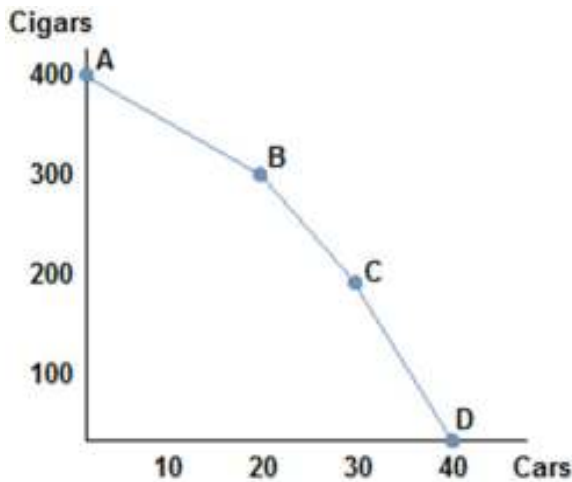


# Test1

Version #2



1.

Consider the production possibilities frontier in the figure shown. The opportunity cost of cars when moving from point B to point C:

- A. None of these statements is true.
- B. is greater than the opportunity cost of cars when moving from any other two points.
- C. is less than the opportunity cost of cars when moving from point A to point B.
- D. is greater than the opportunity cost of cars when moving from point A to point B.

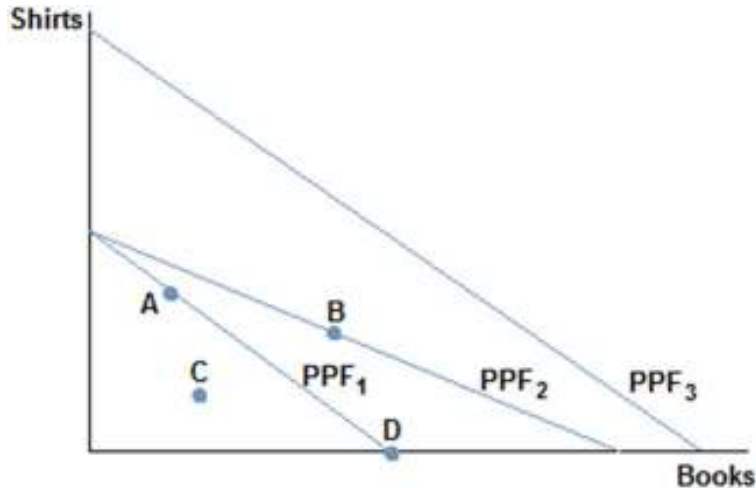
2. Bob got laid off six months ago. He used to go to the movies once a month, but he's only been twice since losing his job. This type of behavior can be measured using:

- A. the cross-price elasticity.
- B. the income elasticity of demand.
- C. the price elasticity of supply.
- D. the price elasticity of demand.

3. The amount of a particular good that buyers in a market will purchase at a given price during a specified period is called:

- A. supply.
- B. demand.
- C. quantity supplied.
- D. quantity demanded.

4. A shortage will occur if:
- A. the quantity being supplied at a given price is less than the quantity demanded at that price.
  - B. there are not enough buyers in the market.
  - C. there are only inexperienced firms in the market.
  - D. the quantity being supplied at a given price exceeds the quantity demanded at that price.



5.

Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF<sub>1</sub> to PPF<sub>3</sub>?

- A. A desire to read more books
- B. More workers
- C. Better sewing technology
- D. Better printing press technology

6. Saturday afternoon you can either attend a street festival, work and earn \$100, or study for your midterm exam. You flip a coin between the street festival and studying, but did not really consider working. The coin flip determined that you would stay home and study. The opportunity cost of the time spent studying includes:

- A. earning a high score on your midterm.
- B. None of these.
- C. the benefit that could have been received at the street festival.
- D. the loss of \$100 worth of wages and going to the street festival.

7. Some non-price determinants of demand are:

- A. prices of related goods, knowledge of past prices, and the number of buyers in the market.
- B. incomes, expectations of future prices, and the number of sellers in the market.
- C. consumer preferences, the price of the good, and incomes.
- D. consumer preferences, expectations of future prices, and the number of buyers in the market.

