
UNITED STATES ACADEMIC DECATHLON®

ECONOMICS

LEVEL TEST 3: HARD DIFFICULTY LEVEL

2016-2017

INSTRUCTIONS: On your answer sheet, mark the lettered space (a, b, c, d, or e) corresponding to the answer that BEST completes or answers each of the following test items.

1. Which of the following is strongly regarded in economics as making everyone involved better off?
 - a. taxes
 - b. trade
 - c. money
 - d. subsidies
 - e. government

2. In the following year you are required to pay a car loan, mortgage, and must buy food in order to survive. You have the option between job A which pays \$75,000 and job B which pays \$60,000. You decide to take job B. Which of the following is NOT an opportunity cost?
 - a. car loan
 - b. \$60,000
 - c. \$75,000
 - d. \$15,000
 - e. both a and b

3. Under which circumstance would an individual forgo an outcome that would have made them wealthier today?
 - a. The individual is irrational.
 - b. All opportunity costs are zero.
 - c. The short-term wealthier outcome would have resulted in long-term lower wealth.
 - d. all of the above
 - e. none of the above

4. Which field of economics has contributed the most to taking classical models and adapting them to suit the irrational behavior of human beings?
 - a. microeconomics
 - b. macroeconomics
 - c. behavioral economics
 - d. political economy
 - e. econometrics

5. Which of the following allocations is NOT Pareto efficient in a \$10 economy?
- John: \$7; David: \$1; Calvin: \$1
 - John: \$1; David: \$8; Calvin: \$1
 - John: \$0; David: \$0; Calvin: \$10
 - John: \$3; David: \$3; Calvin: \$4
 - John: \$5; David: \$4; Calvin: \$1
6. Without the attack on Pearl Harbor, what seems the most likely scenario in relation to the United States involvement in World War II?
- There would have been no involvement whatsoever.
 - The United States would have joined the Axis powers.
 - The United States would have proactively placed troops on the ground.
 - The United States would have launched a similar attack on Japan first.
 - The United States would have been involved in programs similar to the Lend-Lease Program.
7. Which seems the most plausible reason for popular acceptance of Hitler in Germany?
- economic hardship
 - Hitler's charisma
 - economic bounty
 - Hitler's use of military force
 - Hitler received popular support from the United States
8. What is one lesson learned from the Terms of the Treaty of Versailles?
- Harsh pecuniary punishment is not a long-term solution.
 - Harsh military punishment is not a long-term solution.
 - Lenient pecuniary consequences are not a long-term solution.
 - Lenient military punishment is not a long-term solution.
 - Written treaties are not enforceable.
9. In which scenario might The League of Nations still be a global institution today?
- if the Bretton Woods agreement had been ratified
 - if the Bretton Woods agreement had not been ratified
 - had the Axis powers been victorious from World War II
 - had the United States Senate ratified the Treaty of Versailles
 - had the United States Senate not ratified the Treaty of Versailles
10. What was the state of the United States and Japanese relationship prior to the attack on Pearl Harbor?
- Both countries disliked the other.
 - Each country was indifferent to the other.
 - Both countries maintained a cordial relationship.
 - Both countries were engaged in full scale economic war.
 - The United States severely disliked Japan, but the feeling was not reciprocated.
11. War production in the United States was heavily dependent on ____.
- troops
 - elderly
 - women
 - children
 - bureaucrats

12. Why were many historians critical of the Japanese attack on the United States?
- a. The Japanese timing was poor.
 - b. The Japanese attacked the wrong naval base.
 - c. The Japanese attack was too meager to illicit a reaction.
 - d. underpowered nature of the Japanese relative to the United States
 - e. underpowered nature of the United States relative to the Japanese
13. What was the longer term impact of the “Victory Tax”?
- a. It resulted in lower taxes for foreigners.
 - b. It resulted in higher taxes for foreigners.
 - c. It resulted in permanently lower taxes throughout the United States.
 - d. It resulted in permanently higher taxes throughout the United States.
 - e. It normalized the idea that everyone in the United States must pay taxes.
14. What are some of the longer term technological benefits for civilians of World War II?
- a. the rise of the internet
 - b. Tank technology increased rapidly.
 - c. There were no technological advancements.
 - d. Commercial airline travel improved markedly.
 - e. Technology was destroyed during World War II and regressed dramatically.
15. Just as the “ratchet affect” led to an increase in governing institutions in the United States, did such an effect occur on the global stage?
- a. Yes, creation of IMF and World Bank
 - b. Yes, creation of the Federal Reserve
 - c. ambiguous
 - d. No, global institutions shrank after World War II
 - e. No, global institutions remained the same after World War II
16. What effect might a contraction in the money supply have on the economy during an expansion?
- a. cause a depression
 - b. cause depreciation of the currency
 - c. moderately slow economic circumstances
 - d. dramatically improve economic circumstances
 - e. Contracting the money supply will have no effect during an expansion.
17. What would be the most likely effect of using the PCE rather than the CPI as a measure of inflation?
- a. Inflation will be less overstated.
 - b. Inflation will be less understated.
 - c. Inflation will be more overstated.
 - d. Inflation will be more understated relative to CPI.
 - e. There will be no difference between using either measure.

