

1. The study of economics arises because:
 - a. resources are abundant relative to the uses for those resources.
 - b. resources are limited relative to the wants and needs for those resources.
 - c. governments require assistance to eliminate the problem of scarcity.
 - d. governments are the only entities capable of eliminating the problem of scarcity.

2. If UNT increases spending on parking lots, it will have to reduce spending on classrooms. This statement best represents the concept of:
 - a. microeconomics.
 - b. the fallacy of false cause.
 - c. the ceteris paribus assumption.
 - d. opportunity cost.

3. Which of the following is **not** an example of a factor of production?
 - a. A commercial landscaper
 - b. Chainsaws used by lumberjacks
 - c. Money in individual retirement accounts
 - d. The president of a corporation

4. Macroeconomics:
 - a. is the study of how businesses make decisions to increase profits.
 - b. is studied in market-based economies but is not relevant to planned economies.
 - c. uses economic aggregates, such as unemployment and GDP, to measure economic activity.
 - d. relies on hypothetical data rather than actual data to gauge the performance of the economy as a whole.

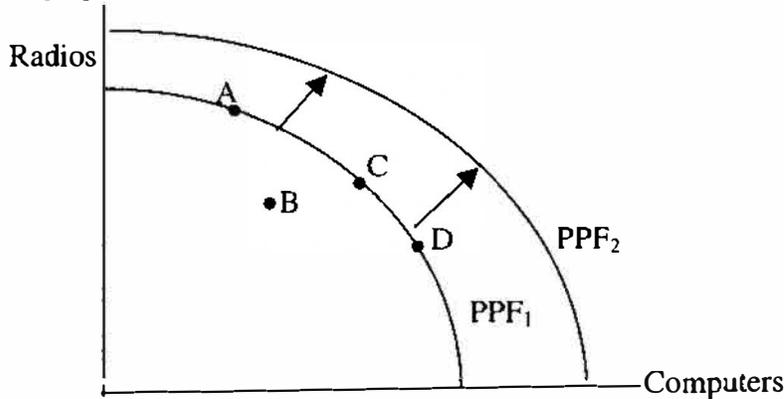
5. Which of the following statements illustrates the fallacy of composition?
 - a. Some groups in the economy will benefit from a national health care plan, therefore the entire economy will benefit from such a plan.
 - b. The entire economy will benefit from a national health care plan, therefore each group in the economy will benefit from such a plan.
 - c. Increasing government provision of health care to the nation's poor will lead to an increase in the demand for health care.
 - d. The government should increase its provision of health care to the nation's poor.

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- 6. The statement “unemployment in a wealthy country like the United States should not exist” is an example of:
 - a. a positive microeconomic statement.
 - b. a normative microeconomic statement.
 - c. a positive macroeconomic statement.
 - d. a normative macroeconomic statement.

- 7. The fallacy of false cause occurs when:
 - a. it is assumed that because event B follows event A, event A causes event B.
 - b. it is assumed that other influences on a relationship are held constant.
 - c. it is assumed that because a policy is good for one sector of the economy, it is also good for the economy as a whole.
 - d. it is assumed that because a policy is good for the economy as a whole, it must also be good for each individual sector of the economy.

Use the graph below to answer the next two questions.



- 8. If PPF₁ represents this economy’s ability to produce radios and computers, production is inefficient at point(s):
 - a. A only.
 - b. B only.
 - c. C only.
 - d. D only.
 - e. A, C, and D.

- 9. A shift from PPF₁ to PPF₂ illustrates _____ and could come about due to _____.
 - a. constant opportunity cost; a decrease in unemployment in the economy as a whole
 - b. increasing opportunity cost; more efficient use of resources by radio manufacturers
 - c. economic growth; an increase in the resources available to produce computers and a decrease in the resources available to produce radios
 - d. economic growth; an increase in the technology used to produce both radios and computers
 - e. scarcity; a decrease in the resources available to produce radios and computers

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10. The macroeconomic policy goals of most industrialized nations include:
- a. full employment and price level stability.
 - b. price level stability and maximum corporate profits.
 - c. maximizing tax rates in order to maximize tax revenues.
 - d. economic growth and an equal distribution of income.

Use the table below to answer the next three questions.

