

1. All of the following items are limited EXCEPT
  - a. land
  - b. savings
  - c. desires
  - d. food
  - e. time
2. Unlike positive economists, normative economists
  - a. describe the behavior of the entire economy
  - b. analyze cause and effect
  - c. make value judgments
  - d. analyze a firm's behavior
  - e. focus on specific economic issues
3. When people use cost-benefit analysis to determine which trade-offs to make, they demonstrate
  - a. gains from trade
  - b. rationality
  - c. scarcity
  - d. opportunity cost
  - e. competition
4. Scarcity is the combination of unlimited desires and
  - a. limited resources
  - b. unlimited time
  - c. cost-benefit analyses
  - d. opportunity cost
  - e. specialization
5. Opportunity cost is the
  - a. cost of the next best action
  - b. total cost for to enter a market
  - c. benefit derived from taking any action
  - d. benefit derived from the next best action
  - e. economic value of the producer surplus
6. The law of supply means that the supply curve's slope is
  - a. infinite
  - b. decreasing
  - c. zero
  - d. negative
  - e. positive
7. Pareto efficiency maximizes
  - a. price elasticity of demand
  - b. consumer surplus
  - c. producer surplus
  - d. overall well-being
  - e. total revenue
8. The market demand schedule lists how much of a good
  - a. one buyer of the good will buy at each price
  - b. all buyers of the good will buy each month
  - c. all buyers of the good will buy each year
  - d. all buyers of the good will buy at each price
  - e. one buyer of the good will buy each month
9. The slope of a perfectly elastic demand curve is
  - a. greater than 2
  - b. 0
  - c. between 1 and 2
  - d. between 0 and 1
  - e. 1
10. The slope of a production possibility frontier curve is always
  - a. 1
  - b. positive
  - c. infinite
  - d. negative
  - e. 0
11. Economists assume that a firm's objective is to
  - a. minimize total costs
  - b. maximize profits
  - c. maximize total surplus
  - d. maximize efficiency
  - e. maximize consumer surplus
12. In a perfectly competitive market, firms earn
  - a. negative marginal revenue
  - b. zero economic profit
  - c. negative accounting profit
  - d. positive economic profit
  - e. zero accounting profit
13. A market possesses one supplier and a million buyers. This market is
  - a. perfectly competitive
  - b. an oligopoly
  - c. a cartel
  - d. monopolistically competitive
  - e. a monopoly
14. Why does the government make cartels illegal?
  - a. to discourage monopolistic competition
  - b. to reduce market competition
  - c. to encourage the formation of monopolies
  - d. to increase market competition
  - e. to ban oligopolies

15. Creative destruction describes the contribution of
- monopolies
  - the government
  - entrepreneurs
  - producers
  - taxpayers
16. Perfect price discrimination eliminates
- economic profits
  - producer surplus
  - taxes
  - consumer surplus
  - monopolistic competition
17. A factory pollutes a river. The polluted river causes health problems for the people who live downstream. The pollution is a(n)
- negative externality
  - common resource
  - form of rent seeking
  - deadweight loss
  - example of pork barrel politics
18. What should be established to resolve the tragedy of the commons?
- price discrimination
  - monopolistic competition
  - consumer surplus
  - deadweight loss
  - property rights
19. The government holds a monopoly on
- the use of force
  - common resources
  - public goods
  - rent seeking
  - electricity
20. What does the area below market price and above the supply curve represent?
- consumer surplus
  - total surplus
  - tax revenue
  - deadweight loss
  - producer surplus
21. Kale is an input for kale smoothies. The price of kale increases. What happens in the market for kale smoothies?
- Both equilibrium price and equilibrium quantity decrease.
  - Equilibrium quantity decreases and equilibrium price increases.
  - Equilibrium price decreases and equilibrium quantity increases.
  - Equilibrium quantity decreases and equilibrium price stays the same.
  - Both equilibrium price and equilibrium quantity increase.
22. As income increases, people tend to save more, making savings a(n)
- normal good
  - complement
  - inferior good
  - intermediate good
  - final good
23. Who sets the price in an informal market?
- a market planner
  - an auctioneer
  - the producers
  - the government
  - the natural forces of equilibrium
24. Which of the following characteristics describes a perfectly competitive market?
- small number of buyers
  - highly differentiated good
  - large number of sellers
  - buyers have control over the market price
  - lack of information about the market price
25. In the short-run, fixed costs
- decrease at an increasing rate
  - decrease continuously
  - increase at an increasing rate
  - stay constant
  - increase continuously
26. What does a central bank do?
- implements fiscal policy
  - regulates the supply of money
  - regulates aggregate demand
  - practices pork barrel politics
  - sets the real interest rate

