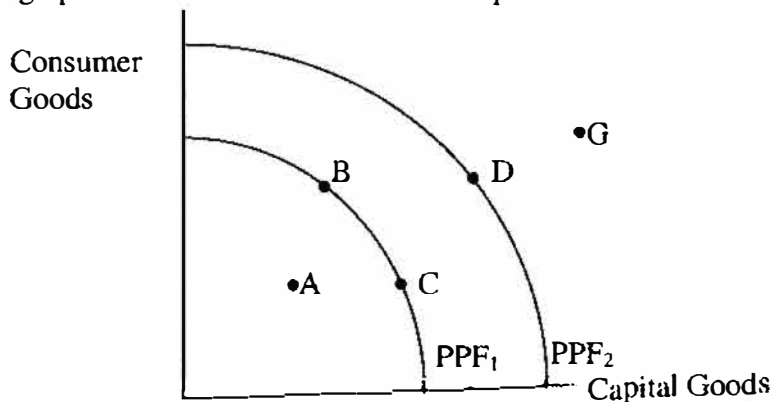


1. When wants and needs exceed the resources available to satisfy them:
 - a. scarcity exists and decisions must be made about how to allocate limited resources among competing uses.
 - b. the forces of supply and demand must be relied on to answer the questions of what output to produce, how to produce 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.

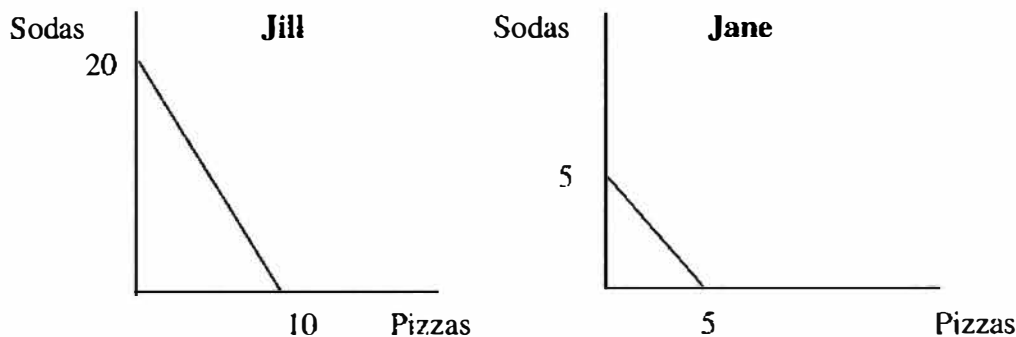
12. Normative economics deals with:
- the way things normally work, which requires making generalizations.
 - the way things do work, which requires factual support.
 - the way things should work, which requires value judgments.
 - the way things worked in the past, which requires historical research.

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

<u>Combination</u>	<u>Tractors</u>	<u>Airplanes</u>
A	15	0
B	14	1
C	12	2
D	9	3
E	5	5
F	0	6

13. The opportunity cost of moving from combination B to combination C is:
- 1 airplane.
 - 2 airplanes.
 - 2 tractors
 - 4 tractors.
14. This production possibilities schedule:
- reflects the law of increasing opportunity costs.
 - illustrates a one-to-one trade-off between the production of tractors and airplanes.
 - indicates that resources can produce either tractors or airplanes with equal ease.
 - 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?
- 1 soda
 - 20 sodas
 - $\frac{1}{2}$ soda
 - 2 sodas
16. Jane has a comparative advantage in the production of:
- sodas.
 - pizzas.
 - neither sodas nor pizzas.
 - both sodas and pizzas.

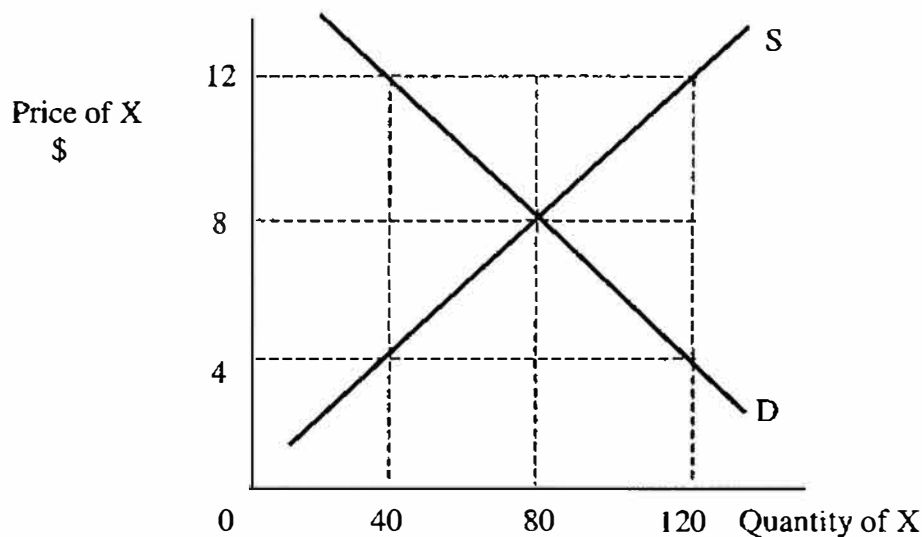
17. Two parties can enjoy gains from trade by specializing in the activities for which:
- a. an unlimited market exists.
 - b. a stratified market exists.
 - c. an absolute advantage exists.
 - d. a comparative advantage exists.

