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| 1. | The primary goal of economic activities is to:    |  |  | | --- | --- | | A. | expand the production of goods and services. |  |  |  | | --- | --- | | B. | equalize the distribution of consumer income and wealth. |  |  |  | | --- | --- | | C. | make the most efficient use of scarce productive resources. |  |  |  | | --- | --- | | D. | reallocate resources from consumption to production in the economy. | |

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| 2. | The term "scarcity" in economics can refer to the fact that:      |  |  | | --- | --- | | A. | economic wants are limited and resources are abused. |  |  |  | | --- | --- | | B. | even in the richest country some people go hungry. |  |  |  | | --- | --- | | C. | no country can produce enough products to satisfy everybody's economic wants. |  |  |  | | --- | --- | | D. | it is impossible to produce too much of any particular good or service in a market economy. | |

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| 3. | Henry wants to buy a book. The economic perspective suggests that Henry will buy the book if:    |  |  | | --- | --- | | A. | the book will give him utility. |  |  |  | | --- | --- | | B. | his income is high. |  |  |  | | --- | --- | | C. | the marginal cost of the book is greater than its marginal benefit. |  |  |  | | --- | --- | | D. | the marginal benefit of the book is greater than its marginal cost. | |  |  | |

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| 4. | From an economic perspective, when consumers leave a fast food restaurant because the lines to be served are too long, they have concluded the:    |  |  | | --- | --- | | A. | marginal cost of waiting is less than the marginal benefit of being served. | | B. | marginal cost of waiting is greater than the marginal benefit of being served. | | C. | management is exhibiting irrational behavior by not maximizing profits. | | D. | management is making an assumption that other things are equal. | |

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| 5. | Refer to the above graph. The shift of the budget line from *AB* to *CD* is consistent with:      |  |  | | --- | --- | | A. | a decrease in money income. |  |  |  | | --- | --- | | B. | an increase in money income. |  |  |  | | --- | --- | | C. | an increase in the price of Good 1 and no change in the price of Good 2. |  |  |  | | --- | --- | | D. | a decrease in the price of Good 2 and no change in the price of Good 1. | |

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| 6. | When an economy is at full employment and full production, more of any one product:      |  |  | | --- | --- | | A. | cannot be produced because there is full production. |  |  |  | | --- | --- | | B. | can be produced only if there is a general decrease in prices. |  |  |  | | --- | --- | | C. | can be produced only if there is less production of some other products. |  |  |  | | --- | --- | | D. | cannot be produced unless private enterprise does so rather than government. | |

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| 7. | The following economy produces two products.      Refer to the above table. The total opportunity cost of the three units of tanks is:    |  |  | | --- | --- | | A. | 200 units of autos. |  |  |  | | --- | --- | | B. | 350 units of autos. |  |  |  | | --- | --- | | C. | 650 units of autos. |  |  |  | | --- | --- | | D. | 1000 units of autos. | |

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| 8. | How does human specialization contribute to an economy's output?      |  |  | | --- | --- | | A. | It makes use of differences in abilities. |  |  |  | | --- | --- | | B. | It is a process of creative destruction. |  |  |  | | --- | --- | | C. | It works like an "invisible hand." |  |  |  | | --- | --- | | D. | It decreases derived demand. | |

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| 9. | Consumer sovereignty and "dollar votes" are most related to which fundamental question about a competitive market system?      |  |  | | --- | --- | | A. | What goods and services will be produced? |  |  |  | | --- | --- | | B. | How will the goods and services be produced? |  |  |  | | --- | --- | | C. | How will the system promote progress? |  |  |  | | --- | --- | | D. | Who will get the goods and services? | |

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| 10. | What to produce in a market economy is ultimately determined by the:      |  |  | | --- | --- | | A. | output decisions of business firms. |  |  |  | | --- | --- | | B. | income plans of households. |  |  |  | | --- | --- | | C. | spending decisions of households. |  |  |  | | --- | --- | | D. | workers' technical skills. | |

