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# Economics MCQs

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## Chapter 1

1. Which of the following concepts represents the extra revenue a firm receives from the services of an additional unit of a factor of production?

- A. Total revenue
- B. Marginal physical product
- C. Marginal revenues product
- D. Marginal revenue

2. Workers Quantity Produced

- 1 15
- 2 28
- 3 39
- 4 48
- 5 55
- 6 60

This company is a profit-maximizing firm selling in a competitive product market and hiring in a competitive labor market. It uses semi-skilled labor to produce dampers used in office building ventilation systems. Assume that the current market price per damper is \$50 and that the prevailing weekly salary per semi-skilled worker is \$550. This company should employ \_\_\_\_\_ workers.

- A. 2
- B. 3
- C. 4
- D. 5
- E. 6

3. The demand for labor is the same as the

- A. Marginal revenue product
- B. Marginal physical product
- C. Marginal cost
- D. Wage

4. The demand for labor slopes down and to the right because of

- A. The law of demand
- B. The iron law of wages
- C. The law of diminishing marginal returns
- D. Economies of scale

5. The demand for labor will be more elastic if:

- A. There are few substitutes for labor
- B. There is a short time under consideration
- C. Labor is a large percent of the total cost of production
- D. The demand for the product is relatively inelastic
- E. All of the above

6. Skills that can be transferred to other employers are called:

- A. General skills
- B. Specific skills
- C. Non-pecuniary skills
- D. All of the above

**7. Which skills are most likely to be paid for by the employer?**

- A. General skills
- B. Specific skills
- C. Educational skills
- D. None of Above

**8. If worker A earns more in wages than worker B, it could be because:**

- A. The product made by worker A sells for a higher price than that made by worker B
- B. Worker A uses more capital per worker than worker B
- C. Worker A has more natural ability than worker B
- D. All of the above

**9. Skills that embodied in a person are called**

- A. Human capital
- B. Embodied skills
- C. Physical capital
- D. Experience skills

**10. “Treating an individual as typical of a group” is the definition of**

- A. Pure discrimination
- B. Statistical discrimination
- C. Human capital
- D. Specific skills

**Answers**

1. C  
6. A

2. B  
7. B

3. A  
8. D

4. C  
9. A

5. C  
10. B

## Chapter 2

1. The largest source of tax revenue for the federal government is:

- A. The personal income tax
- B. The social security tax
- C. The property tax
- D. The sales tax

2. When my income was \$100,000, I paid \$10,000 in taxes. When my income became \$200,000, I paid \$40,000 in taxes. My marginal tax rate is:

- A. 10%
- B. 20%
- C. 30%
- D. 40%

3. The tax is question #2 is:

- A. Progressive
- B. Regressive
- C. Proportional
- D. None of above

4. Which of the following taxes is regressive?

- A. The federal income tax
- B. The state income tax
- C. The sales tax
- D. The Medicare tax

5. Assume that there are two goods, A and B. In 1996, Americans produced 10 units of A at a price of \$10 and 20 units of B at a price of \$20. In 2002, Americans produced 20 units of A at a price of \$20 and 30 units of B at a price of \$30. The Nominal GDP for 2002 is:

- A. \$100
- B. \$400
- C. \$500
- D. \$900
- E. \$1300

6. Using the numbers in question 5, the Real GDP for 2002 is:

- A. \$400
- B. \$500
- C. \$800
- D. \$900
- E. \$1,300

7. Which of the following statements is/are true?

- A. Business Investment Spending occurs when individuals buy stock in the stock market
- B. Productivity in the United States grew very slowly between 1973 and 1996
- C. Because of discouraged workers, the official unemployment rate is too high
- D. "Full employment" occurs when there is no frictional unemployment

8. Immediately after a trough, we would expect to have a/an

- A. Peak
- B. Recesson
- C. Recovery
- D. Another trough

**9. Last week, Martha spent one day cleaning a house. For this, she was paid \$50. The rest of the week, she spent looking for a job. Martha would be classified as**

- A. Employed
- B. Unemployed
- C. Not in the labor force
- D. None of above

**10. John lost his accounting job when Montgomery Wards closed its stores in San Diego. He looked for a similar job for ten months before finding an accounting job at Sears. During the month John was unemployed, he was**