8. Both minivan sales and birth rates are on the rise. The conclusion that minivans cause people to have children would likely be a result of making the mistake of:

- A. extrapolation.
- B. omitted variables.
- C. correlation without causation.
- D. reverse causality.

9. The economic concept of scarcity refers to the fact that:

- A. income must be redistributed through taxation in order to address income disparity.
- B. resources are often wasted and shortages are often the result.
- C. the United States will always have a battle to fight hunger.
- D. limited resources require economies to make choices among production alternatives.

10. Irregular weather patterns caused very poor yields for orange farmers. Which factor of supply would this change in the market for orange juice?

- A. Price of related good
- B. Price of input
- C. Technology
- D. Number of sellers

11. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country B has the \_\_\_\_\_ advantage in the production of tablets, which means they should specialize in \_\_\_\_\_.

- A. absolute; tablets
- B. absolute; iPods
- C. comparative; tablets
- D. comparative; iPods

12. If producers incorrectly set the price of their product too high:

- A. a surplus will result.
- B. a shortage will result.
- C. the industry will soon die out.
- D. equilibrium will result.

13. If the price of a cup of coffee increases by 50 percent, the quantity demanded decreases by 50 percent. The price elasticity of demand is:

- A. unit elastic.
- B. inelastic.
- C. zero.
- D. elastic.

14. A perfectly inelastic demand is one in which:

- A. the demand curve is perfectly vertical.
- B. the demand curve is perfectly horizontal.
- C. the measured elasticity is exactly 1.
- D. the response to a change in price is immediate.

15. Entrepreneurs tend to take greater risks if low tax rates offer greater after-tax profit potentials. The government's decision to offer low tax rates to entrepreneurs is:

- A. providing room for an economic expansion.
- B. providing a disincentive, in the hopes that more entrepreneurs will avoid risk and not grow.
- C. providing an incentive, in the hopes that more entrepreneurs will take risk and create economic growth.
- D. providing a disincentive, in the hopes that entrepreneurs will not get into tax default after assuming too much risk.

16. There was a bumper crop of blueberries last year due to the increased rainfall. This plentiful supply of blueberries caused their price to drop. Bakeries regularly produce and sell blueberry pie. Considering the market for blueberry pies, what factor of supply has been affected, and what was the overall effect on the supply?

- A. The number of sellers has been affected; supply will increase.
- B. The new technology has been affected; supply will increase.
- C. The price of an input has been affected; supply will increase.
- D. The price of an input has been affected; supply will decrease.

17. The law of supply can be stated as:

- A. all else equal, quantity supplied rises as income falls.
- B. all else equal, quantity supplied rises as income rises.
- C. all else equal, quantity supplied rises as price falls.
- D. all else equal, quantity supplied rises as price rises.

18. Suppose when the price of a cookie is \$2.50, the quantity demanded is 50, and when the price is \$1, the quantity demanded is 200. Using the midpoint method, the absolute value of the price elasticity of demand is:
- A. 1.4.
  - B. 72.
  - C. 140.
  - D. 0.72.
19. The use of resources in the most productive way possible to produce the goods and services that have the greatest total economic value to society is called:
- A. economic quantity.
  - B. efficiency.
  - C. allocation optimization.
  - D. sustainability.
20. Considering the concept of cross-price elasticity, when two goods are substitutes:
- A. a decrease in the price of one will cause an increase in the quantity demanded of the other.
  - B. an increase in the price of one will cause a decrease in the quantity demanded of the other.
  - C. Any of these may be true.
  - D. an increase in the price of one will cause an increase in the quantity demanded of the other.
21. Steak is \_\_\_\_\_ than food because \_\_\_\_\_.
- A. less price elastic; the scope of the market is more broadly defined
  - B. more price elastic; the scope of the market is less broadly defined
  - C. less price elastic; the scope of the market is less broadly defined
  - D. more price elastic; the scope of the market is more broadly defined
22. The cross-price elasticity of two goods is -2. This tells us that:
- A. the two goods are inelastic.
  - B. the two goods are substitutes.
  - C. the two goods are complements.
  - D. the two goods are unrelated.
23. A baker of chocolate chip cookies is likely to have a \_\_\_\_\_ price elasticity of supply than the seller of rare baseball cards due to \_\_\_\_\_.
- A. less elastic; the availability of inputs
  - B. less elastic; a more flexible production process
  - C. less elastic; a shorter adjustment time
  - D. more elastic; the availability of inputs

