1. When wants and needs exceed the resources available to satisfy them:
   a. Scarcity exists and decisions must be made about how to allocate limited
      resources among competing uses.
   b. The forces of supply and demand must be relied on to answer the questions of
      what output to produce, how to produce it, and who gets to consume it.
   c. Government is required to identify what areas of the economy are most deserving
      and direct resources and outputs to those areas.
   d. An economy is not able to operate at its natural rate of unemployment.

2. The opportunity cost of an activity is:
   a. The value of the next best alternative given up to undertake the activity.
   b. The monetary price of the activity only.
   c. The value of all alternatives given up to undertake the activity.
   d. The monetary cost minus the time cost of the activity.

3. Economists use models to:
   a. Describe the laws of nature and how they relate to society.
   b. Explain relationships between economic variables and predict outcomes.
   c. Define the politically correct approach to solving moral and ethical questions.
   d. Identify the social trends that have the biggest impact on scarcity.

4. Economics is best defined as:
   a. The study of how governments allocate scarce resources to maximize revenues
   b. A social science that studies how to allocate scarce resources among competing
      uses.
   c. A natural science that identifies positive ways to eliminate the problem of scarcity.
   d. The study of the effects of money on society.

5. The pricing strategy used by firms in competitive markets would be studied in a:
   a. Monetary economics course.
   b. Comparative systems course.
   c. Macroeconomics course.
   d. Microeconomics course.

6. Which of the following is an example of a positive microeconomic statement?
   a. The unemployment rate for the entire nation should never be greater than 5%.
   b. Small companies should not have to provide the same employee benefits as large
      companies.
   c. The annual inflation rate is currently less than 3.5%.
   d. Dell is a large corporation in the personal computer industry.
7. An example of economic capital is:
   a. stocks and bonds.
   b. wildlife.
   c. an auto assembly plant.
   d. an unskilled worker.

Use the graph below to answer the next two questions.

8. If this economy’s ability to produce is given by PPF₁, then production is efficient at:
   a. points A and B.
   b. points B and C.
   c. points C and D.
   d. points D and G.

9. This economy’s production possibilities frontier will shift from PPF₁ to PPF₂ if:
   a. there is an increase in the technology used to produce both consumer and capital goods.
   b. the economy is moving from a position of unemployment to full employment.
   c. there is an increase in the resources available to produce capital goods only.
   d. the amount of plant and equipment available to produce both consumer and capital goods decreases.

10. Points inside the production possibilities frontier:
    a. are unattainable given current resources and technology.
    b. indicate that resources are fully employed.
    c. represent inefficient production.
    d. can only be reached if technology increases.

11. A market economy is characterized by:
    a. central planning.
    b. the voluntary interaction of buyers and sellers.
    c. a strong government that coordinates production and distribution to maximize social welfare.
    d. equity and equality.
12. Normative economics deals with:
   a. the way things normally work, which requires making generalizations.
   b. the way things do work, which requires factual support.
   c. the way things should work, which requires value judgments.
   d. the way things worked in the past, which requires historical research.

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

<table>
<thead>
<tr>
<th>Combination</th>
<th>Tractors</th>
<th>Airplanes</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>15</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>14</td>
<td>1</td>
</tr>
<tr>
<td>C</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>D</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>E</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>F</td>
<td>0</td>
<td>6</td>
</tr>
</tbody>
</table>

13. The opportunity cost of moving from combination B to combination C is:
   a. 1 airplane.   c. 2 tractors
   b. 2 airplanes.  d. 4 tractors.

14. This production possibilities schedule:
   a. reflects the law of increasing opportunity costs.
   b. illustrates a one-to-one trade-off between the production of tractors and airplanes.
   c. indicates that resources can produce either tractors or airplanes with equal ease.
   d. implies that this economy is not using its resources efficiently.

Use the following production possibilities frontiers to answer the next two questions.

15. What is Jill’s opportunity cost of producing 1 pizza?
   a. 1 soda   c. ½ soda
   b. 20 sodas d. 2 sodas

16. Jane has a comparative advantage in the production of:
   a. sodas.   c. neither sodas nor pizzas.
   b. pizzas.  d. both sodas and pizzas.
17. Two parties can enjoy gains from trade by specializing in the activities for which:
   a. an unlimited market exists.
   b. a stratified market exists.
   c. an absolute advantage exists.
   d. a comparative advantage exists.

Use the information in the table below to answer the next question.

<table>
<thead>
<tr>
<th>Labor Hours needed to make one unit of:</th>
<th>Bottles of Perfume</th>
<th>Yards of Cloth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nancy</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Roger</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

18. Nancy has an absolute advantage in the production of and a comparative advantage in the production of.
   a. neither good; cloth
   b. neither good; perfume
   c. both goods; cloth
   d. both goods; perfume

19. If Bob can produce a basket in 4 hours and it takes Betty 5 hours to produce the same basket, then:
   a. Bob has a comparative advantage in the production of baskets.
   b. Betty has a comparative advantage in the production of baskets.
   c. Bob has an absolute advantage in the production of baskets.
   d. Betty has an absolute advantage in the production of baskets.