27. The real interest rate is 5% and the rate of inflation is 3%. What is the nominal interest rate?
- 8%
  - 15%
  - 3%
  - 5%
  - 2%
28. What is the relationship between the velocity of money (V), the money supply (M), real Gross Domestic Product (Y), and the price level (P)?
- $MV = PY$
  - $M = YPV$
  - $MVP = Y$
  - $M/V = Y/P$
  - $MY = PV$
29. The United States runs a trade surplus, which means that
- more goods are produced offshore
  - government spending exceeds tax revenue
  - more tax revenue derives from trade than from property
  - investment spending exceeds the level of savings
  - exports exceed imports
30. According to the Circular Flow Model, suppliers of the factors of production are
- foreign consumers
  - the government
  - international firms
  - households
  - domestic firms
31. Gross Domestic Product only includes the value of all
- intermediate goods and services
  - exported goods
  - capital goods
  - final goods and services
  - perfectly competitive goods and services
32. The level of income in a closed economy is equal to the level of
- savings
  - taxes
  - investment
  - expenditures
  - foreign direct investment
33. Which entity calculates the Consumer Price Index?
- Department of Agriculture
  - Department of Commerce
  - Department of the Interior
  - Bureau of Labor Statistics
  - Federal Reserve
34. People who purchase stock receive
- dividends
  - government bonds
  - principal
  - interest payments
  - tax revenue
35. Inflation reflects
- an increase in savings
  - the devaluation of currency
  - a reduction in savings
  - long-run economic decline
  - long-run economic growth
36. Which of the following types of spending are NOT included in the real Gross Domestic Product?
- consumer nondurables
  - consumer durables
  - services
  - residential fixed investment
  - transfer payments
37. Which of the following goods is NOT a consumer nondurable?
- a table
  - a sweater
  - plastic bags
  - pencils
  - grapes
38. Mutual funds are
- a type of bond
  - a type of stock
  - financial intermediaries
  - participants in the market for goods and services
  - equivalent to banks
39. In a closed economy, savings always equals
- investment
  - government spending
  - taxes
  - consumption
  - government savings

40. In order to conduct open market operations, the Federal Reserve buys and sells
- private stocks
  - government stocks
  - mutual funds
  - private bonds
  - government bonds
41. Water is providing an ecosystem service when it
- powers a grain mill
  - offers a beautiful view
  - is home to spawning salmon
  - sustains a tilapia farm
  - waters a field of corn
42. What type of resource is water, most often?
- open-source
  - club
  - common-pool
  - private
  - public
43. A price schedule that charges more per unit as more water is used is called a(n)
- constant marginal price
  - variable marginal price
  - increasing block rate
  - decreasing block rate
  - flat fee
44. When both actors in an exchange have bargaining power, they can create a(n)
- oligopsony
  - monopsony
  - oligopoly
  - bilateral monopoly
  - duopoly
45. In which region of the United States did indigenous groups build canals?
- northeast
  - midwest
  - southwest
  - southeast
  - northwest
46. In general, locating a new market for extracted water will lead to
- fewer externalities
  - wasteful water use
  - higher pollution
  - higher prices
  - greater regulation
47. Which sector uses MOST water in Chile?
- agriculture
  - manufacturing
  - research and development
  - tourism
  - mining
48. Dominion Energy is MOST involved with cleaning up
- pesticide accumulation
  - coal ash
  - radioactive waste
  - plastic rubbish
  - nitrogen runoff
49. For what is the Cuyahoga River notorious?
- depositing heavy metals
  - breaking a dam
  - becoming salinized
  - catching fire
  - drying up
50. Which heavy metal contaminated the water of Flint, Michigan?
- mercury
  - cadmium
  - arsenic
  - mercury
  - lead