24. Suppose that when the price of shoe laces goes from \$1 to \$2 per pair, production increases from 90 million pairs per year to 100 million pairs. Using the mid-point method, the price elasticity of supply would be:

- A. 66 percent.
- B. 10.5 percent.
- C. 0.16.
- D. 6.28.

25. The invisible hand refers to:

- A. the coordination that occurs from everyone working for the overall good of society.
- B. the coordination that occurs from everyone working in their own self-interest.
- C. the coordination that occurs from a government coordinating economic activity.
- D. the coordination that occurs from a government agency finding efficiencies.

26. A factory recently adds new robots to their production line, increasing productivity. This will likely cause:

- A. a shift straight up of the supply curve.
- B. a movement up along the supply curve.
- C. a leftward shift of the supply curve.
- D. a rightward shift of the supply curve.

27. A linear demand curve:

- A. has a constant elasticity.
- B. has a constant slope.
- C. will be more elastic when price is low and more inelastic when price is high.
- D. must be either perfectly inelastic or perfectly elastic.

28. This table shows the demand and supply schedule of a good.

Price of Good	$Q_{\text{Demand}}$	$Q_{\text{Supply}}$
\$0.00	50	25
\$0.50	40	26
\$1.00	35	28
\$1.50	31	31
\$2.00	28	35
\$2.50	27	40

According to the table shown, at a price of \$1.00:

- A. more is being supplied than demanded.
- B. a surplus will exist.
- C. a shortage will exist.
- D. the market is in equilibrium.

29. There has been an increase in the demand for chicken. This change can be shown graphically as:

- A. a movement along the demand curve to the left.
- B. a movement along the demand curve to the right.
- C. a shift in the demand curve to the right.
- D. a shift in the demand curve to the left.

30. The percentage change in the quantity demanded of a good or service when its price changes by one percent is:

- A. price elasticity of supply.
- B. income elasticity of demand.
- C. cross-price elasticity of demand.
- D. price elasticity of demand.

31. The latest news report stated that the housing market is making a comeback and that house prices are on the rise. This information is likely to:

- A. have no effect on the current demand for housing, but will decrease current supply.
- B. increase demand for houses now due to a change in expectations of future prices.
- C. have no effect on the current housing market, but will increase demand in the future.
- D. decrease demand for houses now due to a change in expectations of future prices.

32. If a good has an income elasticity of 0.18, which of the following can be said about it?

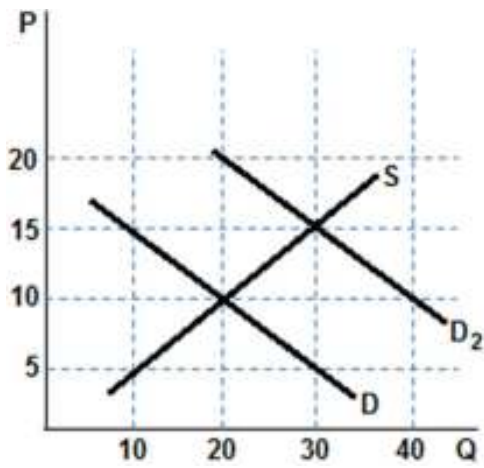
- A. It is a normal good, and a luxury good.
- B. It is an inferior good, and a luxury.
- C. It is a normal good, and a necessity.
- D. It is an inferior good, and a necessity.