20. The law of demand indicates:
   a. an inverse (negative) relationship between price and demand.
   b. an inverse (negative) relationship between price and quantity demanded.
   c. a direct (positive) relationship between price and demand.
   d. a direct (positive) relationship between price and quantity demanded.

21. An increase in supply, ceteris paribus:
   a. causes both equilibrium price and quantity to increase.
   b. causes both equilibrium price and quantity to decrease.
   c. causes equilibrium price to increase and equilibrium quantity to decrease.
   d. causes equilibrium price to decrease and equilibrium quantity to increase.

22. Ceteris paribus, if quantity demanded exceeds quantity supplied then a:
   a. surplus exists and price will fall.
   b. surplus exists and supply will decrease.
   c. shortage exists and price will rise.
   d. shortage exists and supply will increase.
Use the graph below to answer the next two questions.

23. The equilibrium price and quantity in this market are _____ and _____, respectively.
   a. $12; 80
   b. $8; 80
   c. $8; 120
   d. $4; 40

24. At a price of $12
   a. a shortage of 40 units of X exists.
   b. a shortage of 80 units of X exists.
   c. a surplus of 40 units of X exists.
   d. a surplus of 80 units of X exists.

25. According to the law of supply, an increase in the price of milk will, ceteris paribus:
   a. increase the supply of milk.
   b. increase the quantity supplied of milk.
   c. decrease the demand for milk.
   d. decrease the quantity demanded of milk.

26. When consumers’ incomes increase:
   a. the demand for inferior goods increases.
   b. the quantity demanded of inferior goods increases.
   c. the demand for normal goods increases.
   d. the quantity demanded of normal goods increases.

27. If the price of good A increases and goods A and B are complements, then:
   a. the demand for good B will increase.
   b. the demand for good B will decrease.
   c. the income elasticity for good B is positive.
   d. the cross elasticity for good B is positive.
Use the graph below to answer the next two questions.

28. Which of the following would result in a movement from point C on \( D_2 \) to point B on \( D_2 \)?
   a. A decrease in the price of baseballs
   b. An increase in the price of leather used to produce baseballs
   c. An increase in the number of people playing baseball
   d. An increase in the technology used to produce baseballs

29. If supply shifts from \( S_1 \) to \( S_2 \) and demand does not change, then the equilibrium price of baseballs will ______ and the equilibrium quantity of baseballs will ______.
   a. increase; increase
   b. decrease; increase
   c. decrease; decrease
   d. increase; decrease

30. Suppose that the cost of producing flat screen TVs decreases at the same time that the demand for flat screens increases, supply and demand analysis predicts that:
   a. both the equilibrium price and quantity of flat screen TVs will increase.
   b. the equilibrium price of flat screen TVs will increase but the change in equilibrium quantity cannot be determined without more information.
   c. the equilibrium quantity of flat screen TVs will increase but the change in equilibrium price cannot be determined without more information.
   d. the equilibrium price of flat screen TVs will increase and the equilibrium quantity of cotton clothing will decrease.

31. The responsiveness of quantity demanded to changes in the price of a product is measured by:
   a. income elasticity.
   b. a supply schedule.
   c. price elasticity of demand.
   d. market equilibrium.
32. If a 5% increase in the price of a product leads to a 5% decrease in quantity demanded, then the demand for the product is ____________ and the price increase will cause total revenue to ________________.
   a. unit elastic; remain unchanged
   b. unit elastic; decrease
   c. perfectly elastic; remain unchanged
   d. perfectly elastic; decrease

33. If a 15% increase in the price of a commodity results in a 10% decrease in quantity demanded, demand is said to be:
   a. unit elastic.
   b. income elastic.
   c. elastic.
   d. inelastic.

34. If raising subscription rates to the Herald-Tribune from $6 to $10 per month causes newspaper sales to drop from 180,000 to 90,000 copies daily, the price elasticity of demand for the Herald-Tribune (using the midpoint formula) is:
   a. 0.75.
   b. 1.33.
   c. 2.47.
   d. 1.86.

35. Referring to the information contained in the question above, the demand for the Herald-Tribune is ___________. If the newspaper owner wants to increase his revenue, he should ________ the price of a monthly subscription.
   a. elastic; increase
   b. elastic; decrease
   c. inelastic; increase
   d. inelastic; decrease

36. If the cross elasticity of demand between goods X and Y is 0.8, goods X and Y are:
   a. normal goods.
   b. complementary goods.
   c. inferior goods.
   d. substitute goods.

37. If there are no good substitutes available for a product, the demand for that product is expected to be:
   a. relatively elastic.
   b. perfectly elastic.
   c. relatively inelastic.
   d. unit elastic.
38. The demand for recreational vehicles is likely to be ______ than the demand for milk.
   a. more elastic
   b. more inelastic
   c. more direct
   d. more positive

39. If the income elasticity of demand for a good is -1.2, then it can be concluded that the good is a(n):
   a. inferior good.
   b. normal good.
   c. substitute good.
   d. complementary good.

40. If quantity demanded does not change in response to a change in price, then demand is ______ and the demand curve will be a(n) ________.
   a. perfectly inelastic; vertical line
   b. perfectly inelastic; horizontal line
   c. perfectly elastic; vertical line
   d. perfectly elastic; horizontal line