- A. Frictionally unemployed
- B. Seasonally unemployed
- C. Cyclically unemployed
- D. Structurally unemployed

**Answers**

- |      |      |      |      |       |
|------|------|------|------|-------|
| 1. A | 2. C | 3. A | 4. C | 5. E  |
| 6. C | 7. B | 8. C | 9. A | 10. D |

## Chapter 3

1. The fundamental economic problem faced by all societies is:

- A. Unemployment
- B. Inequality
- C. Poverty
- D. Scarcity

2. "Capitalism" refers to:

- A. The use of markets
- B. Government ownership of capital goods
- C. Private ownership of capital goods
- D. Private ownership of homes & cars

3. There are three fundamental questions every society must answer. Which of the following is/are one of these questions?

- A. What goods and services are to be produced?
- B. How are the goods and services to be produced?
- C. Who will get the goods and services that are produced?
- D. All of the above

4. If you were working full-time now, you could earn \$20,000 per year. Instead, you are working part-time while going to school. In your current part-time job, you earn \$5,000 per year. At your school, the annual cost of tuition, books, and other fees is \$2,000. The opportunity cost of completing your education is:

- A. \$2,000
- B. \$5,000
- C. \$17,000
- D. \$20,000
- E. \$22,000

5. The bowed shape of the production possibilities curve illustrates:

- A. The law of increasing marginal cost
- B. That production is inefficient
- C. That production is unattainable
- D. The demand is relatively inelastic

6. You have taken this quiz and received a grade of 3 out of a possible 10 points (F). You are allowed to take a second version of this quiz. If you score 7 or more, you can raise your score to a 7 (C). You will need to study for the second version. In making a rational decision as to whether or not to retake the test, you should

- A. Always retake the quiz
- B. Consider only the marginal benefits from of retaking the quiz (four extra points)
- C. Consider only the marginal opportunity costs from taking the quiz (the time spent Studying and taking the quiz)
- D. Consider both the marginal benefits and the marginal opportunity costs of retaking the quiz

7. The law of demand states that:

- A. As the quantity demanded rises, the price rises
- B. As the price rises, the quantity demanded rises

- C. As the price rises, the quantity demanded falls
- D. As supply rises, the demand rises

**8. The price elasticity of demand is the:**

- A. Percentage change in quantity demanded divided by the percentage change in price
- B. Percentage change in price divided by the percentage change in quantity demanded
- C. Dollar change in quantity demanded divided by the dollar change in price
- D. Percentage change in quantity demanded divided by the percentage change in quantity supplied

**9. Community Colleges desired to increase revenues. They decided to raise fees paid by students with Bachelors degrees to \$50 per unit because they believed this would result in greater revenues. But in reality, total revenues fell. Therefore, the demand for Community College courses by people with Bachelors degrees must have actually been:**

- A. Relatively inelastic
- B. Unit elastic
- C. Relatively elastic
- D. Perfectly elastic

**10. The demand for a product would be more inelastic:**

- A. The greater is the time under consideration
- B. The greater is the number of substitutes available to buyers
- C. The less expensive is the product in relation to incomes
- D. All of the above

**Answers:**

- |      |      |      |      |       |
|------|------|------|------|-------|
| 1. D | 2. C | 3. D | 4. C | 5. A  |
| 6. D | 7. C | 8. A | 9. C | 10. C |

## Chapter 4

**1. In the case of agriculture,**

- a. the demand has shifted to the right more than the supply has shifted to the right
- b. the demand has shifted to the right less than the supply has shifted to the right
- c. the demand has shifted to the left more than the supply has shifted to the left
- d. the demand has shifted to the left less than the supply has shifted to the left

**2. The agricultural price support program is an example of**

- a. a price ceiling
- b. a price floor
- c. equilibrium pricing
- d. none of above

**3. If there is a price floor, there will be**

- a. shortages
- b. surpluses
- c. equilibrium
- d. none of above

**4. If there is a price ceiling, there will be**

- a. shortages
- b. surpluses
- c. equilibrium
- d. none of above

**5. If there is a price ceiling, which of the following is NOT likely to occur?**

- a. rationing by first-come, first-served
- b. black markets
- c. gray markets
- d. sellers providing goods for free that were formerly not free

