1. Resources are

|  |  |
| --- | --- |
| a. | scarce for households but plentiful for economies. |
| b. | plentiful for households but scarce for economies. |
| c. | scarce for households and scarce for economies. |
| d. | plentiful for households and plentiful for economies. |

ANS: C

2. The overriding reason why households and societies face many decisions is that

|  |  |
| --- | --- |
| a. | resources are scarce. |
| b. | goods and services are not scarce. |
| c. | incomes fluctuate with business cycles. |
| d. | people, by nature, tend to disagree. |

ANS: A

3. The adage, "There is no such thing as a free lunch," is used to illustrate the principle that

|  |  |
| --- | --- |
| a. | goods are scarce. |
| b. | people face tradeoffs. |
| c. | income must be earned. |
| d. | households face many decisions. |

ANS: B

4. Which of the following statements best represents the principle represented by the adage, "There is no such thing as a free lunch"?

|  |  |
| --- | --- |
| a. | Melissa can attend the concert only if she takes her sister with her. |
| b. | Greg is hungry and homeless. |
| c. | Brian must repair the tire on his bike before he can ride it to class. |
| d. | Kendra must decide between going to Colorado or Cancun for spring break. |

ANS: D

5. A tradeoff exists between a clean environment and a higher level of income in that

|  |  |
| --- | --- |
| a. | studies show that individuals with higher levels of income pollute less than low-income individuals. |
| b. | efforts to reduce pollution typically are not completely successful. |
| c. | laws that reduce pollution raise costs of production and reduce incomes. |
| d. | employing individuals to clean up pollution causes increases in employment and income. |

ANS: C

6. Efficiency means that

|  |  |
| --- | --- |
| a. | society is conserving resources in order to save them for the future. |
| b. | society's goods and services are distributed equally among society's members. |
| c. | society's goods and services are distributed fairly, though not necessarily equally, among society's members. |
| d. | society is getting the maximum benefits from its scarce resources. |

ANS: D

7. When the government redistributes income from the wealthy to the poor,

|  |  |
| --- | --- |
| a. | efficiency is improved, but equality is not. |
| b. | both wealthy people and poor people benefit directly. |
| c. | people work less and produce fewer goods and services. |
| d. | the government collects more revenue in total. |

ANS: C

8. The opportunity cost of an item is

|  |  |
| --- | --- |
| a. | the number of hours needed to earn money to buy the item. |
| b. | what you give up to get that item. |
| c. | usually less than the dollar value of the item. |
| d. | the dollar value of the item. |

ANS: B

9. Denise decides to spend three hours working overtime rather than watching a video with her friends. She earns $10 an hour. Her opportunity cost of working is

|  |  |
| --- | --- |
| a. | the $30 she earns working. |
| b. | the $30 minus the enjoyment she would have received from watching the video. |
| c. | the enjoyment she would have received had she watched the video. |
| d. | nothing, since she would have received less than $30 of enjoyment from the video. |

ANS: C

10. Caroline eats two bananas during a particular day. The marginal benefit she enjoys from eating the second banana

|  |  |
| --- | --- |
| a. | can be thought of as the total benefit Caroline enjoys by eating two bananas minus the total benefit she would have enjoyed by eating just the first banana. |
| b. | determines Caroline’s marginal cost of the first and second bananas. |
| c. | does not depend on how many bananas Caroline has already eaten. |
| d. | All of the above are correct. |

ANS: A

11. Which is the most accurate statement about trade?

|  |  |
| --- | --- |
| a. | Trade can make every nation better off. |
| b. | Trade makes some nations better off and others worse off. |
| c. | Trading for a good can make a nation better off only if the nation cannot produce that good itself. |
| d. | Trade helps rich nations and hurts poor nations. |

ANS: A

12. Thousands of people develop lung cancer from second-hand exposure to cigarette smoke. This is an example of

|  |  |
| --- | --- |
| a. | a market failure caused by an externality. |
| b. | a market failure caused by market power. |
| c. | a market failure caused by equality. |
| d. | There is no market failure in this case. |

ANS: A

13. For a very long time Treeland has had an inflation rate of 9%. Suddenly its inflation rate drops to 3%. The drop in the inflation rate

|  |  |
| --- | --- |
| a. | could be due to slower money supply growth. We would expect unemployment to be higher. |
| b. | could be due to slower money supply growth. We would expect unemployment to be lower. |
| c. | could be due to higher money supply growth. We would expect unemployment to be higher. |
| d. | could be due to higher money supply growth. We would expect unemployment to be lower. |