33. Which is not a characteristic of a good economic model?

- A. Focuses on important details
- B. Describes the world accurately
- C. Builds vague assumptions
- D. Predicts cause and effect

34. If supply and demand analysis is a measure of *how*, then elasticity is a measure of:

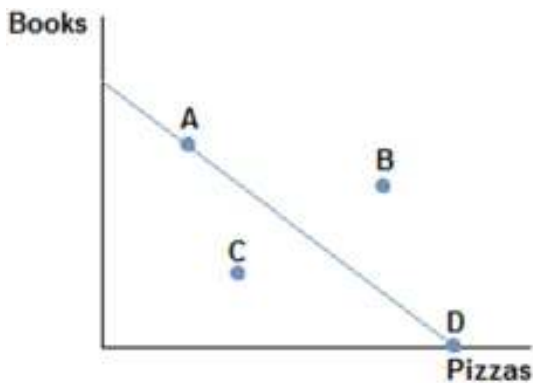
- A. when.
- B. how much.
- C. how quickly.
- D. why.



35.

Assume the graph shown represents the market for bottles of wine and was originally in equilibrium with D and S. Something changes and demand shifts to  $D_2$ . Which of the following is true?

- A. Equilibrium quantity increased by 20.
- B. Equilibrium price increased by \$15.
- C. Equilibrium quantity increased by 30.
- D. Equilibrium price increased by \$5.



36.

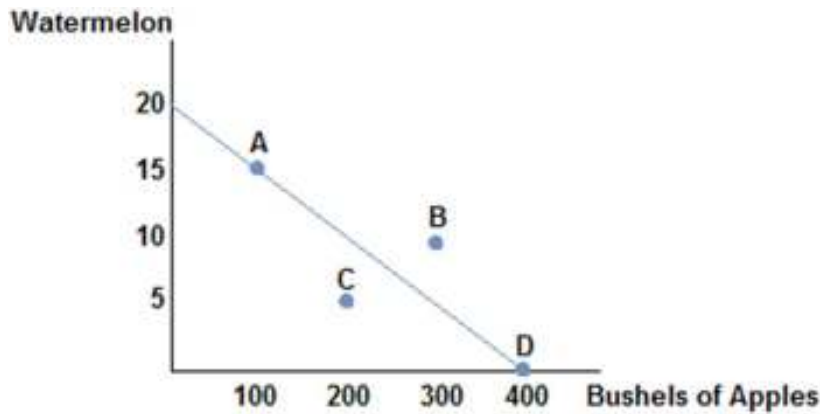
Consider the production possibilities frontier displayed in the figure shown. A society faced with this curve could choose to produce:

- A. B, C, or D.
- B. A, B, or C.
- C. A, B, or D.
- D. A, D, or C.

37. Which of the following is an example of a positive statement?

- A. NCAA Football should have adopted a playoff system 10 years ago.
- B. Teachers should be allowed to carry guns into the classroom.
- C. An increase in minimum wage results in higher teenage unemployment.
- D. Cats are better pets than dogs.





38.

Consider the production possibilities frontier displayed in the figure shown. The opportunity cost of one watermelon is:

- A. 10 bushels of apples.
- B. 40 bushels of apples.
- C. 20 bushels of apples.
- D. 30 bushels of apples.

39. When speed boat sales rise, the city of Las Vegas takes in more revenue. The omitted common variable between these outcomes is likely to be:

- A. childhood obesity.
- B. life jacket sales.
- C. prices of Las Vegas flights.
- D. increased disposable income.

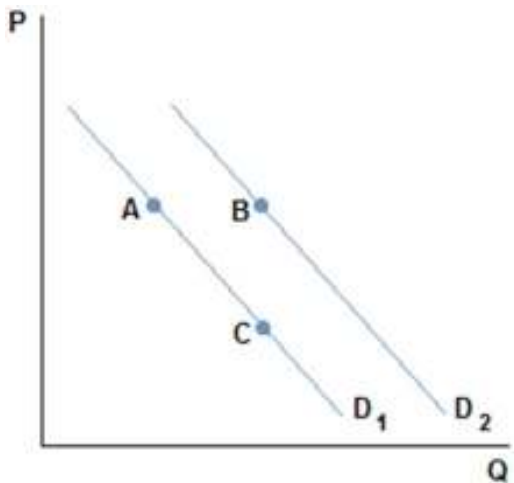
40. If the quantity effect outweighs the price effect of a price decrease, then:

- A. the good is price elastic.
- B. All of these are true.
- C. the measured elasticity must be more than 1.
- D. total revenue will rise.