Production Possibilities Schedule

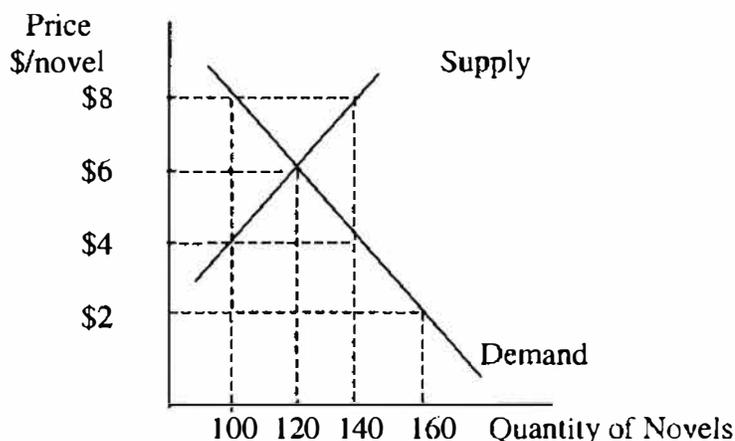
<u>Combination</u>	<u>Haircuts</u>	<u>Manicures</u>
A	10	0
B	9	1
C	7	2
D	4	3
E	0	4

11. The opportunity cost of moving from combination C to combination D and producing the third manicure is:
- a. 3 haircuts.
 - b. 4 haircuts.
 - c. 7 haircuts.
 - d. 10 haircuts.
12. This production possibilities schedule indicates that the opportunity cost of manicures is:
- a. increasing.
 - b. constant.
 - c. decreasing.
 - d. impossible to determine.
13. The combination of 9 haircuts and 2 manicures:
- a. is possible if the production of both is efficient.
 - b. is unattainable given the current resources and technology.
 - c. can be produced only if the unemployment rate decreases.
 - d. can be produced only if people want their hair cut.
14. Reliance on the interaction of individual buyers and sellers and supply and demand to address the basic questions of what outputs to produce, how to produce outputs, and who gets to consume the outputs produced is characteristic of:
- a. market economies.
 - b. planned economies.
 - c. socialism.
 - d. communism.
15. In a pure (laissez-faire) capitalistic economy, the role of government is limited to:
- a. activities such as enforcing laws and providing national defense.
 - b. levying taxes in order to provide corporate subsidies and encourage production.
 - c. directing resources to their highest valued use.
 - d. all of the above are correct.

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16. Equilibrium occurs in a market when:
- a. both buyers and sellers have been satisfied and quantity demanded is equal to quantity supplied.
 - b. all buyers have been satisfied and demand is equal to supply.
 - c. all sellers have been satisfied and quantity supplied has fallen to zero.
 - d. both buyers and sellers have been satisfied and both quantity supplied and quantity demanded have fallen to zero.
17. The law of demand indicates that:
- a. supply and demand are inversely related.
 - b. supply and demand are directly related.
 - c. price and quantity demanded are directly related.
 - d. price and quantity demanded are inversely related.

Use the graph below to answer the next three questions.



18. The equilibrium price of novels is _____ and the equilibrium quantity is _____.
- a. \$8; 100
 - b. \$4; 120
 - c. \$6; 140
 - d. \$6; 120
19. A market price of \$8 per novel will lead to:
- a. a surplus of 20 novels.
 - b. a surplus of 40 novels.
 - c. a shortage of 20 novels.
 - d. a shortage of 40 novels.
20. An effective price ceiling for novels could be set at _____ and would cause a _____.
- a. \$4; surplus
 - b. \$8; surplus
 - c. \$4; shortage
 - d. \$8; shortage

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21. Ceteris paribus, a decrease in the number of suppliers in the market for good X will:
- a. decrease both the equilibrium price and equilibrium quantity of good X.
 - b. decrease the equilibrium price and increase the equilibrium quantity of good X.
 - c. increase both the equilibrium price and equilibrium quantity of good X.
 - d. increase the equilibrium price and decrease the equilibrium quantity of good X.
22. The demand for local bus transportation is likely to increase if:
- a. the price of local taxi service decreases.
 - b. the price of local bus transportation increases.
 - c. the price of gasoline and parking increase.
 - d. the price paid to bus drivers decreases.
23. If the demand for milk increases at the same time that the supply of milk decreases, supply and demand analysis predicts that:
- a. the equilibrium price of milk will increase and the equilibrium quantity of milk will decrease.
 - b. the equilibrium price of milk will increase but more information is needed to predict what will happen to the equilibrium quantity of milk.
 - c. both the equilibrium price and the equilibrium quantity of milk will increase.
 - d. the equilibrium quantity of milk will increase but more information is needed to predict what will happen to the equilibrium price of milk.
24. According to the law of supply, an increase in the price of shoes will lead to:
- a. an increase in the quantity supplied of shoes.
 - b. a decrease in the quantity supplied of shoes.
 - c. an increase in the supply of shoes.
 - d. a decrease in the supply of shoes.
25. Effective price floors tend to cause:
- a. surpluses.
 - b. shortages.
 - c. equilibrium.
 - d. increases in supply.