1. How does the public make economic choices according to the concept of rationality?
  - a. favoring monetary gains over opportunity gains
  - b. selecting actions with the greatest overall benefit
  - c. consulting with expert economic professionals
  - d. using a budget to set aside money for savings
  - e. researching all options available to them
2. What is an inescapable fact of human existence?
  - a. scarcity
  - b. labor
  - c. education
  - d. profit
  - e. trade
3. Which of the following models is NOT a microeconomic model?
  - a. the short-run aggregate supply curve
  - b. the supply curve for juice
  - c. the marginal revenue curve
  - d. a perfectly competitive market
  - e. the demand curve for jewelry
4. Which of the following arguments poses a normative reason to raise the minimum wage?
  - a. Most minimum wage workers are in retail or food service jobs.
  - b. Workers should be able to support their families on their income.
  - c. The purchasing power of the minimum wage has decreased.
  - d. Minorities make up a disproportionate percentage of workers.
  - e. States have increased their wages above the federal standard.
5. On what condition do gains from trade benefit everyone?
  - a. Costs are the same for everyone.
  - b. Mutual benefits outweigh the costs
  - c. Each person provides the same output.
  - d. Resources are distributed equally.
  - e. Participation is involuntary.
6. Which of the following statements does NOT describe a perfectly competitive market?
  - a. There are a large number of producers.
  - b. There are large number of consumers.
  - c. Consumers have no control over the market price.
  - d. The good is highly standardized.
  - e. Producers control the market price.
7. According to the law of demand, the demand curve is
  - a. elastic
  - b. upward sloping
  - c. downward sloping
  - d. unit elastic
  - e. inelastic
8. Assume hand sanitizer and face masks are complements. The price of hand sanitizer increases. In the market for face masks,
  - a. the demand curve shifts inward
  - b. the demand curve shifts inward
  - c. the supply curve shifts inward
  - d. neither curve shifts
  - e. the supply curve shifts outward
9. Zoom Pro and Microsoft Teams are substitutes. The price of Zoom Pro rises. In the market for Microsoft Teams,
  - a. equilibrium quantity decreases and equilibrium price increases
  - b. both equilibrium quantity and price decrease
  - c. both equilibrium quantity and price increase
  - d. equilibrium price increases and equilibrium quantity stays the same
  - e. equilibrium quantity increases and equilibrium price decreases
10. The price of toilet paper falls from \$10 to \$9. As a result, the quantity supplied of toilet paper falls from 50 to 45. The price elasticity of supply for toilet paper is
  - a. 11/10
  - b. 1/5
  - c. 5
  - d. 1
  - e. 10/11
11. A public good has
  - a. no barriers of entry and no rivalry
  - b. no excludability or rivalry
  - c. low excludability and rivalry
  - d. low excludability and no rivalry
  - e. high barriers of entry and low rivalry
12. What causes the tragedy of the commons?
  - a. a decrease in total aggregate wages
  - b. a collapse of the national currency
  - c. a large bank run
  - d. a sudden short-term supply shock to the economy
  - e. a lack of ownership regarding negative market externalities

13. An increase in the price of Neopets leads to an increase in demand for Tamagotchis. Relative to Neopets, Tamagotchis are a(n)
- complementary good
  - rivalrous good
  - elastic good
  - substitute good
  - alternate good
14. The increase of cost for producers to output additional goods is the
- fixed cost
  - variable cost
  - average cost
  - unit cost
  - marginal cost
15. What actor can resolve MOST externalities, according to Ronald Coase?
- the private market
  - city or state officials
  - the public sector
  - the federal government
  - industry leaders
16. Which of the following markets behaves MOST like that of an inferior good?
- airplane tickets
  - organic produce
  - inter-city bus service
  - brand-name clothing
  - discretionary travel
17. Taxation creates a difference between price and income known as
- distortionary tax
  - consumer surplus
  - excess quota
  - economic efficiency
  - deadweight loss
18. What advantage do firms with market power have?
- a majority market share in their industry
  - a product price that matches their cost
  - participation in a perfectly competitive market
  - an upward demand curve for their product
  - the ability to set prices within the market
19. The price of Zongzi is higher within Qin than in the rest of the world. If Qin opens its borders to trade, the market for Zongzi in Qin will see
- lower domestic consumption
  - lower domestic production
  - higher consumer surplus
  - reduced domestic prices
  - lower producer surplus
20. A rapid antigen test costs \$60. Snigdha is willing to pay \$70 and Arjun is willing to pay \$90. What is consumer surplus?
- \$60
  - \$10
  - \$40
  - \$30
  - \$20
21. Which of the following changes makes supply more elastic?
- decreasing the amount of available resources
  - adding to the length of production time
  - decreasing the amount of inventory on hand
  - limiting the amount of time to respond
  - making it easier for firms to enter the marketplace
22. Which of the following goods has a perfectly inelastic supply?
- first-edition Dickens novels
  - AIA life insurance policies
  - Van Gogh posters
  - National Steel construction beams
  - Taiwanese semiconductors
23. One production possibility frontier surpasses another on every point. The first producer has
- producer surplus
  - gain from trade
  - absolute advantage
  - comparative increase
  - specialization benefit
24. Which of the following long-term outcomes is NOT expected of rent control?
- attracting more renters to the area
  - landlords spending less on maintenance
  - demand outpacing available supply
  - fewer apartments being available
  - demand becoming inelastic over time