41. Consider the market for ride-on lawn mowers and the recent increases in the price of oil. The recent increase in the price of oil makes it more expensive to manufacture ride-on lawn mowers. An increase in the price of oil also makes it more expensive to run a ride-on mower. If the price of oil increases, the demand for ride-on mowers will \_\_\_\_\_ and the supply will \_\_\_\_\_.

- A. increase; decrease
- B. increase; increase
- C. decrease; increase
- D. decrease; decrease

42. This graph depicts the demand for a normal good.



A movement from A to B in the graph shown might be caused by:

- A. an increase in the price of a complement.
- B. a decrease in the price of a complement.
- C. an increase in the good's price.
- D. a decrease in the price of a substitute.

43. When a good has a lot of close substitutes available, it is likely to be:

- A. more price elastic than those with a lot of complement goods available.
- B. less price elastic than those with a lot of complement goods available.
- C. more price elastic than goods without close substitutes available.
- D. less price elastic than goods without close substitutes available.

44. Assuming elasticity is reported in absolute value, a measured price elasticity of demand of 1.2 would indicate:

- A. an inelastic demand, meaning the percentage change in quantity demanded will be greater than the percentage change in price.
- B. an inelastic demand, meaning the percentage change in quantity demanded will be less than the percentage change in price.
- C. an elastic demand, meaning the percentage change in quantity demanded will be greater than the percentage change in price.
- D. an elastic demand, meaning the percentage change in quantity demanded will be less than the percentage change in price.

45. Junie is shopping for dinner. She picks up a package of hot dogs on sale, instead of the burgers she was intending to buy. She then heads over to buy a package of hot dog buns. Junie's change in the demand for hot dog buns is due to:

- A. a change in Junie's preferences.
- B. a change in the price of related goods.
- C. a change in Junie's expectation of future prices.
- D. a change in Junie's income.

46. Consider a market that is in equilibrium. If it experiences both an increase in demand and an increase in supply, what can be said of the new equilibrium?

- A. The equilibrium quantity will definitely rise, while the equilibrium price cannot be predicted.
- B. The equilibrium price and quantity will both rise.
- C. The equilibrium price and quantity will both fall.
- D. The equilibrium price will definitely rise, while the equilibrium quantity cannot be predicted.

47. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. The opportunity cost of one bomb is \_\_\_\_\_ for Tom and \_\_\_\_\_ for Jerry. Therefore Tom should specialize in \_\_\_\_\_.

- A. 16 traps; 14 traps; traps
- B. 4 traps; 2 traps; bombs
- C. 4 traps; 2 traps; traps
- D. 16 traps; 14 traps; bombs

48. A country's newest ruler has decided the country will become self-sufficient and ceases trade with the rest of the world. The likely outcome of this action will be that the country's citizen's will be:

- A. better off than before only if they have the comparative advantage in the goods they consume.
- B. forced to consume less than before if they possessed a comparative advantage in the production of a good.
- C. better off than before only if they have the absolute advantage in the production of most goods they consume.
- D. better off than before if they possess an absolute advantage in the production of a good.

49. An increase in the price of ice cream is likely to cause:

- A. an outward shift of the demand curve.
- B. an inward shift of the demand curve.
- C. a movement along the demand curve.
- D. a rotation of the demand curve around the price-point change.

50. A price increase will cause an increase in revenue:
- A. when demand is perfectly elastic.
  - B. when the price effect outweighs the quantity effect.
  - C. when demand is unit elastic.
  - D. when the quantity effect outweighs the price effect.

# Test1 Key

Version #2

1. D
2. B
3. D
4. A
5. B
6. C
7. D
8. D
9. D
10. B
11. C
12. A
13. A
14. A
15. C
16. C
17. D
18. A
19. B
20. D
21. B
22. C
23. D
24. C
25. B
26. D
27. B
28. C
29. C

- 30. D
- 31. B
- 32. C
- 33. C
- 34. B
- 35. D
- 36. D
- 37. C
- 38. B
- 39. D
- 40. B
- 41. D
- 42. B
- 43. C
- 44. C
- 45. B
- 46. A
- 47. C
- 48. B
- 49. C
- 50. B