**6. The goal of a pure market economy is to best meet the desires of**

- a. consumers
- b. companies
- c. workers
- d. the government

**7. In a pure market economy, which of the following is a function of the price? I. provide information to sellers and buyers , II. provide incentives to sellers and buyers**

- a. I only
- b. II only
- c. both I and II
- d. neither I nor II

**8. In a market system, sellers act in \_\_\_\_\_ interest , but this leads to behaviors in \_\_\_\_\_ interest.**

- a. self; self
- b. self; society's
- c. society's; society's

d. society's; self

**9. The law of diminishing (marginal) returns states that as more of a variable factor is added to a certain amount of a fixed factor, beyond some point:**

- a. Total physical product begins to fall
- b. The marginal physical product rises
- c. The marginal physical product falls
- d. The average physical product falls

**10. Why is the law of diminishing marginal returns true?**

- a. specialization and division of labor
- b. spreading the average fixed cost
- c. limited capital
- d. all factors being variable in the long-run

**Answers**

1. B  
6. A

2. B  
7. C

3. B  
8. B

4. A  
9. C

5. D  
10. C

## Chapter 5

1. Which of the following is a characteristic of pure monopoly?

- a. one seller of the product
- b. low barriers to entry
- c. close substitute products
- d. perfect information

2. In pure monopoly, what is the relation between the price and the marginal revenue?

- a. the price is greater than the marginal revenue
- b. the price is less than the marginal revenue
- c. there is no relation
- d. they are equal

3. In order to maximize profits, a monopoly company will produce that quantity at which the:

- a. marginal revenue equals average total cost
- b. price equals marginal revenue
- c. marginal revenue equals marginal cost
- d. total revenue equals total cost

4. Quantity Price Total Cost

1 \$100 \$ 60

2 95 130

3 90 210

4 85 300

5 80 400

This monopolist should produce:

- a. 1
- b. 2
- c. 3
- d. 4
- e. 5

5. Compared to the case of perfect competition, a monopolist is more likely to:

- a. charge a higher price
- b. produce a lower quantity of the product
- c. make a greater amount of economic profit
- d. all of the above

6. Which of the following is necessary for a natural monopoly?

- a. economies of scale
- b. a high proportion of the total cost is the cost of capital goods
- c. the market is very small
- d. all of the above

7. Which of the following is true about the way by which SDG&E has been regulated by the PUC?

- a. SDG&E has been allowed to earn very high economic profits
- b. The profits of SDG&E are calculated as a percent of the value of the capital goods
- c. When the demand for electricity would fall, the price of electricity would also fall
- d. All of the above

**8. Which of the following best defines price discrimination?**

- a. charging different prices on the basis of race
- b. charging different prices for goods with different costs of production
- c. charging different prices based on cost-of-service differences
- d. selling a certain product of given quality and cost per unit at different prices to different buyers

**9. In order to practice price discrimination, which of the following is needed?**

- a. some degree of monopoly power
- b. an ability to separate the market
- c. an ability to prevent reselling
- d. all of the above

**10. In price discrimination, which section of the market is charged the higher price?**

- a. the section with the richest people
- b. the section with the oldest people
- c. the section with the most inelastic demand
- d. the section with the most elastic demand

**Answers**

1. A  
6. D

2. A  
7. B

3. C  
8. D

4. C  
9. D

5. D  
10. C

## Chapter 7

1. Which of the following concepts represents the extra revenue a firm receives from the services of an additional unit of a factor of production?

- a. total revenue
- b. marginal physical product
- c. marginal revenue product
- d. marginal revenue

2. Workers Quantity Produced

1 15

2 28

3 39

4 48

5 55

6 60

This company is a profit-maximizing firm selling in a competitive product market and hiring in a competitive labor market. It uses semi-skilled labor to produce dampers used in office building ventilation systems. Assume that the current market price per damper is \$50 and that the prevailing weekly salary per semi-skilled worker is \$550. This company should employ \_\_\_\_\_ workers.