25. When do monopolies produce an outcome like that expected of competitive markets?
- They maintain separate branding for each division of the company.
  - They offer fewer levels of service to streamline operations.
  - They enact price discrimination between various customers.
  - They allow smaller companies to use their established framework.
  - They establish corporate offices in multiple locations.
26. How does Keynes's model for short-run fluctuations show expected inflation?
- The short-run aggregate supply curve shifts upward rapidly and then reverts to its original position.
  - The aggregate demand curve shifts inward and then either expansionary monetary policy or expansionary fiscal policy shifts it back outward.
  - The long-run aggregate demand curve shifts outward and potential output stays at its new level.
  - The aggregate demand curve shifts outward and the short-run aggregate supply curve shifts upward so that they intersect at potential output.
  - The aggregate demand curve shifts outward and the long-run aggregate supply curve shifts outward to compensate.
27. If the Federal Reserve exercises contractionary monetary policy,
- the value of money will decrease and the money supply will increase
  - both the value of money and the money supply will decrease
  - both the value of money and the money supply will increase
  - the money supply will decrease and the value of money will stay the same
  - the value of money will increase and the money supply will decrease
28. Which of the following situations is NOT an example of investment spending?
- Patrick purchases a new apartment.
  - Ned, the owner of a factory, purchases new equipment.
  - Martha stores jars of strawberry jam that she is currently unable to sell.
  - Sandy buys a new house.
  - Sanjay purchases stocks of a social media company.
29. Consumers suddenly want to carry more money. In the money market, the value of money
- stays the same but the money supply increases
  - increases and the money supply decreases
  - and the money supply increase
  - increases but the money supply does not change
  - and the money supply decrease
30. Why does an increase in oil prices NOT affect the long-run aggregate supply?
- The neutrality of money indicates that in the long run, prices will adjust back to normal.
  - An increase in oil prices will only affect business spending and therefore only changes aggregate demand.
  - The government immediately exercises expansionary fiscal policy to balance the increase in oil prices.
  - Long-run aggregate supply only reflects changes in the price of domestically produced goods.
  - An increase in oil prices will only affect the nominal Gross Domestic Product.
31. In the long-run, the supply curve in the market for money is
- downward sloping
  - upward sloping
  - horizontal
  - backward bending
  - vertical
32. Which of the following categories does the natural rate of unemployment include?
- technical unemployment
  - natural unemployment
  - frictional unemployment
  - seasonal unemployment
  - cyclical unemployment
33. Which type of loan involves the discount rate?
- a loan from an individual to a bank
  - a loan to a bank from the Federal Reserve
  - money sent from one person to another
  - a reserve lent from one bank to another bank
  - a loan from a bank to an individual