ANS: A

14. The mainstream view among economists is that

|  |  |
| --- | --- |
| a. | society faces a tradeoff between unemployment and inflation, but only in the short run. |
| b. | society faces a tradeoff between unemployment and inflation, but only in the long run. |
| c. | society faces a tradeoff between unemployment and inflation, both in the short run and in the long run. |
| d. | no tradeoff exists between unemployment and inflation, either in the short run or in the long run. |

ANS: A

15. Economists, like mathematicians, physicists, and biologists,

|  |  |
| --- | --- |
| a. | make use of the scientific method. |
| b. | try to address their subject with a scientist’s objectivity. |
| c. | devise theories, collect data, and then analyze these data in an attempt to verify or refute their theories. |
| d. | All of the above are correct. |

ANS: D

16. One thing economists do to help them understand how the real world works is

|  |  |
| --- | --- |
| a. | make assumptions. |
| b. | ignore the past. |
| c. | try to capture every aspect of the real world in the models they construct. |
| d. | All of the above are correct. |

ANS: A

17. In economics, capital refers to

|  |  |
| --- | --- |
| a. | the finances necessary for firms to produce their products. |
| b. | buildings and machines used in the production process. |
| c. | the money households use to purchase firms' output. |
| d. | stocks and bonds. |

ANS: B

18. Any point on a country's production possibilities frontier represents a combination of two goods that an economy

|  |  |
| --- | --- |
| a. | will never be able to produce. |
| b. | can produce using all available resources and technology. |
| c. | can produce using some portion, but not all, of its resources and technology. |
| d. | may be able to produce in the future with more resources and/or superior technology. |

ANS: B

19. An economic outcome is said to be efficient if the economy is

|  |  |
| --- | --- |
| a. | using all of the scarce resources it has available. |
| b. | conserving on resources, rather than using all available resources. |
| c. | getting all it can get from the scarce resources it has available. |
| d. | able to produce more than what is currently being produced without additional resources. |

ANS: C

20. Suppose a nation is currently producing at a point inside its production possibilities frontier. We know that

|  |  |
| --- | --- |
| a. | the nation is producing beyond its capacity, so inflation will occur. |
| b. | the nation is not using all available resources or is using inferior technology or both. |
| c. | the nation is producing an efficient combination of goods. |
| d. | there will be a large opportunity cost if the nation tries to increase production of any good. |

ANS: B

21. The bowed shape of the production possibilities frontier can be explained by the fact that

|  |  |
| --- | --- |
| a. | all resources are scarce. |
| b. | economic growth is always occurring. |
| c. | the opportunity cost of one good in terms of the other depends on how much of each good the economy is producing. |
| d. | the only way to get more of one good is to get less of the other. |

ANS: C

22. A microeconomist — as opposed to a macroeconomist — might study

|  |  |
| --- | --- |
| a. | the effect of borrowing by the federal government on the inflation rate. |
| b. | the effect of rising oil prices on employment in the airline industry. |
| c. | changes in the nation’s unemployment rate over short periods of time. |
| d. | alternative policies to promote higher living standards throughout the nation. |

ANS: B

23. For economists, statements about the world are of two types:

|  |  |
| --- | --- |
| a. | assumptions and theories. |
| b. | true statements and false statements. |
| c. | specific statements and general statements. |
| d. | positive statements and normative statements. |

ANS: D

24. When economists make

|  |  |
| --- | --- |
| a. | positive statements, they are speaking not as policy advisers but as scientists. |
| b. | positive statements, they are speaking not as scientists but as forecasters. |
| c. | normative statements, they are speaking not as policy advisers but as scientists. |
| d. | normative statements, they are speaking not as policy advisers but as model-builders. |

ANS: A

25. When can two countries gain from trading two goods?

|  |  |
| --- | --- |
| a. | when the first country can only produce the first good and the second country can only produce the second good |
| b. | when the first country can produce both goods, but can only produce the second good at great cost, and the second country can produce both goods, but can only produce the first good at great cost |
| c. | when the first country is better at producing both goods and the second country is worse at producing both goods |
| d. | Two countries could gain from trading two goods under all of the above conditions. |

ANS: D

26. Regan grows flowers and makes ceramic vases. Jayson also grows flowers and makes ceramic vases, but Regan is better at producing both goods. In this case, trade could

|  |  |
| --- | --- |
| a. | benefit both Jayson and Regan. |
| b. | benefit Jayson, but not Regan. |
| c. | benefit Regan, but not Jayson. |
| d. | benefit neither Jayson nor Regan. |

