

Last Name: \_\_\_\_\_ First Name: \_\_\_\_\_  
Student Number: \_\_\_\_\_

**Instructions:** Answer all questions on this exam. Note that the pages of this exam are double sided. Answers for multiple choice questions are to be completed on the sheet provided. Make sure to fill in all appropriate information on these sheets. This exam also contains fill in the blank style questions, enter your answers in the spaces provided on the exam sheets. When you have completed the exam hand in both exam sheets.

### Multiple Choice

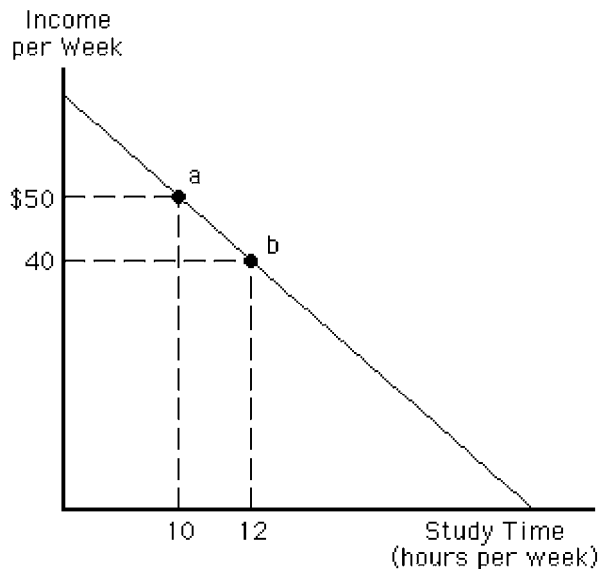
*Identify the letter of the choice that best completes the statement or answers the question.*

- \_\_\_\_\_ 1. Economics is the study of choice under conditions of
  - a. demand
  - b. supply
  - c. scarcity
  - d. opportunity
  - e. abundance
  
- \_\_\_\_\_ 2. Scarcity is a situation in which
  - a. available resources cannot satisfy all potential uses for the resources
  - b. there are unlimited wants
  - c. resources outnumber the potential uses for resources in society
  - d. there is a surplus, since buyers cannot obtain all of the goods that they want
  - e. society's productive capital is publicly owned
  
- \_\_\_\_\_ 3. The basic problem addressed in economics is
  - a. scarce resources and unlimited wants
  - b. scarce wants and unlimited resources
  - c. cost minimization
  - d. how to manage a financial portfolio
  - e. unlimited time and unlimited potential
  
- \_\_\_\_\_ 4. Which of the following explains why individuals must make choices?
  - a. competition among firms
  - b. scarcity of resources
  - c. inflation
  - d. changes in the money supply
  - e. conflict between positive and normative economic statements
  
- \_\_\_\_\_ 5. Microeconomics
  - a. addresses scarcity from a global perspective
  - b. examines how individuals, households, and firms make economic decisions
  - c. is purely theoretical and has little value in explaining real-world phenomena
  - d. focuses on what is happening in the economy as a whole
  - e. answers the fundamental economic questions of how, when, where, and why
  
- \_\_\_\_\_ 6. Positive economic statements are usually easier to refute with data than normative economic statements are.
  - a. True
  - b. False

- \_\_\_\_\_ 7. An economist claims that "the evidence suggests that high rates of inflation are associated with slow long-term economic growth." This is an example of
- positive economics
  - normative economics
  - negative economics
  - a simplifying assumption
  - microeconomic analysis
- \_\_\_\_\_ 8. An economic model can be described as
- an abstract representation of reality
  - a detailed description of some economic phenomenon
  - something that is often more complex than the real-world phenomenon it represents
  - a 3- dimensional representation of a "snabel"
  - a vehicle for making normative economic statements
- \_\_\_\_\_ 9. Using a \_\_\_\_\_ is a way of omitting extraneous details from an economic model.
- critical assumption
  - theory
  - normative statement
  - simplifying assumption
  - descriptive simplification
- \_\_\_\_\_ 10. A good economic model
- is as simple as possible, including only necessary details
  - is as complex as possible, including many details
  - represents reality as concretely as possible
  - tries to be as detailed as the reality it is describing
  - is very detailed regardless of its purpose
- \_\_\_\_\_ 11. The opportunity cost of any activity can be measured by the
- value of the best alternative that is given up
  - price (or monetary costs) of the activity
  - level of technology
  - time needed to select among various alternatives
  - fringe benefits associated with the activity
- \_\_\_\_\_ 12. Opportunity costs exist because
- there is a price attached to virtually every good or service
  - technology is not fixed in the economy
  - people have different tastes and preferences
  - limited resources cannot satisfy all of the wants in society
  - the production possibilities frontier is bowed in with respect to the origin
- \_\_\_\_\_ 13. The opportunity cost of a particular activity
- is the same for everyone pursuing this activity
  - may include both monetary costs and forgone income
  - always decreases as more of that activity is pursued
  - usually is known with certainty
  - measures the direct benefits of that activity

