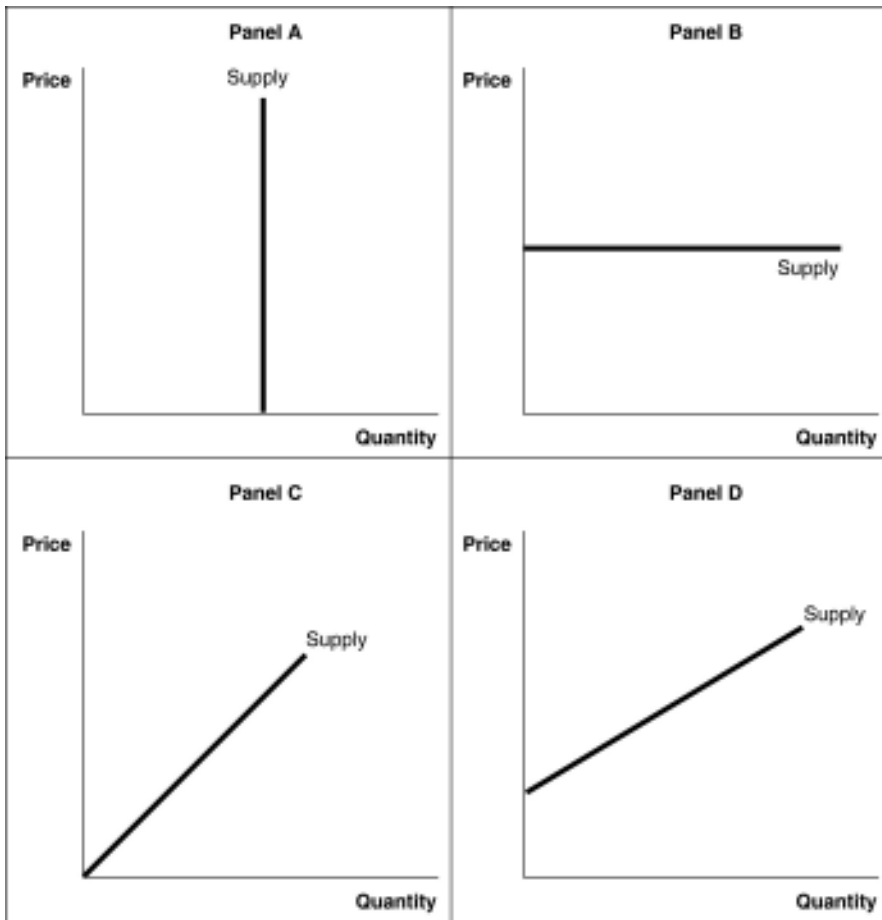
- 33) With the increased usage of cell phone services, what has happened to the price elasticity of demand for land-line telephone services? 33) \_\_\_\_\_  
A) It has become more price elastic.  
B) It has become more price inelastic.  
C) It has become more income elastic.  
D) The absolute value of the price elasticity coefficient has probably gone down.
- 34) When demand is elastic, a fall in price causes total revenue to rise because 34) \_\_\_\_\_  
A) the demand curve shifts.  
B) the increase in quantity sold is large enough to offset the lower price.  
C) when price falls, quantity sold increases so total revenue automatically rises.  
D) the percentage increase in quantity demanded is less than the percentage fall in price.
- 35) Consider a demand curve that has a constant elasticity value of 0. What happens to quantity demanded and total revenue when price increases? 35) \_\_\_\_\_  
A) The quantity demanded and total revenue remain the same.  
B) The quantity demanded and total revenue fall to zero.  
C) The quantity demanded does not change but total revenue increases.  
D) The quantity demanded does not change but total revenue decreases.
- 36) Calculate the income elasticity if an 8 percent increase in income leads to a 4 percent increase in quantity demanded for organic produce. 36) \_\_\_\_\_  
A) 1.5                                      B) 2                                      C) -0.66                                      D) 0.5
- 37) For people who live near a bus route, a subway station, or a commuter rail line, public transportation provides a substitute to driving their own cars. So, for these people, the cross-price elasticity of demand between gasoline and public transportation is 37) \_\_\_\_\_  
A) infinity.                                      B) positive.                                      C) zero.                                      D) negative.
- 38) Studies show that the income elasticity of demand for wine is approximately five. What does this mean? 38) \_\_\_\_\_  
A) A one percent decrease in the price of wine leads to a five percent increase in wine consumption.  
B) Wine is a relatively elastic good.  
C) A one percent increase in income leads to a five percent increase in wine consumption.  
D) A five percent increase in income leads to a one percent increase in wine consumption.
- 39) Cross-price elasticity of demand is calculated as the 39) \_\_\_\_\_  
A) percentage change in quantity sold divided by percentage change in buyers' incomes.  
B) percentage change in quantity demanded divided by percentage change in price of a good.  
C) percentage change in quantity supplied divided by percentage change in price of a good.  
D) percentage change in quantity demanded of one good divided by percentage change in price of a different good.