ANS: A

27. A production possibilities frontier is a straight line when

|  |  |
| --- | --- |
| a. | the more resources the economy uses to produce one good, the fewer resources it has available to produce the other good. |
| b. | an economy is interdependent and engaged in trade instead of self-sufficient. |
| c. | the rate of tradeoff between the two goods being produced is constant. |
| d. | the rate of tradeoff between the two goods being produced depends on how much of each good is being produced. |

ANS: C

***Table 3-1***

Assume that Andia and Zardia can switch between producing wheat and producing beef at a constant rate.

|  |  |  |
| --- | --- | --- |
|  | Minutes Needed to Make 1 | |
| Bushel of Wheat | Pound of Beef |
| Andia | 20 | 12 |
| Zardia | 15 | 10 |

28. **Refer to Table 3-1.** Assume that Andia and Zardia each has 360 minutes available. If each person divides his time equally between the production of wheat and beef, then total production is

|  |  |
| --- | --- |
| a. | 10.5 bushels of wheat and 16.5 pounds of beef. |
| b. | 21 bushels of wheat and 33 pounds of beef. |
| c. | 35 bushels of wheat and 22 pounds of beef. |
| d. | 42 bushels of wheat and 66 pounds of beef. |

ANS: B

29. **Refer to Table 3-1.** Which of the following combinations of wheat and beef could Andia produce in one 8-hour day?

|  |  |
| --- | --- |
| a. | 6 bushels of wheat and 35 pounds of beef |
| b. | 9 bushels of wheat and 25 pounds of beef |
| c. | 15 bushels of wheat and 20 pounds of beef |
| d. | 24 bushels of wheat and 40 pounds of beef |

ANS: B

30. **Refer to Table 3-1.** Which of the following combinations of wheat and beef could Zardia *not* produce in one 10-hour day?

|  |  |
| --- | --- |
| a. | 10 bushels of wheat and 45 pounds of beef |
| b. | 20 bushels of wheat and 30 pounds of beef |
| c. | 25 bushels of wheat and 25 pounds of beef |
| d. | 30 bushels of wheat and 15 pounds of beef |

ANS: C PTS: 1 DIF: 3 REF: 3-1

***Figure 3-2***

**Peru’s Production Possibilities Frontier**



31. **Refer to Figure 3-2.** The fact that the line slopes downward reflects the fact that

|  |  |
| --- | --- |
| a. | for Peru, it is more costly to produce emeralds than it is to produce rubies. |
| b. | Peru will produce more emeralds and fewer rubies as time goes by. |
| c. | Peru faces a tradeoff between producing emeralds and producing rubies. |
| d. | Peru should specialize in producing rubies. |

ANS: C

32. **Refer to Figure 3-2**. If the production possibilities frontier shown is for 40 hours of production, then how long does it take Peru to make one emerald?

|  |  |
| --- | --- |
| a. | 1/6 hour |
| b. | 1/5 hour |
| c. | 5 hours |
| d. | 6 hours |

ANS: C

33. **Refer to Figure 3-2**. If the production possibilities frontier shown is for 40 hours of production, then how long does it take Peru to make one ruby?

|  |  |
| --- | --- |
| a. | 1/6 hour |
| b. | 1/5 hour |
| c. | 5 hours |
| d. | 6 hours |

ANS: A

34. **Refer to Figure 3-2**. If the production possibilities frontier shown is for one month of production, then which of the following combinations of emeralds and rubies could Peru produce in a given month?

|  |  |
| --- | --- |
| a. | 7 emeralds and 40 rubies |
| b. | 5 emeralds and 92 rubies |
| c. | 3 emeralds and 165 rubies |
| d. | 2 emeralds and 180 rubies |

ANS: D

35. **Refer to Figure 3-2**. If the production possibilities frontier shown is for one month of production, then which of the following combinations of emeralds and rubies could Peru *not* produce in a given month?

|  |  |
| --- | --- |
| a. | 6 emeralds and 60 rubies |
| b. | 4 emeralds and 120 rubies |
| c. | 3 emeralds and 160 rubies |
| d. | 1 emeralds and 210 rubies |