- a. 2
- b. 3
- c. 4
- d. 5
- e. 6

3. The demand for labor is the same as the

- a. marginal revenue product
- b. marginal physical product
- c. marginal cost
- d. wage

4. The demand for labor slopes down and to the right because of

- a. the law of demand
- b. the iron law of wages
- c. the law of diminishing marginal returns
- d. economies of scale

5. The demand for labor will be more elastic if:

- a. there are few substitutes for labor
- b. there is a short time under consideration
- c. labor is a large percent of the total cost of production
- d. the demand for the product is relatively inelastic
- e. all of the above

6. Skills that can be transferred to other employers are called:

- a. general skills
- b. specific skills
- c. non-pecuniary skills
- d. all of the above

**7. Which skills are most likely to be paid for by the employer?**

- a. General skills
- b. Specific skills
- c. Educational skills
- d. none of above

**8. If worker A earns more in wages than worker B, it could be because:**

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- b. Worker A uses more capital per worker than worker B
- c. Worker A has more natural ability than worker B
- d. All of the above

**9. Skills that embodied in a person are called**

- a. Human capital
- b. Embodied skills
- c. Physical capital
- d. Experience skills

**10. “Treating an individual as typical of a group” is the definition of**

- a. pure discrimination
- b. statistical discrimination
- c. human capital
- d. specific skills

**Answers**

1. C  
6. A

2. B  
7. B

3. A  
8. D

4. C  
9. A

5. C  
10. B

## Chapter 7

1. The largest source of tax revenue for the federal government is:

- a. the personal income tax
- b. the social security tax
- c. the property tax
- d. the sales tax

2. When my income was \$100,000, I paid \$10,000 in taxes. When my income became \$200,000, I paid \$40,000 in taxes. My marginal tax rate is:

- a. 10%
- b. 20%
- c. 30%
- d. 40%

3. The tax in question #2 is:

- a. progressive
- b. regressive
- c. proportional
- d. None of above

4. Which of the following taxes is regressive?

- a. the federal income tax
- b. the state income tax
- c. the sales tax
- d. the Medicare tax

5. Assume that there are two goods, A and B. In 1996, Americans produced 10 units of A at a price of \$10 and 20 units of B at a price of \$20. In 2002, Americans produced 20 units of A at a price of \$20 and 30 units of B at a price of \$30. The Nominal GDP for 2002 is:

- a. \$100
- b. \$400
- c. \$500
- d. \$900
- e. \$1300

6. Using the numbers in question 5, the Real GDP for 2002 is:

- a. \$400
- b. \$500
- c. \$800
- d. \$900
- e. \$1,300

7. Which of the following statements is/are true?

- a. Business Investment Spending occurs when individuals buy stock in the stock market
- b. Productivity in the United States grew very slowly between 1973 and 1996
- c. Because of discouraged workers, the official unemployment rate is too high
- d. "Full employment" occurs when there is no frictional unemployment

**8. Immediately after a trough, we would expect to have a/an**

- a. peak
- b. recession
- c. recovery
- d. another trough

**9. Last week, Martha spent one day cleaning a house. For this, she was paid \$50. The rest of the week, she spent looking for a job. Martha would be classified as**

- a. employed
- b. unemployed
- c. not in the labor force
- d. none of thme

**10. John lost his accounting job when Montgomery Wards closed its stores in San Diego. He looked for a similar job for ten months before finding an accounting job at Sears. During the month John was unemployed, he was**

- a. frictionally unemployed
- b. seasonally unemployed
- c. cyclically unemployed
- d. structurally unemployed

**Answers:**

1. A  
6. C

2. C  
7. B

3. A  
8. C

4. C  
9. A

5. E  
10. D

## Chapter 8

**1. Assume that there are only two goods: A and B**

**In the base year, Quantity Price**

A 10 \$1

B 10 \$4

**In the current year, Quantity Price**

A 20 \$5

B 25 \$20

The Consumer Price Index (CPI) for the current year is:

- a. 50
- b. 100
- c. 200
- d. 500
- e. 600

**2. Which of the following groups is most hurt by unexpected inflation?**

- a. workers with cost of living adjustments in their labor contracts
- b. homeowners
- c. people with large debts to pay for their homes and cars
- d. people with large retirement savings held in savings accounts