34. "Crowding out" refers to the tendency of government deficits to lead to a
- decrease in private investment
  - reduction in private interest rates
  - increase in federal tax revenue
  - acceleration of high inflation
  - contraction in overall fiscal policy
35. Which situation would be LEAST likely to affect the aggregate supply curve?
- a decrease in governmental regulations
  - an increase in skilled industry workers
  - an OPEC-initiated oil embargo
  - an overall increase in household incomes
  - a favorable crop year nationwide
36. What does the Consumer Price Index measure?
- the average price of goods across all markets in the country
  - the cost of a representative selection of consumer goods
  - the range of prices consumers are willing to pay
  - the cost of a selection of groceries in various markets
  - the sum of household expenditures every month
37. Since 1900, the average labor productivity of the United States economy has grown by a factor of approximately
- sixteen
  - two
  - four
  - thirty-two
  - eight
38. Why does an increase in oil prices NOT affect the long-run aggregate supply?
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  - An increase in oil prices will only affect the nominal Gross Domestic Product.
  - Long-run aggregate supply only reflects changes in the price of domestically produced goods.
39. When the economy is in a recession,
- the natural rate of unemployment rises
  - structural unemployment rises
  - frictional unemployment rises
  - cyclical unemployment rises
  - the labor force participation rate falls
40. According to Okun's law, an 8% increase in the output gap when output is above potential output corresponds to a(n)
- 4% decrease in the unemployment rate
  - 16% decrease in the rate of cyclical unemployment
  - 8% decrease in the rate of cyclical unemployment
  - 4% decrease in the rate of cyclical unemployment
  - 16% decrease in the unemployment rate
41. In which organization did owners help construct a ditch in exchange for access to the water?
- irrigation district
  - public utility
  - mutual ditch company
  - diversion dam company
  - acequia
42. This line of longitude separates the Eastern United States from the Western United States.
- 105<sup>th</sup> meridian
  - 75<sup>th</sup> meridian
  - 112<sup>th</sup> meridian
  - 90<sup>th</sup> meridian
  - 98<sup>th</sup> meridian
43. What is true of appropriative rights?
- They are granted when actors build irrigation infrastructure.
  - Their primary goal is to ensure a stable supply of water.
  - They are subject to state rather than federal control.
  - They do not require ownership of the land.
  - They are distributed according to principles of equity.
44. Which of the following devices save 10 to 35% of water compared to others?
- flood irrigation systems
  - diversion dams
  - sprinklers
  - jumbo rigs
  - groundwater pumps



45. The Aral Sea watershed lies alongside Kazakhstan and
- Kyrgyzstan
  - Turkmenistan
  - Uzbekistan
  - Georgia
  - Azerbaijan
46. Into which California lake have diversions reduced inflow to zero?
- Donner Lake
  - Shasta Lake
  - Lake Havasu
  - Owens Lake
  - Lake Sonoma
47. Elinor Ostrom would be BEST suited to advise a(n)
- city wishing to change its water supplier
  - individual negotiating with a private canal company
  - group of countries situated above a common aquifer
  - environmental working group studying a development plan
  - indigenous nation advocating for its ancestral water rights
48. What is the BEST definition of an externality?
- an exception that allows firms or individuals to do something without regulatory oversight
  - a circumstance in which one party can produce more of something with the same amount of effort and resources
  - a measurement of the capital that a firm holds after deducting liabilities to outsiders other than shareholders
  - a situation in which one party's actions affect the well-being of another without monetary consequences
  - a method of reducing risk by taking on new risk that offsets an existing one
49. Under what circumstances is a pollution hot spot MOST likely to arise?
- A region experiences an unexpected drought.
  - Several cities collude to take water away from a downstream region.
  - A new diversion dam is built to divert water to a city.
  - Many firms purchase pollution credits in the same area.
  - Regulators fail to properly assess a firm's polluting output.
50. Which type of project is MOST likely to require purchasing many credits from a private mitigation bank?
- cleaning up a coal ash pit
  - building a suburban high school
  - developing a new urban center
  - repairing a streamside watermill
  - expanding a small family farm

1. How do trade-offs produce opportunity costs?
  - a. Trade-offs create opportunity costs for those that fail to participate.
  - b. Since you must give up something to get something, the value of what you give up becomes your opportunity cost.
  - c. Trade-offs eliminate gains from trade, creating opportunity costs for everyone involved.
  - d. Trade-offs create scarcity and scarcity creates opportunity cost.
  - e. Having to deal with a trade-off is a part of the opportunity cost of an action.
2. According to rationality, people always
  - a. correctly calculate the costs and benefits of an action
  - b. consciously weigh the costs and benefits of an action
  - c. have to give up something to get something else
  - d. trade because they receive gains from trade
  - e. select the action perceived to produce the greatest benefit at the least cost
3. How can a situation be Pareto efficient while not maximizing total welfare?
  - a. All resources are used, but they are divided unevenly so that some receive more than others.
  - b. The resources are given to the consumers who value them the least.
  - c. The distribution of resources is carried out by a third party.
  - d. One person's well-being can be improved without reducing another person's well-being.
  - e. Not all available resources are used.
4. If everyone on Earth had the same skills, which of the following basic assumptions would not exist?
  - a. opportunity cost
  - b. rationality
  - c. trade-offs
  - d. scarcity
  - e. gains from trade
5. According to the law of supply, the supply curve is
  - a. elastic
  - b. unit elastic
  - c. downward sloping
  - d. inelastic
  - e. upward sloping
6. As income decreases, people tend to purchase more flour at every price. Therefore, flour is a(n)
  - a. public good
  - b. inferior good
  - c. normal good
  - d. complement
  - e. substitute
7. How does a change in the price of toothpaste affect the supply curve for toothpaste?
  - a. The supply curve shifts downward.
  - b. The supply curve shifts inward.
  - c. The supply curve shifts outward.
  - d. The change does not affect the supply curve.
  - e. The supply curve shifts upward.
8. Assume bottled water is a normal good. Consumer income rises. In the market for bottled water
  - a. both equilibrium price and quantity decrease
  - b. both equilibrium price and quantity increase
  - c. equilibrium price increases but equilibrium quantity stays the same
  - d. equilibrium price decreases and equilibrium quantity increases
  - e. equilibrium price increases and equilibrium quantity decreases
9. The price of rice falls from \$5.00 to \$4.99 a bag. As a result, the quantity supplied of rice falls from 100 bags to 0 bags. The supply of rice is
  - a. unit elastic
  - b. inelastic
  - c. elastic
  - d. perfectly elastic
  - e. perfectly inelastic
10. Firm X has diminishing returns to scale. If the marginal revenue is \$38 and the marginal cost is \$31, the firm should
  - a.
  - b.
  - c. increase production
  - d. reduce fixed-costs
  - e. spend more on labor