ANS: C

36. Suppose that a worker in Cornland can grow either 40 bushels of corn or 10 bushels of oats per year, and a worker in Oatland can grow either 5 bushels of corn or 50 bushels of oats per year. There are 20 workers in Cornland and 20 workers in Oatland. If the two countries do not trade, Cornland will produce and consume 400 bushels of corn and 100 bushels of oats, while Oatland will produce and consume 60 bushels of corn and 400 bushels of oats. If each country made the decision to specialize in producing the good in which it has a comparative advantage, then the combined yearly output of the two countries would increase by

|  |  |
| --- | --- |
| a. | 280 bushels of corn and 450 bushels of oats. |
| b. | 340 bushels of corn and 500 bushels of oats. |
| c. | 360 bushels of corn and 520 bushels of oats. |
| d. | 360 bushels of corn and 640 bushels of oats. |

ANS: B

37. When two countries trade with one another, it is most likely because

|  |  |
| --- | --- |
| a. | the wealthy people in each of the two countries are able to benefit, through trade, by taking advantage of other people who are poor. |
| b. | some people involved in the trade do not understand that one of the two countries will become worse-off because of the trade. |
| c. | the opportunity costs of producing various goods are identical for the two countries. |
| d. | the two countries wish to take advantage of the principle of comparative advantage. |

ANS: D

38. Suppose the US and Mexico both produce semiconductors and auto parts and the US has a comparative advantage in semiconductors while Mexico has a comparative advantage in auto parts. If the US exports semiconductors to Mexico and imports auto parts from Mexico,

|  |  |
| --- | --- |
| a. | both countries, as a whole, will be better off. |
| b. | all individuals in both countries will be better off. |
| c. | both countries, as a whole, will be worse off. |
| d. | all individuals in both countries will be worse off. |

ANS: A

39. In which of the following cases should the United States produce more noodles than it wants for its own use and trade some of those noodles to Italy in exchange for wine?

|  |  |
| --- | --- |
| a. | Americans know less than Italians know about cooking noodles. |
| b. | The United States has an absolute advantage over Italy in producing noodles. |
| c. | Italy has a comparative advantage over the United States in producing wine. |
| d. | The opportunity cost of producing a gallon of wine is the same for Italy as it is for the United States. |

ANS: C

40. Belarus has a comparative advantage in the production of linen, but Russia has an absolute advantage in the production of linen. If these two countries decide to trade,

|  |  |
| --- | --- |
| a. | Belarus should export linen to Russia. |
| b. | Russia should export linen to Belarus. |
| c. | trading linen would provide no net advantage to either country. |
| d. | Without additional information about opportunity costs, this question cannot be answered. |

ANS: A

41. Which of the following can NOT change an individual’s supply curve of a good?

* 1. An improvement in the technology used to produce the good
  2. The price of an input in production of the good changes
  3. **The price of the good falls**
  4. None of the above

42. Assuming tomato soup can be stored, what effect will a decrease in the expected future price of tomato soup have on the market in the current period?

a. The quantity supplied of tomato soup will decrease

b. The quantity supplied of tomato soup will increase.

1. The supply of tomato soup will decrease.
2. **The supply of tomato soup will increase.**

43. If the price of steel decreases, what will happen to the supply of cars (assuming that steel is an input used in the production of cars)?

**a. The supply of cars will increase**

b. The supply of cars will decrease

c. The quantity supplied of cars will decrease

d. None of the above

44. Which of the following could cause a rightward movement along a market supply curve for a good?

a. An increase in the number of sellers of the good

b. A government-imposed tax on the good

c. An increase in the price of inputs for the good

**d. None of the above**

45. Which of the following will NOT increase the demand for a good?

a. An increase in the price of a substitute good

b. A decrease in the price of a complementary good

c. An increase in the number of buyers of the good

**d. A decrease in the price of the good**

46.An increase in demand is represented graphically as:

**a. A rightward shift of the original demand curve**

b. A movement to the right along the original demand curve

c. A movement to the left along the original demand curve

d. A leftward shift of the original demand curve

For the next question, consider the following:

I. Change in income

II. Change in price of substitute goods

III. Change in price of complementary goods

IV. Change in price of the good

V. Change in tastes

VI. Change in preferences

47. Which of the following combinations are all factors that lead to changes in demand?

a. I , III, and IV

b. I, II, and IV

c. IV, V, and VI

d. II, III, and IV

**e. None of the above**

48. If the consumers believe that the price of coffee is going to rise in the future, what will happen to the demand curve for coffee?

a. We should move along the demand curve to the right

b. We should move along the demand curve to the left

**c. The demand curve will shift out to the right**

d. The demand curve will shift in to the left

49. The basic tools of supply and demand are

|  |  |
| --- | --- |
| a. | useful only in the analysis of economic behavior in individual markets. |
| b. | useful in analyzing the overall economy, but not in analyzing individual markets. |
| c. | central to microeconomic analysis, but seldom used in macroeconomic analysis. |
| d. | central to macroeconomic analysis as well as to microeconomic analysis. |