**3. If the nominal interest rate is 5% and the inflation rate is 2%, the real interest rate is:**

- a. 2%
- b. 3%
- c. 5%
- d. 7%
- e. 2 ½%

**4. For which of the following reasons might inflation cause Real GDP to grow slower than it otherwise would?**

- a. Inflation makes everyone poorer
- b. Inflation reduces the value of consumer debt
- c. Inflation increases business investment spending
- d. Inflation decreases savings in financial form

**5. Disposable Income is equal to**

- a. National Income c. National Income Minus Taxes
- b. Real GDP
- c. National Income Minus Taxes
- d. National Income Minus Taxes Plus Transfers

**6. Assume that Potential Real GDP equals \$10,000. National Income is therefore \$10,000. Of this, consumers will pay \$2,000 in taxes, save \$1,000, and spend \$7,000 on consumer goods. Business Investment spending is \$2000. In order to avoid recessions and inflation (to have equilibrium), the government should have a:**

- a. balanced budget
- b. budget deficit of \$1000
- c. budget surplus of \$1000

d. budget deficit of \$2000

**7. According to Keynes, when the Great Depression started, the government should have:**

- a. done nothing
- b. decreased the money supply
- c. had a large increase in government spending
- d. enacted high tariffs, such as the Smoot-Hawley Tariff

**8. If the government lowers taxes by \$10 billion, the Real GDP will rise by**

- a. more than \$10 billion
- b. less than \$10 billion
- c. exactly \$10 billion
- d. none of above

**9. Which of the following is an automatic stabilizer?**

- a. unemployment benefits
- b. spending on education
- c. defense spending
- d. net interest

**10. "Crowding out" means that**

- a. a government budget deficit lowers interest rates and causes investment spending to rise
- b. an increase in marginal tax rates lowers production
- c. a government budget deficit raises interest rates and causes investment spending to fall
- d. a government budget deficit raises American exports and lowers American imports

**Answers:**

1. D  
6. C

2. D  
7. C

3. B  
8. A

4. D  
9. A

5. D  
10. C

## Chapter 9

**1. Which of the following IS a function of money?**

- a. medium of exchange
- b. store of value
- c. unit of accounting
- d. all of the above

**2. Which of the following is a component of M-1?**

- a. savings deposits
- b. credit card
- c. checkable deposits
- d. gold

**3. Which of the following is a NOT component of M-2?**

- a. small time deposits
- b. money market mutual funds
- c. stocks
- d. checkable deposits

**4. Which of the following is true about the Federal Reserve System (Fed)?**

- a. it is a system of 12 central banks
- b. its Board of Governors is elected by a vote of the people
- c. its main policy-making body is the FDIC
- d. it accepts deposits from the public and makes loans to businesses
- e. all of the above

**5. An IOU of the Federal Reserve Bank of San Francisco to Bank of America is called:**

- a. discounts
- b. federal funds
- c. reserves
- d. collateral

**6. Which of the following is the most liquid?**

- a. a savings account
- b. a 6 month CD
- c. a home
- d. water

**7. The monetary base is composed of:**

- a. gold and silver
- b. currency only
- c. currency and reserves
- d. currency and checkable deposits

**8. If the monetary base is increased by \$1,000 and the reserve requirement is 10% (1/10), by how much will the money supply be increased?**

- a. \$100
- b. \$1,000

- c. \$5,000
- d. \$10,000

**9. If the Federal Reserve wishes to increase the money supply, it should:**

- a. raise the reserve requirement
- b. raise the discount rate
- c. buy Treasury securities in the open market
- d. all of the above

**10. An increase in the money supply will cause interest rates to**

- a. rise
- b. fall
- c. remain unchanged
- d. none of above

**Answers**

1. D  
6. A

2. C  
7. C

3. C  
8. D

4. A  
9. C

5. C  
10. B

## Chapter 10

### 1. The Balance of payment is understood as:

- The balance of amount after paying debt
- The balance of income and expenditure in the annual budget
- The balance between a nation's expenditure on imports and its receipts from exports.
- None of the above

### 2. Pinpoint the main objectives of World Trade Organization (WTO):

- (a) Fix a quota for each member country trading in International Market
- (b) To eliminate quota system and promote free competition in trade.
- (c) To secure Third World markets for American and European goods
- (d) To abolish completely custom duties on items of trade within member countries