Use the information in the table below to answer the next two questions.

<u>Year</u>	<u>Nominal Income</u>	<u>CPI</u>
1	\$30,000	131
2	\$32,500	136
3	\$36,000	141
4	\$38,000	154

26. Real income in year 3 is approximately:
- a. \$36,000.
 - b. \$34,490.
 - c. \$27,481.
 - d. \$25,532.
27. The inflation rate for year 4 is approximately:
- a. 7%.
 - b. 8.4%.
 - c. 9.2%.
 - d. 13%.

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28. Inflation is defined as:
- a. an increase in the price of one product relative to the prices of other products.
 - b. an increase in the general (average) price level over time.
 - c. an increase in the prices of all products over time.
 - d. an increase in the demand for all products.
29. During inflationary periods, the purchasing power of the dollar:
- a. is unaffected.
 - b. increases.
 - c. inflates.
 - d. decreases.
30. In order to be classified as unemployed, a person must:
- a. not have worked during the survey week.
 - b. be actively looking for work.
 - c. currently be available for work.
 - d. all of the above.

Use the information in the table below to answer the next two questions.

	<u>Labor Force</u>	<u>Total Population</u>	<u>Employed</u>
Year 1	120 million	220 million	115.2 million
Year 2	124 million	225 million	118.42 million
Year 3	128 million	230 million	120.32 million

31. The number of unemployed workers in Year 1 is:
- a. 1.9 million.
 - b. 5.58 million.
 - c. 4.8 million.
 - d. 7.68 million.
32. The unemployment rate in Year 3 is:
- a. 4 percent.
 - b. 4.5 percent.
 - c. 6 percent.
 - d. 6.4 percent.
33. The unemployment that occurs when workers do not have the skills demanded in labor markets is called _____ unemployment.
- a. frictional
 - b. structural
 - c. seasonal
 - d. cyclical

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34. Which of the following individuals would be classified as frictionally unemployed?
- A college graduate that has been offered two jobs but is still looking to see what other jobs might be available
 - A restaurant manager that has been laid off because business is slow
 - A construction worker that has been prevented from working due to bad weather
 - An automobile worker that has been off because the autoworker's union is out on strike
35. If the economy is operating at full employment, then:
- the unemployment rate is zero percent.
 - structural and frictional unemployment have been eliminated.
 - the unemployment rate is equal to the natural rate.
 - cyclical unemployment is greater than the sum of structural and frictional unemployment.
36. Which of the following **would not** be included in U.S. GDP estimates for 2002?
- A farmer's spending on a new tractor built in 2002
 - The value of student volunteer activities in the fall of 2002
 - Purchases by U.S. households of haircuts in 2002
 - Purchases by foreign households of American-made shoes produced in 2002
37. The total market value of all final goods and services produced by resources within the U.S. in a given time period is:
- GNP.
 - GDP.
 - NDP.
 - NI.
38. The expenditure approach to calculating GDP adds up spending only on final goods and services to:
- get an accurate measure of changes in the price level during the time period in question.
 - avoid the problem of double counting, and thus overstating the value of production in the economy.
 - account for the fact that domestic resources may work and produce in foreign countries.
 - eliminate the effect of inflation on the value of output.

Use the information in the table below to answer the next two questions.

Consumption spending	\$3,000 billion
Government spending	600 billion
Investment spending	240 billion
Net exports	-30 billion
Capital consumption allowance (depreciation)	130 billion
Indirect business taxes	104 billion
Net foreign factor income	0 billion

39. Gross domestic product equals:

- a. \$3,680 billion.
- b. \$4,058 billion.
- c. \$3,810 billion.
- d. \$3,870 billion.

40. Net domestic product equals:

- a. \$3,784 billion.
- b. \$3,680 billion.
- c. \$4,058 billion.
- d. \$3,814 billion.

Answer Key:

1. B
2. D
3. C
4. C
5. A
6. D
7. A
8. B
9. D
10. A
11. A
12. A
13. B
14. A
15. A
16. A
17. D
18. D
19. B
20. C
21. D
22. C
23. B
24. A
25. A
26. D
27. C
28. B
29. D
30. D
31. C
32. C
33. B
34. A
35. C
36. B
37. B
38. B
39. C
40. B