ANS: D

50. GDP...

|  |  |
| --- | --- |
| a. | is used to monitor the performance of the overall economy but is not the single best measure of a society’s economic well-being. |
| b. | is used to monitor the performance of the overall economy and is the single best measure of a society’s economic well-being. |
| c. | is not used to monitor the performance of the overall economy but is the single best measure of a society’s economic well-being. |
| d. | is not used to monitor the performance of the overall economy and is not the single best measure of a society’s economic well-being. |

ANS: B

51. Which of the following statements about GDP is correct?

|  |  |
| --- | --- |
| a. | GDP measures two things at once: the total income of everyone in the economy and the total expenditure on the economy’s output of goods and services. |
| b. | Money continuously flows from households to firms and then back to households, and GDP measures this flow of money. |
| c. | GDP is generally regarded as the best single measure of a society’s economic well-being. |
| d. | All of the above are correct. |

ANS: D

52. Which of the following is a way to compute GDP?

|  |  |
| --- | --- |
| a. | add up the wages paid to all workers |
| b. | add up the quantities of all final goods and services |
| c. | add up the market values of all final goods and services |
| d. | add up the difference between the market values of all final goods and services and then subtract the costs of producing those goods and services |

ANS: C

53. If the price of a Blu-Ray Disc player is three times the price of an MP3 player, then a Blue-Ray Disc player contributes

|  |  |
| --- | --- |
| a. | more than three times as much to GDP as does a MP3 player. |
| b. | less than three times as much to GDP as does a MP3 player. |
| c. | exactly three times as much to GDP as does a MP3 player. |
| d. | None of the above is necessarily correct. |

ANS: C

54. One bag of oranges is sold for $6.00 to a company that turns them into juice which is sold to consumers for $12.00. Another bag of oranges is purchased by a grocery store for $6.00 who then sells it to a consumer for $7. Taking these four transactions into account, how much is added to GDP?

|  |  |
| --- | --- |
| a. | $31 |
| b. | $25 |
| c. | $19 |
| d. | None of the above is correct. |

ANS: C

55. Suppose there are only two firms in an economy: Cowhide, Inc. produces leather and sells it to Couches, Inc., which produces and sells leather furniture. With each $1,000 of leather that it buys from Cowhide, Inc., Couches, Inc. produces a couch and sells it for $3,000. Neither firm had any inventory at the beginning of 2009. During that year, Cowhide produced enough leather for 20 couches. Couches, Inc. bought 80% of that leather for $16,000 and promised to buy the remaining 20% for $4,000 in 2010. Couches, Inc. produced 16 couches during 2009 and sold each one during that year for $3,000. What was the economy's GDP for 2009?

|  |  |
| --- | --- |
| a. | $48,000 |
| b. | $52,000 |
| c. | $64,000 |
| d. | $68,000 |

ANS: B

56. Which of the following is an example of a durable good?

|  |  |
| --- | --- |
| a. | a refrigerator |
| b. | a quart of motor oil |
| c. | a business suit |
| d. | a can of soup |

ANS: A

57. Household spending on education is counted in which component or subcomponent of GDP?

|  |  |
| --- | --- |
| a. | consumption of durable goods |
| b. | consumption of nondurable goods |
| c. | consumption of services |
| d. | Investment |

ANS: C

58. Which of the following items is counted as part of government purchases?

|  |  |
| --- | --- |
| a. | The federal government pays $2,000 in Social Security benefits to a retired person. |
| b. | The city of Athens, Ohio pays $10,000 to a tree-trimming firm to trim trees along city boulevards. |
| c. | The state of Nebraska pays $1,000 to help a low-income family pay its medical bills. |
| d. | All of the above are correct. |

ANS: B

59. A U.S. citizen buys a tea kettle manufactured in China by a company that is owned and operated by U.S citizens. In which of the following components of U.S. GDP is this transaction accounted for?

|  |  |
| --- | --- |
| a. | consumption and imports |
| b. | consumption but not imports |
| c. | imports but not consumption |
| d. | neither consumption nor imports |

ANS: A

60. If the prices of all goods and services produced in the economy rose while the quantity of all goods and services stayed the same, which would rise?

|  |  |
| --- | --- |
| a. | both real GDP and nominal GDP |
| b. | real GDP but not nominal GDP |
| c. | nominal GDP but not real GDP |
| d. | neither nominal GDP nor real GDP |

ANS: C PTS: 1 DIF: 2 REF: 5-4