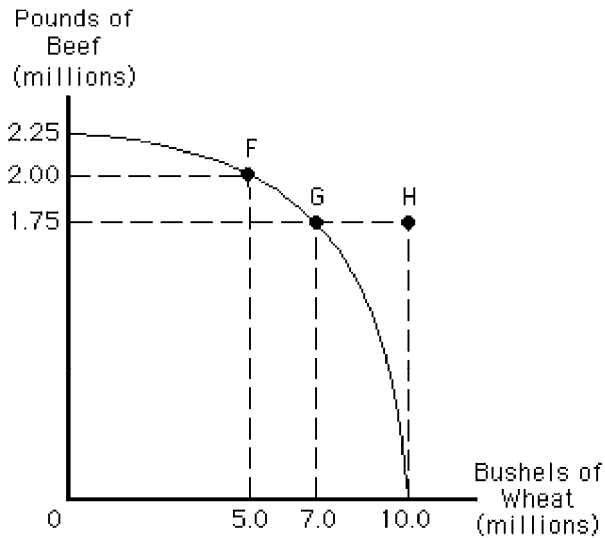
- \_\_\_\_\_ 14. After graduating from high school, Steve had three choices, listed in order of preference: (1) study economics at Iowa State University, (2) work in a printed circuit board factory, or (3) attend a rival college. His opportunity cost of going to college here includes which of the following?
- the cost of books and supplies at the rival college
  - the income he could have earned at the printed circuit board factory plus the direct cost of attending college here (tuition, textbooks, etc.)
  - the benefits he could have received from going to the rival college
  - only the tuition and fees paid for taking classes here
  - cannot be determined from the given information
- \_\_\_\_\_ 15. Carl is considering attending a concert with a ticket price of \$35. He estimates that the cost of driving to the concert and parking there will total an additional \$20. In order to attend the concert, Carl will have to take time off from his part-time job. He estimates that he will lose 5 hours at work, at a wage of \$6 per hour. Carl's opportunity cost of attending the concert equals
- \$35
  - \$55
  - \$30
  - \$65
  - \$85

Figure B-2



- \_\_\_\_\_ 16. Figure B-2 illustrates the trade-off for a particular student between time spent studying per week and income per week from working part-time. What is the opportunity cost for this person of moving from point a to point b?
- \$5 of income per week
  - \$10 of income per week
  - two hours of studying per week
  - \$10 per hour of studying per week
  - \$20 of income per week