### 3. The number of family welfare centres in Punjab are:

- (a) 560
- (b) 940
- (c) 1230
- (d) 1503

### 4. Which of the following statement is not true?

- (a) The World Bank has to affiliates, the International Development Association and the International Finance Corporation.
- (b) The membership of the IMF is the principal condition for membership of the World Bank.
- (c) The World Bank provides loans to such countries whose balance of payments condition is not favourable
- (d) The World Bank finance all kinds of capital infrastructure such as roads and railways, telecommunications, seaports and power facilities in the developing countries.

### 5. Identify the main functions of IMF:

- (a) To provide loans to the members of UNO for development of Industrial infra structure
- (b) To make foreign exchange resources available for those countries that want to import essential items of food
- (c) To make foreign exchange resources available for those countries facing balance of payments difficulties
- (d) None of the above

### 6. The United Nations celebrated “International Year of Shelter for the Homeless” in:

- (a) 1985
- (b) 1987
- (c) 1990
- (d) 1992

### 7. The Islamic Development Bank would provide half a billion US dollars in Capital to create

- (a) Private Pan Islamic Bank
- (b) International Islamic Foundation for Science and Technology
- (c) Refugees Rehabilitation Fund
- (d) None of the above

### 8. The domestic production of crude oil in the country is approximately (per day)

- (a) 44,300 Barrels
- (b) 57,700 Barrels
- (c) 65,200 Barrels
- (d) 70,000 Barrels

**9. The regulations of World Trade Organization (WTO) shall be enforced from:**

- (a) 1 January 2002
- (b) 1 January 2003
- (c) 1 July 2004
- (d) 1 January 2005

**10. The biggest market of Pakistani exports is:**

- (a) France
- (b) Saudi Arabia
- (c) U.S.A
- (d) U.K.

Answers.

1 c  
6 b

2 b  
7 b

3 b  
8 b

4 c  
9 d

5 c  
10c

## Chapter 11

11. The biggest market of Pakistani Imports is:

- (a) USA
- (b) U.K.
- (c) Russia
- (d) Japan

12. The Government has reduced the rate of profit on National Saving Schemes primarily for the reason of:

- (a) Enhancing the level of saving rate Economics 3
- (b) Discouraging the blockage of money in such schemes
- (c) To encourage the investors to invest their capital in active business ventures
- (d) To bridge the gap between their profit rate and Bank's mark up rate on loans

13. Pakistan's domestic demand for petroleum products is growing annually with the percentage of:

- (a) 3 percent
- (b) 5 percent
- (c) 8 percent
- (d) 15 percent

14. The Women's Division was created in the Federal Government in January:

- (a) 1974
- (b) 1977
- (c) 1979
- (d) 1981

15. The first "World Population Conference" under the United Nations was held in 1975 at:

- (a) Kampala
- (b) Bucharest
- (c) Nairobi
- (d) Ankara

16. Difference between a country's exports and imports is:

- (a) Trade Balance
- (b) Trade Deficit
- (c) Trade Surplus
- (d) Volume of Trade

17. Cash crop is the crop:

- (a) Which gives high profit to the farmers
- (b) Which is grown only for sale
- (c) Which is grown after taking Cash loan from Banks
- (d) None of the above one

18. The lowering of the value of a currency in the international market or against specific other currencies, which makes exports cheaper and imports expensive is called:

- (a) Devaluation
- (b) Revolution
- (c) Inflation

(d) Deflation

**19. The value of the output of all goods and services produced within a nation's borders, normally given as a total for the year. It thus includes the production of foreign owned firms within the country, but excludes the income from domestically owned firms located abroad, is called:**

- (a) Gross National Product
- (b) Gross Home Products
- (c) Gross Domestic Product
- (d) General Domestic Production

**20. Dow Jones index' is the scale:**

- (a) For measuring Industrial profit in a year
- (b) For measuring the average share price of leading Japanese companies
- (c) For measuring the average share price of major US industrial companies
- (d) None of the above

11a  
16a

12d  
17b

13b  
18a

14a  
19c

15b  
20c

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