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

	Labor Hours needed to make one unit of:	
	<u>Bottles of Perfume</u>	<u>Yards of Cloth</u>
Nancy	6	8
Roger	10	10

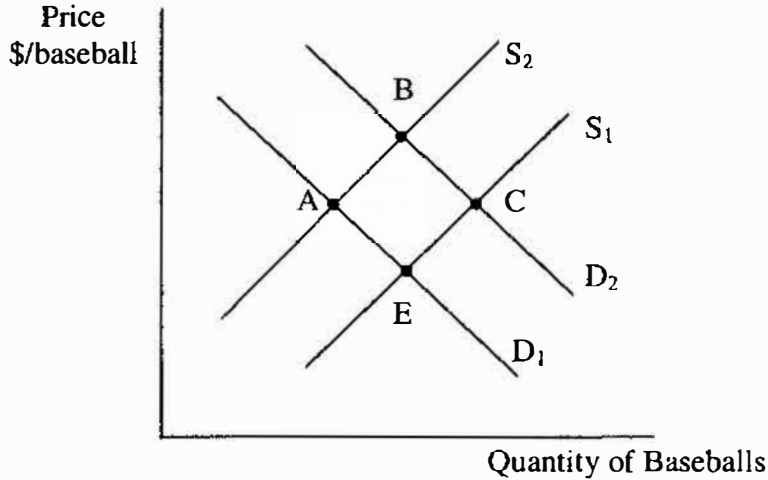
18. Nancy has an absolute advantage in the production of _____ and a comparative advantage in the production of _____.
- a. neither good; cloth
 - b. neither good; perfume
 - c. both goods; cloth
 - d. both goods; perfume
19. If Bob can produce a basket in 4 hours and it takes Betty 5 hours to produce 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.
- \$12; 80
 - \$8; 80
 - \$8; 120
 - \$4; 40
24. At a price of \$12
- a shortage of 40 units of X exists.
 - a shortage of 80 units of X exists.
 - a surplus of 40 units of X exists.
 - 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:
- increase the supply of milk.
 - increase the quantity supplied of milk.
 - decrease the demand for milk.
 - decrease the quantity demanded of milk.
26. When consumers' incomes increase:
- the demand for inferior goods increases.
 - the quantity demanded of inferior goods increases.
 - the demand for normal goods increases.
 - the quantity demanded of normal goods increases.
27. If the price of good A increases and goods A and B are complements, then:
- the demand for good B will increase.
 - the demand for good B will decrease.
 - the income elasticity for good B is positive.
 - 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 decrease in the price of baseballs
 - An increase in the price of leather used to produce baseballs
 - An increase in the number of people playing baseball
 - 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 _____.
- increase; increase
 - decrease; increase
 - decrease; decrease
 - 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:
- both the equilibrium price and quantity of flat screen TVs will increase.
 - the equilibrium price of flat screen TVs will increase but the change in equilibrium quantity cannot be determined without more information.
 - the equilibrium quantity of flat screen TVs will increase but the change in equilibrium price cannot be determined without more information.
 - 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:
- income elasticity.
 - a supply schedule.
 - price elasticity of demand.
 - 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 _____.
- unit elastic; remain unchanged
 - unit elastic; decrease
 - perfectly elastic; remain unchanged
 - 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:
- unit elastic.
 - income elastic.
 - elastic.
 - 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:
- 0.75.
 - 1.33.
 - 2.47.
 - 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.
- elastic; increase
 - elastic; decrease
 - inelastic; increase
 - inelastic; decrease
36. If the cross elasticity of demand between goods X and Y is 0.8, goods X and Y are:
- normal goods.
 - complementary goods.
 - inferior goods.
 - substitute goods.
37. If there are no good substitutes available for a product, the demand for that product is expected to be:
- relatively elastic.
 - perfectly elastic.
 - relatively inelastic.
 - unit elastic.

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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

Answer Key

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