Figure B-3

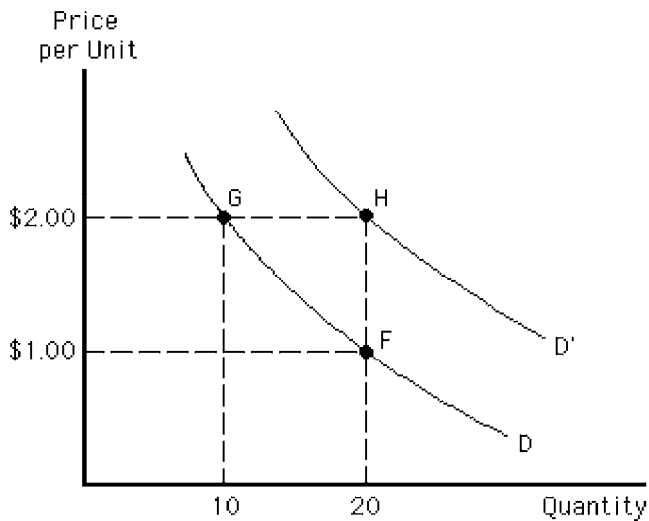


- \_\_\_\_\_ 17. Assume that U.S. agricultural land is used either to raise cattle for beef or to grow wheat. Figure B-3 represents the production possibility frontier for beef and wheat. Between points F and G, the opportunity cost of one bushel of wheat equals
- 0.25 million pounds of beef
  - 1.75 million pounds of beef
  - 0.125 pounds of beef
  - 8.0 pounds of beef
  - 0.5 pounds of beef
- \_\_\_\_\_ 18. Assume that U.S. agricultural land is used either to raise cattle for beef or to grow wheat. Figure B-3 represents the production possibility frontier for beef and wheat. Production at point H is
- unattainable given currently available technology and resources
  - attainable by more fully employing already available resources
  - attainable by using better technology which is already available
  - attainable if beef production drops to zero
  - attainable if all available resources are used to produce wheat
- \_\_\_\_\_ 19. If an economy's production possibilities frontier shifted to the right, this would illustrate
- increasing opportunity cost
  - decreasing opportunity cost
  - a fall in resource utilization
  - economic growth
  - a rise in resource utilization
- \_\_\_\_\_ 20. Two reasons why an economy might operate inside of its production possibilities frontier are
- productive efficiency and technological change
  - depressions and inflation
  - recessions and productive inefficiency
  - opportunity costs and substitutability of resources used in production
  - productive inefficiency and a decrease in the state of technology

- \_\_\_ 21. According to the law of increasing opportunity cost,
- opportunity cost rises as technology improves
  - the production possibilities frontier is a straight line
  - opportunity cost rises as society produces more of a good or service
  - the production possibilities frontier is convex with respect to the origin
  - monetary costs rise as opportunity cost rises
- \_\_\_ 22. If a society is operating on its production possibilities frontier, and then decides to produce less health care,
- its standard of living will fall
  - its standard of living will improve
  - some of its resources will become unemployed
  - it will be able to produce more of some other good or service
  - the opportunity cost of producing health care will rise
- \_\_\_ 23. The principle of specialization and exchange implies that
- total production is highest when individuals specialize according to their absolute advantages
  - productive inefficiency increases as producers in society specialize
  - exchange can only occur when there is specialization in the economy
  - gains from specialization will only occur when society is operating at a point along its production possibilities frontier
  - total production is highest when individuals specialize according to their comparative advantages
- \_\_\_ 24. Molly needs 30 minutes to wash the car and 45 minutes to mow the lawn. Renee needs 1 hour to wash the car and 2 hours to mow the lawn. Which of the following statements is correct?
- Molly should specialize in both tasks
  - Renee should specialize in both tasks
  - each woman should specialize in the task in which she has the absolute advantage
  - absolute advantage is not an appropriate guide for determining specialization
  - neither woman should specialize
- \_\_\_ 25. Bill can cook dinner in 45 minutes and mow the lawn in 1.5 hours. Eileen can cook dinner in 1.5 hours and mow the lawn in 2 hours. Bill's opportunity cost of mowing the lawn is
- 1/2 of a dinner
  - 2 dinners
  - 3/4 of a dinner
  - 1-1/3 dinners
  - 2-2/3 dinners
- \_\_\_ 26. In the theory of Karl Marx,
- all economies evolve toward capitalism
  - all economies will evolve towards communism
  - governments exploit economic agents
  - economies rarely evolve into other economic systems
  - capitalists are basically altruistic
- \_\_\_ 27. Which famous modern personality coined the popular phrase, "Marge, I agree with you -- in theory. In theory, communism works. In theory."
- |                                       |                       |
|---------------------------------------|-----------------------|
| a. Crown Princess Victoria Bernadotte | d. Earnest Hemmingway |
| b. Homer Simpson                      | e. George W. Bush     |
| c. John Nash                          |                       |

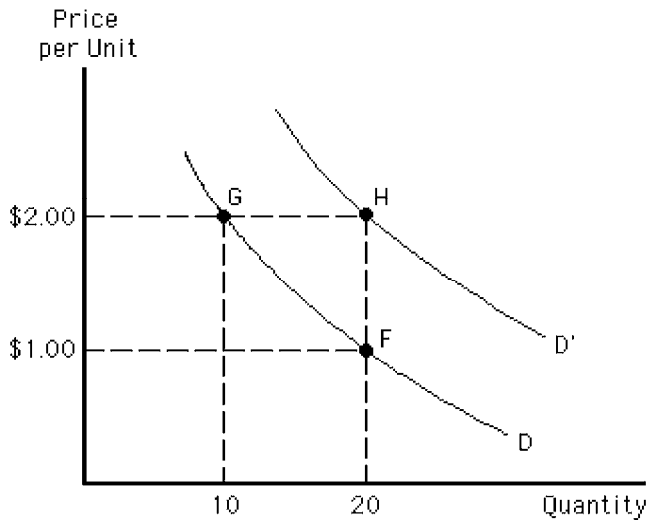
- \_\_\_\_\_ 28. The market for General Motors' bonds
- exists only within the geographical boundaries of the United States
  - is not defined by its geographic location
  - is at the New York Stock Exchange
  - is at the U.S. Treasury
  - is in London, England
- \_\_\_\_\_ 29. In analyzing the market for a particular good, the most appropriate size of the market to consider
- is the global market
  - is a local market
  - is a national market
  - is a state-wide market
  - depends on the purpose of the analysis