11. Which of the following circumstances does NOT describe a monopoly situation?
- NASA being the sole purchaser of space shuttles in the domestic market
  - author J.K. Rowling owning the copyright to her book series
  - the government granting patent rights to the inventor of a new gadget
  - a single company providing all electricity distribution to a community
  - Amtrak servicing the only railway connection between two cities
12. A cupcake shop sells 50 cupcakes a day at \$5 per cupcake. The shop's fixed costs are \$50 per day and the supplies needed to make one cupcake cost \$2 per cupcake. What is the shop's daily accounting profit?
- \$10
  - \$100
  - \$20
  - \$50
  - \$250
13. Which of the following characteristics does NOT apply to both monopolies and perfectly competitive firms?
- They set output at the point where marginal cost equals marginal revenue.
  - They seek to maximize accounting profits.
  - Their marginal revenue is downward sloping.
  - They seek to maximize economic profits.
  - They earn positive accounting profits.
14. The existence of differentiated products in a monopolistically competitive market tends to
- reduce producer surplus
  - reduce marginal revenue
  - increase consumer surplus
  - increase marginal revenue
  - reduce economic profits
15. Why does a monopoly create deadweight loss?
- Monopolies implement price discrimination so that the market price is higher than the socially optimal amount.
  - Deadweight loss is always created when market power exists.
  - Monopolies seek to differentiate their goods from those of other producers and this extra effort creates deadweight loss.
  - Monopolies implement rent seeking, creating unnecessary expenditures that make up deadweight loss.
  - Monopolies restrict quantity supplied in order to create economic profits so that quantity supplied is below the socially optimal amount.
16. Producers and consumers of sanitizing wipes expect that the price of sanitizing wipes will fall soon. How does this belief affect the market's equilibrium price and quantity?
- Equilibrium quantity will increase but the change in equilibrium price cannot be determined from the given information.
  - Equilibrium quantity will decrease but the change in equilibrium price cannot be determined from the given information.
  - Equilibrium price will increase but the change in equilibrium quantity cannot be determined from the given information.
  - The changes in equilibrium price and quantity cannot be determined from the given information.
  - Equilibrium price will decrease but the change in equilibrium quantity cannot be determined from the given information.
17. Sanjay paid \$200 for equipment and \$100 per day for the ingredients necessary to make and sell 50 scarves. If Sanjay were not a knitter, he could earn \$250 per day as a surfing instructor. Sanjay's economic cost per day is
- \$100
  - \$6
  - \$550
  - \$250
  - \$300