18. You have invested \$100,000 in a company by purchasing stock. Later, this company declares bankruptcy and states that it will be unable to return funds to all of its investors. If you had known this information ahead of time, which asset class would you have invested in?
- a. bonds
 - b. stocks
 - c. index funds
 - d. mutual funds
 - e. cash donation
19. What is the primary effect on a nation if a foreign company sells domestic assets back to domestic entities?
- a. GDP increased.
 - b. GDP decreased.
 - c. Net capital outflow decreases.
 - d. Net capital outflow increases.
 - e. There is no effect.
20. What is the main difference between foreign direct investment and portfolio investment?
- a. the amount of the investment
 - b. the country from which the investment is made
 - c. the type of investment (i.e. stock, bond,.)
 - d. the level of active management in the investment
 - e. There is no difference since these are the same.
21. In the financial market, the interest rate is MOST similar to ____.
- a. price
 - b. quantity
 - c. savings
 - d. investment
 - e. consumption
22. Using the aggregate demand model, rational individuals whose preference set is to spend extravagantly will shift the aggregate demand curve ____.
- a. to the left
 - b. to the right
 - c. and tilt it vertically
 - d. and tilt it horizontally
 - e. Consumer spending does not have an effect on aggregate demand.
23. The introduction of Apple Pay and Google Pay (the ability to pay with one's phone) technologies will likely have what effect in the economy based on economic theory?
- a. increase prices
 - b. decrease outputs
 - c. increase money supply
 - d. decrease use of money
 - e. increase money velocity

24. If Bank A has \$2000 and its required reserve ratio is 5%, what is the total money supply in this economy?
- a. \$900.00
 - b. \$1,000.00
 - c. \$1,100.00
 - d. \$1,900.00
 - e. \$2,000.00
25. The Federal Reserve Acts as a backstop for banks that are undergoing a liquidity crisis. This arises from a weakness in which of the following systems?
- a. capitalism
 - b. socialism
 - c. financial rent seeking
 - d. full reserve banking
 - e. fractional reserve banking
26. Why might trend real output for an economy and actual real output for an economy NOT be the same?
- a. Government intervention creates business cycles.
 - b. Prices immediately reflect all pertinent information.
 - c. Prices do not immediately reflect all pertinent information.
 - d. Quantity adjusts immediately to reflect all pertinent information.
 - e. Quantity does not adjust immediately to reflect pertinent information.
27. Which of the following is a common justification for why there should be government intervention in a market?
- a. Prices do not reflect pertinent information.
 - b. The government can easily move the market.
 - c. Centrally planned markets operate more efficiently.
 - d. It is safer for there to be government intervention in the market.
 - e. Government intervention in the market can prevent recessions.
28. Which of the following will occur because of an appreciation of domestic currency?
- a. Foreign prices decrease.
 - b. Foreign prices increase.
 - c. Foreign imports will increase.
 - d. Domestic imports will decrease.
 - e. Domestic exports will decrease.
29. Despite healthy economic fundamentals, which of the following can cause a recession?
- a. taxes
 - b. subsidies
 - c. poor productivity
 - d. future expectations
 - e. increase in the price of gold

30. If the economy is in a recession, the Federal Reserve can take steps to alleviate economic hardship. Which of the following could act directly to assist or hinder such efforts?
- a. foreign policy
 - b. domestic policy
 - c. individual businesses
 - d. restrictive fiscal policy
 - e. accommodative fiscal policy
31. A new law is enacted in order to reduce pollution produced by motor vehicles. This law increases the taxes on gasoline, but returns each dollar taxed to the drivers at the end of the fiscal year. As a result, drivers are driving fewer miles. What is the appropriate response from a motorist that is familiar with economic principles?
- a. Motorists should drive less.
 - b. Motorists should drive more.
 - c. Motorists should upgrade to more fuel efficient vehicles.
 - d. Motorists should continue to behave as if the tax was not in place.
 - e. Motorists should substitute towards mass transportation options.
32. Compare the following: An expected increase in the number of buyers will have the same effect on the demand for coffee (normal good) today as ____.
- a. a decrease in tastes toward coffee
 - b. an increase in subsidies for the purchase of sugar (substitute)
 - c. an expectation of future price decrease of sugar (complement)
 - d. an expectation of future price increase of sugar (substitute)
 - e. an expectation of a future price increase of sugar (complement)
33. Price controls are generally put in place to right a perceived wrong. Inevitably, what always follows the imposition of a price control?
- a. more competition
 - b. decrease in prices
 - c. unintended consequences
 - d. degradation in the market condition
 - e. improvement in the market condition
34. Which of the following is a secondary effect from the imposition of a price ceiling?
- a. surplus
 - b. shortage
 - c. improve quality
 - d. reduction in quality
 - e. fewer market participants
35. Jen has an absolute advantage over Jake in two activities. In what case should Jen trade with Jake?
- a. when Jen has an absolute advantage
 - b. when Jake has an absolute advantage
 - c. when Jen has a comparative advantage
 - d. when Jake has a comparative advantage
 - e. There is not enough information to determine if Jen should trade.