- 40) The demand for most farm products is relatively inelastic. All else constant, what is the effect on farm revenues as a result of the introduction of new and better farm equipment which increases in productivity?
- A) Farm revenues increase.
  - B) Farm revenues remain constant because consumers will not increase their consumption of farm products by much.
  - C) Farm revenues could increase or decrease depending on the cost of this new equipment.
  - D) Farm revenues decrease.

40) \_\_\_\_\_

Figure 6-6



- 41) 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.
- 42) 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 decrease in price will always be proportional to the magnitude of the demand shift.
  - B) The more elastic the supply curve, the greater the price increase.
  - C) The more elastic the supply curve, the smaller the price decrease.
  - D) The increase in price is not affected by the elasticity of the supply curve.

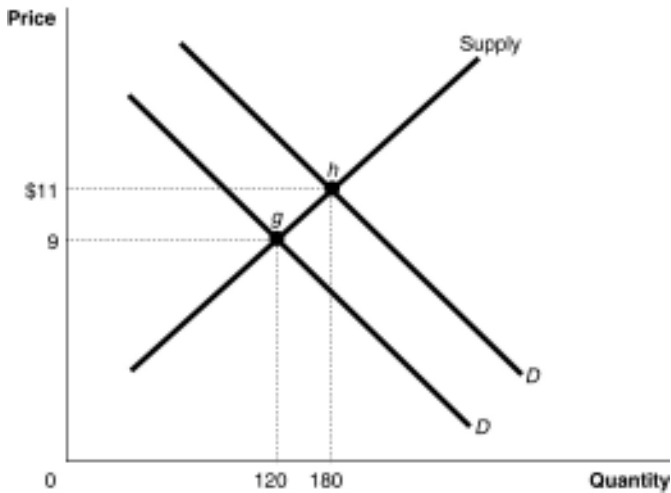
41) \_\_\_\_\_

42) \_\_\_\_\_

- 43) Bringing oil to the market is a relatively long and costly process. The whole process from exploration to pumping significant amounts of oil can take years. What does this indicate about the price elasticity of supply for oil?
- A) The elasticity coefficient is likely to be very high and supply is inelastic.
  - B) The elasticity coefficient is likely to be low and supply is highly elastic.
  - C) The elasticity coefficient is likely to be close to zero and supply is perfectly elastic.
  - D) The elasticity coefficient is likely to be low and supply is highly inelastic.

43) \_\_\_\_\_

Figure 6-7



- 44) Refer to Figure 6-7. What is the value of the price elasticity of supply between g and h?
- A) 20 percent
  - B) 0.02
  - C) 0.5
  - D) 2

44) \_\_\_\_\_

## Answer Key

Testname: SAMPLE EXAM B CHAPTERS 1-4

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