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| 11. | From society's point of view, the economic function of profits is to:    |  |  | | --- | --- | | A. | equalize incomes. |  |  |  | | --- | --- | | B. | ensure that the rich get richer. |  |  |  | | --- | --- | | C. | provide revenues to pay high wages. |  |  |  | | --- | --- | | D. | direct resources in response to changes in the economy. | |  |  | |

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| 12. | The development of the Internet and e-mail to often replace regular mail services is an example of:    |  |  | | --- | --- | | A. | roundabout production. |  |  |  | | --- | --- | | B. | derived demand. |  |  |  | | --- | --- | | C. | creative destruction. |  |  |  | | --- | --- | | D. | specialization. | |

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| 13. | Which of the following *does not* explain why the command systems of the Soviet Union and Eastern Europe failed?      |  |  | | --- | --- | | A. | Coordination problems. |  |  |  | | --- | --- | | B. | Prices and profits did not fluctuate to reflect wants for a different allocation of resources. |  |  |  | | --- | --- | | C. | Incentive problems. |  |  |  | | --- | --- | | D. | The failure to use money for most exchanges. | |

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| 14. | The money income of households consists of the sum of:      |  |  | | --- | --- | | A. | wages plus salaries plus benefits. |  |  |  | | --- | --- | | B. | consumption expenditures plus profits. |  |  |  | | --- | --- | | C. | wages plus rents plus interest plus profits. |  |  |  | | --- | --- | | D. | consumption expenditures plus costs of resources. | |

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| 15. | In the past few years the demand for donuts has greatly increased. This increase in demand might best be explained by:      |  |  | | --- | --- | | A. | an increase in the cost of making donuts. |  |  |  | | --- | --- | | B. | an increase in the price of coffee. |  |  |  | | --- | --- | | C. | consumers expecting donut prices to fall. |  |  |  | | --- | --- | | D. | a change in buyer tastes. | |

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| 16. | In 2007 the price of oil increased, which in turn caused the price of natural gas to rise. This can best be explained by saying that oil and natural gas are:      |  |  | | --- | --- | | A. | complementary goods and the higher price for oil increased the demand for natural gas. |  |  |  | | --- | --- | | B. | substitute goods and the higher price for oil increased the demand for natural gas. |  |  |  | | --- | --- | | C. | complementary goods and the higher price for oil decreased the supply of natural gas. |  |  |  | | --- | --- | | D. | substitute goods and the higher price for oil decreased the supply of natural gas. | |

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| 17. | A shift to the right in the demand curve for product A can be most reasonably explained by saying that:      |  |  | | --- | --- | | A. | consumer incomes have declined and they now want to buy less of A at each possible price. |  |  |  | | --- | --- | | B. | the price of A has increased and, as a result, consumers want to purchase less of it. |  |  |  | | --- | --- | | C. | consumer preferences have changed in favor of A so that they now want to buy more at each possible price. |  |  |  | | --- | --- | | D. | the price of A has decreased and, as a result, consumers want to purchase more of it. | |

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| 18. | Other things equal, which of the following might shift the demand curve for gasoline to the left?    |  |  | | --- | --- | | A. | The discovery of vast new tar sands oil reserves in Canada |  |  |  | | --- | --- | | B. | The development of a low-cost electric automobile |  |  |  | | --- | --- | | C. | An increase in the price of train and air transportation |  |  |  | | --- | --- | | D. | A large decline in the price of automobiles | |  |  | |
| 19. | Suppose an excise tax is imposed on product X. We would expect this tax to:    |  |  | | --- | --- | | A. | increase the demand for complementary good Y and decrease the demand for substitute product Z. | | B. | decrease the demand for complementary good Y and increase the demand for substitute product Z. | | C. | increase the demands for both complementary good Y and substitute product Z. | | D. | decrease the demands for both complementary good Y and substitute product Z. | |

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| 20. | Refer to the above diagram. A decrease in demand is depicted by a:      |  |  | | --- | --- | | A. | move from point *x* to point *y*. |  |  |  | | --- | --- | | B. | shift from *D*1 to *D*2. |  |  |  | | --- | --- | | C. | shift from *D*2 to *D*1. |  |  |  | | --- | --- | | D. | move from point *y* to point *x*. | |