36. Gains from trade are amplified by specialization, but there can be downsides to overspecializing in a field. A closed economy which is highly specialized and opens up to trade may experience which of the following?
- a. natural rate of unemployment
 - b. frictional unemployment
 - c. structural unemployment
 - d. cyclical unemployment
 - e. seasonal unemployment
37. In the case of the United States, which group is the most likely disadvantaged to the opening of trade to foreign countries?
- a. women
 - b. individuals with little to no education
 - c. individuals with a high school education
 - d. individuals with graduate level education
 - e. individuals with undergraduate level education
38. As marginal revenue decreases, total revenue tends to _____.
- a. increase
 - b. decrease
 - c. be positive
 - d. be negative
 - e. remain constant
39. A cartel is a group of firms that attempt to create _____, but is usually undone by _____ of prices.
- a. monopoly power, inaccuracy
 - b. monopoly power, undercutting
 - c. monopolistic competition, inaccuracy
 - d. monopolistic competition, undercutting
 - e. perfect competition, undercutting
40. These types of markets occur because of the extremely high fixed investment costs that are required to enter the market. Furthermore, they may be characterized by average costs falling at a scale of production.
- a. oligopoly
 - b. monopoly
 - c. rent seekers
 - d. natural monopoly
 - e. monopolistic competitors
41. Using the internet, companies are able to _____ using previous information about a person's browsing data. This allows them to extract more producer surplus from each transaction.
- a. price higher
 - b. price lower
 - c. price discriminate
 - d. accurately forecast
 - e. bundle goods

42. Why do externalities present one of the most compelling reasons for government in the economy?
- a. Externalities involve issues of sovereignty.
 - b. Externalities are of little cost and easily fixed.
 - c. Externalities are the result of market failures.
 - d. Externalities are extremely costly and require large government investments.
 - e. Externalities do not require government intervention and can be solved privately.
43. Why is a centrally run economy not generally as efficient as a decentralized, market economy?
- a. The government does not have complete information on preferences.
 - b. The market does not have complete information on preferences.
 - c. The government imposes taxes which create deadweight loss.
 - d. The government purposely makes sub-optimal welfare decision.
 - e. none of the above
44. An increase in the quantity demanded by a constant amount for each price will have the same effect as _____.
- a. subsidy
 - b. tax
 - c. decreasing in the number of buyers
 - d. decrease in overall income
 - e. increasing government regulation
45. Which of the following is the worst definition of total surplus?
- a. Total surplus is equal to consumer surplus.
 - b. Total surplus is equal to producer surplus.
 - c. Total surplus is half consumer, half producer surplus.
 - d. Total surplus is equal to deadweight loss.
 - e. Surplus allocation is a normative statement.
46. Which of the following characterizes elasticity, from right to left, along the demand curve?
- a. elastic, unit elastic, inelastic
 - b. unit elastic, inelastic, elastic
 - c. inelastic, elastic, unit elastic
 - d. inelastic, unit elastic, elastic
 - e. elasticity is constant along the demand curve
47. In theory, which of the following is going to produce the LEAST amount of total welfare?
- a. monopoly
 - b. oligopoly
 - c. monopolistic competition
 - d. government controlled economy
 - e. There is not enough information to complete the question.
48. Why is a commodity often closer to being part of a perfectly competitive market than other goods?
- a. There are many buyers and sellers.
 - b. There are many commodities.
 - c. There is perfect information.
 - d. All sellers are homogeneous.
 - e. A commodity is homogeneous within itself.

49. Ill-defined property right creates the problem of _____.
a. theft
b. altruism
c. rent-seeking
d. the tragedy of the commons
e. government under-regulation
50. It is difficult to pass on the burden of a tax if the good being sold is _____.
a. inelastic
b. elastic
c. unit elastic
d. perfectly inelastic
e. none of the above