18. Why does possession of more modernized equipment fail to give one producer a comparative advantage over another producer?
- It provides an absolute advantage and absolute advantage is always paired with comparative disadvantage.
  - It provides an absolute advantage, but the opportunity cost of production may still be high.
  - Modernized equipment does not eliminate deadweight loss, so comparative advantage does not exist.
  - The government taxes modernized equipment, eliminating the potential for a comparative advantage.
  - The cost of the new equipment cancels out whatever benefit the new equipment brings.
19. The demand for oranges is elastic. The supply for oranges is inelastic. Why does a tax on oranges burden suppliers more than consumers?
- Consumers can change their consumption patterns more easily in response to the tax than suppliers can change their production patterns.
  - The deadweight loss from a tax is taken out of producer surplus since supply is the more inelastic curve.
  - The tax revenue is taken out of producer surplus since supply is the more inelastic curve.
  - Producer surplus is lower than consumer surplus if supply is inelastic, so a tax will reduce consumer surplus more.
  - Taxes always only burden producers while consumers are not affected.
20. In what MAIN way are cartels vulnerable?
- Cartels are a major target of government taxes.
  - The government strictly regulates cartel formation and often intervenes in cartel decision-making.
  - Each supplier within a cartel is tempted to lower its own price below the set price to increase revenue.
  - Cartels are often subject to price controls which impose price floors on the prices they can charge consumers.
  - Cartels only provide common resources and are therefore vulnerable to the tragedy of the commons.
21. Why do entrepreneurs make positive economic profits?
- they receive part of the government's tax revenue
  - They have lower opportunity costs than other producers.
  - They receive profits from the markets they destroy.
  - The government ensures that they have a monopoly on the production of their good.
  - they practice price discrimination, which allows them to collect profits
22. A previously closed economy opens to trade. In its strawberries market, producer surplus decreases while consumer surplus increases. What conclusion can you draw?
- The domestic demand for strawberries is inelastic.
  - The original domestic price of strawberries was lower than the world price.
  - The domestic supply of strawberries is elastic.
  - The domestic demand for strawberries is elastic.
  - The original domestic price of strawberries was greater than the world price.
23. The government imposes a \$0.10/unit tax on bubble tea. The quantity of bubble tea sold falls from 500 to 400. What is the tax's revenue?
- \$400
  - \$100
  - \$.40
  - \$.50
  - \$40
24. Which of the following situations is NOT an example of price discrimination?
- splitting passengers into first-class and economy
  - a storewide sale
  - distributing coupons to "valued customers"
  - lower prices for seniors and toddlers
  - need-based financial aid
25. Everyone suddenly has an irrepressible desire to go shopping. In the money market, the
- value of money increases while the supply of money stays the same
  - the supply of money and the value of money stay the same
  - value of money decreases while the supply of money stays the same
  - supply of money increases while the value of money stays the same
  - supply of money decreases while the value of money stays the same

26. Which of the following expenditures does investment NOT include?
- a store's purchase of goods for its inventory
  - a firm's purchase of company cars
  - a family's purchase of a house
  - a firm financing a new plant by issuing stock
  - a firm buying stock in another firm
27. One coffeemaker is worth 3 pillowcases. In one year, an economy makes 50 coffeemakers and 100 pillowcases. In that year, a coffeemaker costs \$30 and a pillowcase costs \$10. What is the real Gross Domestic Product in that year?
- 250 pillowcases
  - 150 pillowcases
  - \$1000
  - \$2500
  - \$1500
28. How do wealth effects explain the downward slope of the aggregate demand curve?
- At higher price levels, the prices of bonds also increases, increasing investment spending.
  - At higher price levels, consumers have less purchasing power, reducing consumption spending.
  - At higher price levels, inflation causes confusion about the real interest rate, lowering investment spending.
  - At lower price levels, foreigners have more purchasing power, increasing net exports.
  - At lower price levels, the government reduces taxes, increasing consumption spending.
29. Which of the following situations is an example of fiat money?
- coupons received in a classroom that can be exchanged for candy
  - a purchase of foreign currency at a favorable exchange rate
  - a barter set up to receive a used car in exchange for housekeeping
  - precious metals, like gold or silver
  - cigarettes traded by prisoners for goods and services
30. Why do economists NOT include intermediate goods in calculations of the GDP?
- The GDP only includes finished items.
  - They already appear in the GDP as revenue for the originating firm.
  - The price of the final product already reflects these goods.
  - They are a negligibly small portion of the total market share.
  - Since they are used up during production, they have no value.
31. The Consumer Price Index for 2012 is 120. The cost of the market basket in 2012 was \$240. In the base year, the market basket cost
- \$200
  - \$228
  - \$240
  - \$288
  - \$120
32. How does Keynes's model for short-run fluctuations show expected inflation?
- The aggregate demand curve shifts outward and the short-run aggregate supply curve shifts upward so that they intersect at potential output.
  - The aggregate demand curve shifts inward and then either expansionary monetary policy or expansionary fiscal policy shifts it back outward.
  - The long-run aggregate demand curve shifts outward and potential output stays at its new level.
  - The short-run aggregate supply curve shifts upward rapidly and then reverts to its original position.
  - The aggregate demand curve shifts outward and the long-run aggregate supply curve shifts outward to compensate.
33. Which of the following transactions would NOT be factored into the expenditures method?
- A domestic resident purchases a foreign-made children's toy.
  - A firm purchases a piece of new machinery as an investment.
  - A foreigner purchases a domestically produced pair of jeans.
  - The government pays Anne \$4000 as part of a welfare program.
  - The government gives Sarah \$4000 as part of a Social Security payment.