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| 21. | A decrease in the demand for recreational fishing boats might be caused by an increase in the:      |  |  | | --- | --- | | A. | income of sports fishers. |  |  |  | | --- | --- | | B. | price of outboard motors. |  |  |  | | --- | --- | | C. | size and number of fish available. |  |  |  | | --- | --- | | D. | price of sailing boats. | |

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| 22. | An increase in product price will cause:      |  |  | | --- | --- | | A. | quantity demanded to decrease. |  |  |  | | --- | --- | | B. | quantity supplied to decrease. |  |  |  | | --- | --- | | C. | quantity demanded to increase. |  |  |  | | --- | --- | | D. | the supply curve to shift to the left. | |

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| 23. | Refer to the above diagram. A decrease in supply is depicted by a:      |  |  | | --- | --- | | A. | move from point *x* to point *y*. |  |  |  | | --- | --- | | B. | shift from *S*1 to *S*2. |  |  |  | | --- | --- | | C. | shift from *S*2 to *S*1. |  |  |  | | --- | --- | | D. | move from point *y* to point *x*. | |

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| 24. | Because of unseasonably cold weather, the supply of oranges has substantially decreased. This statement indicates that:      |  |  | | --- | --- | | A. | the demand for oranges will necessarily rise. |  |  |  | | --- | --- | | B. | the equilibrium quantity of oranges will rise. |  |  |  | | --- | --- | | C. | the amount of oranges that will be available at various prices has declined. |  |  |  | | --- | --- | | D. | the price of oranges will fall. | |  |  | |
| 25. | Assume a drought in the Great Plains reduces the supply of wheat. Since wheat is a basic ingredient in the production of bread and potatoes are a consumer substitute for bread, we would expect the price of wheat to:      |  |  | | --- | --- | | A. | rise, the supply of bread to increase, and the demand for potatoes to increase. | | B. | rise, the supply of bread to decrease, and the demand for potatoes to increase. | | C. | rse, the supply of bread to decrease, and the demand for potatoes to decrease. | | D. | fall, the supply of bread to increase, and the demand for potatoes to increase. | |

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| 26. | An increase in the excise tax on cigarettes raises the price of cigarettes by shifting the:      |  |  | | --- | --- | | A. | demand curve for cigarettes rightward. |  |  |  | | --- | --- | | B. | demand curve for cigarettes leftward. |  |  |  | | --- | --- | | C. | supply curve for cigarettes rightward. |  |  |  | | --- | --- | | D. | supply curve for cigarettes leftward. | |

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| 27. | Suppose that corn prices rise significantly. If farmers expect the price of corn to continue rising relative to other crops, then we would expect:      |  |  | | --- | --- | | A. | the supply of ethanol, a corn-based product, to increase. |  |  |  | | --- | --- | | B. | consumer demand for wheat to fall. |  |  |  | | --- | --- | | C. | the supply to increase as farmers plant more corn. |  |  |  | | --- | --- | | D. | the supply to fall as farmers plant more of other crops. | |
| 28. | Refer to the above table. If demand is represented by columns (3) and (1) and supply is represented by columns (3) and (4), equilibrium price and quantity will be:      |  |  | | --- | --- | | A. | $10 and 60 units. |  |  |  | | --- | --- | | B. | $9 and 60 units. |  |  |  | | --- | --- | | C. | $8 and 80 units. |  |  |  | | --- | --- | | D. | $7 and 30 units. | |  |  | |
| 29. | Refer to the above table. Suppose that demand is represented by columns (3) and (2) and supply is represented by columns (3) and (5). If the price were artificially set at $9:      |  |  | | --- | --- | | A. | the market would clear. | | B. | a surplus of 20 units would occur. | | C. | a shortage of 20 units would occur. | | D. | demand would change from columns (3) and (2) to columns (3) and (1). | |  |  | |
| 30. | Refer to the above diagram. The equilibrium price and quantity in this market will be:      |  |  | | --- | --- | | A. | $1.00 and 200. | | B. | $1.60 and 130. | | C. | $.50 and 130. | | D. | $1.60 and 290. | |