Figure C-5



- \_\_\_\_\_ 30. In Figure C-5, a movement from point G to point H would represent
- a change in demand
  - the impact of a decrease in the price of a substitute good
  - higher prices for the inputs used to produce this product
  - a change in demand plus a change in quantity demanded
  - a change in quantity demanded
- \_\_\_\_\_ 31. A market is considered imperfectly competitive whenever
- the government intervenes to set a price floor
  - the government intervenes to set a price ceiling
  - supply and demand explain how prices are determined
  - a single buyer or seller has the power to affect the price of the product
  - supply and demand fail to establish an equilibrium

Figure C-2



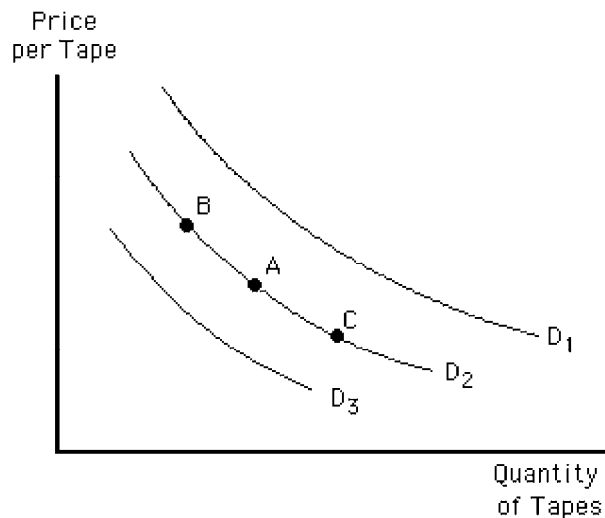
- \_\_\_\_\_ 32. Which of the following could explain a movement from point F to point G in Figure C-2? Assume that the good represented is an inferior good.
- all of the following are correct
  - an increase in buyers' incomes
  - a decrease in the expected future price of the good
  - an increase in the price of the good
  - an increase in the price of a complement
- \_\_\_\_\_ 33. The demand curve for Beanie Baby dolls shows the quantity of dolls demanded
- by suppliers of those dolls
  - by U.S. consumers
  - at the equilibrium price for Beanie Baby dolls
  - at each level of income
  - at each possible price of Beanie Baby dolls
- \_\_\_\_\_ 34. In a perfectly competitive market, there are
- many buyers and many sellers, who can each affect the price of the product
  - many buyers and sellers, and no single participant can affect the price of product
  - a few buyers or sellers, who can each affect the price of the product
  - a few buyers or sellers, but no single participant can affect the price of the product
  - many buyers and a few sellers, and a single seller can affect the price of the product
- \_\_\_\_\_ 35. According to the law of demand,
- there is a positive relationship between quantity demanded and price
  - as the price rises, demand will shift to the left
  - there is a negative relationship between quantity demanded and price
  - as the price rises, demand will shift to the right
  - as the price rises, consumers switch their purchases to substitute goods

Figure C-1

Price per CD	Quantity Demanded
\$10	5.0 Million
\$11	3.5 Million
\$12	2.8 Million
\$13	2.3 Million
\$14	2.0 Million

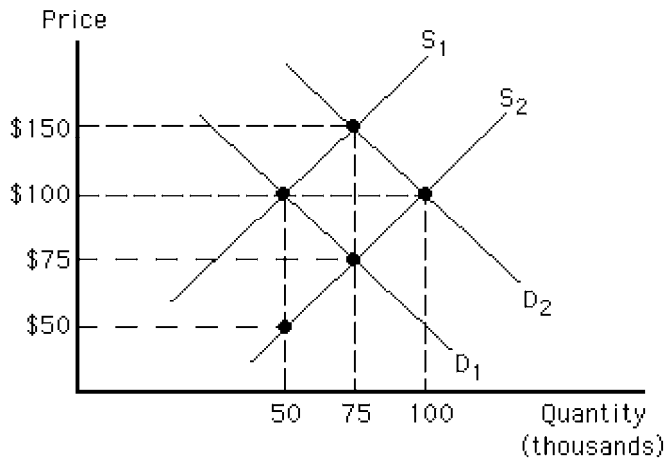
- \_\_\_\_\_ 36. Figure C-1 shows the market demand schedule for compact disks. If the price per disk rises from \$10 to \$12, the
- demand will decrease by 2.2 million disks
  - quantity demanded will decrease by 2.2 million disks
  - supply will rise by 2.8 million disks
  - quantity demanded will decrease by 3.5 million disks
  - demand curve will shift to the left