34. How does the Consumer Price Index differ from the Gross Domestic Product deflator?
- The Consumer Price Index measures changes in the price level while the Gross Domestic Product deflator measures total production.
  - The Consumer Price Index uses a fixed market basket while the Gross Domestic Product deflator's market basket changes depending on production.
  - The Consumer Price Index is measured annually while the Gross Domestic Product deflator is measured quarterly.
  - The Consumer Price Index is measured by the Department of Commerce while the Gross Domestic Product deflator is measured by the Bureau of Labor Statistics.
  - The Gross Domestic Product deflator usually overstates the cost of living while the Consumer Price Index understates the cost of living.
35. Hackers find employment in the black market. This employment is not reported. Which statistic is overestimated?
- the labor force participation rate
  - the employment rate
  - structural unemployment
  - cyclical unemployment
  - frictional unemployment
36. How is the real interest rate correlated with another metric in the bond market?
- positively, with the CPI
  - negatively, with the nominal interest rate
  - negatively, with the maturity of the bond
  - positively, with the risk the borrower will default
  - negatively, with the GDP deflator
37. Which of the following statements CORRECTLY describes the money market?
- The money supply is elastic with respect to the value of money.
  - The money supply is perfectly inelastic with respect to the value of money.
  - The demand for money is perfectly elastic with respect to the value of money
  - The money supply is inelastic with respect to the value of money.
  - The demand for money is unit elastic with respect to the value of money.
38. Compared to the graph of the supply of money measured using M1, the graph of the supply of money measured using M2 is
- shifted inward
  - shifted outward
  - less elastic
  - more elastic
  - the same
39. According to the Keynesian model for short-run fluctuations, a sudden, sharp increase in the price of water immediately leads to
- a decrease in the price level
  - an inward shift in the long-run aggregate supply curve
  - a decrease in Real Gross Domestic Product
  - an outward shift in the aggregate demand curve
  - sharp deflation
40. The Federal Reserve practices expansionary monetary policy. According to the Keynesian model for short-run fluctuations,
- long-run aggregate supply will shift outward
  - both real Gross Domestic Product and the price level will rise
  - real Gross Domestic Product will rise and the price level will fall
  - both real Gross Domestic Product and the price level will fall
  - short-run aggregate supply will shift downward
41. The Akosombo Dam lies on the
- Rio Grande
  - White Nile
  - Volta
  - Piave
  - Colorado
42. Low excludability and high rivalry are characteristic of
- club goods
  - common-pool goods
  - toll goods
  - public goods
  - private goods
43. Economies of scale come into play when quantity produced increases and
- quantity demanded decreases
  - taxation increases
  - marginal cost decreases
  - total cost decreases
  - pricing increases

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44. One outcome of the San Francisco earthquake was
- rapid population growth in the Bay Areas
  - the construction of the first desalination plant
  - more highly polluted water
  - increased price of water
  - the shift to municipal water control
45. Which industry collapsed because of diversions away from the Aral Sea?
- mining
  - fishing
  - smelting
  - farming
  - refining
46. Which principle states that consumers choose between goods in order to maximize utility?
- invisible hand principle
  - equimarginal principle
  - free trade principle
  - equity principle
  - motivation principle
47. Which types of rights are more common in western states than in other regions?
- natural rights
  - littoral rights
  - riparian rights
  - instream flow rights
  - contractual rights
48. The optimal level regulations occur where the marginal control cost equals the
- negative marginal cost
  - external marginal cost
  - internal marginal cost
  - social marginal damage
  - marginal cost of supply
49. Supply and demand determine the price of pollution permits in a
- nutrient credit market
  - common-pool market
  - cap-and-trade system
  - mutual water market
  - regulatory standards system
50. The North Carolina Department of Energy allows nutrient allocation trades between
- individual households
  - point source polluters
  - urban developers
  - public utilities
  - private mitigation banks