Figure C-7



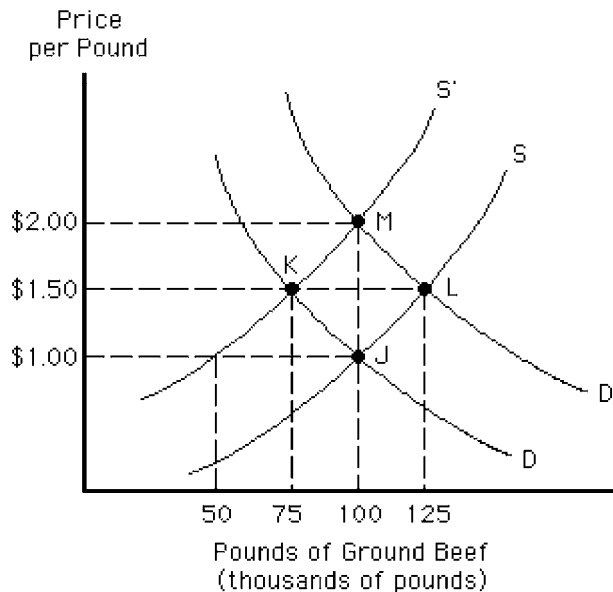
- \_\_\_\_\_ 37. Suppose that the market for cassette tapes is initially at point A on demand curve  $D_2$  in Figure C-7. If there is a decrease in the price of compact discs,
- the demand curve will shift to  $D_1$
  - the market will move to point B on demand curve  $D_2$
  - the market will move to point C on demand curve  $D_2$
  - there will be no change from point A
  - the demand curve will shift to  $D_3$
- \_\_\_\_\_ 38. With other things constant, the supply schedule for a particular good indicates the quantities
- actually sold with different productive capacities
  - supplied with different productive capacities
  - actually sold at various prices of the good
  - supplied at various prices of the good
  - supplied at various prices of the good and with various productive capacities

Figure C-11



- \_\_\_\_\_ 39. In Figure C-11, suppose that initially the market is in equilibrium as defined by the demand and supply curves  $D_1$  and  $S_1$ . Which price/quantity combination could result from a decrease in the wages paid to workers?
- \$100 and 50,000
  - \$120 and 50,000
  - \$75 and 75,000
  - \$120 and 75,000
  - \$120 and 100,000
- \_\_\_\_\_ 40. Assume the most typical shapes for the demand and supply in a competitive market. Suppose that demand falls and supply increases. Which of the following statements is correct?
- the equilibrium price will fall; the equilibrium quantity may rise or fall
  - the equilibrium price will rise; the equilibrium quantity may rise or fall
  - the equilibrium quantity will fall; the equilibrium price may rise or fall
  - the equilibrium quantity will rise; the equilibrium price may rise or fall
  - the equilibrium price will fall; the equilibrium quantity will not change
- \_\_\_\_\_ 41. Which of the following statements is true?
- exports tend to decrease economic efficiency
  - a nation should specialize in producing a good in which it has an absolute advantage
  - a nation should specialize in producing a good only when it has both an absolute and a comparative advantage
  - a nation should specialize in producing a good in which it has a comparative advantage
  - international trade does not utilize the benefits of specialization

Figure C-12



- \_\_\_\_\_ 42. Consider the market for ground beef represented by Figure C-12, which is initially in equilibrium at point J. Assume that ground beef is an inferior good. Which of the following could explain a movement to a new equilibrium at point M?
- a change in tastes away from hamburgers combined with an increased price for cattle feed
  - an increase in buyers' incomes combined with a cost-saving technological improvement
  - a decrease in the price of hot dogs combined with an increased price for labor
  - a decrease in buyers' incomes combined with a decrease in the number of acres owned by cattle ranches
  - a drop in the population combined with an increased price for an alternate form of packaged beef
- \_\_\_\_\_ 43. In order to engage in mutually advantageous trade, which of the following must be true for a nation?
- it must be producing at a point along its production possibilities frontier
  - it must be economically efficient
  - it must have a comparative advantage in producing one of the goods being traded
  - there must be no potential Pareto improvements available in the economy
  - it must have an absolute advantage in producing one good being traded

**Figure P-1**

Number of workers needed to produce  
one unit of each of the following goods:

	Korea	Colombia
1 Radio	3	4
1 Calculator	6	2

- \_\_\_\_\_ 44. What can be said regarding absolute advantage in production for the two countries shown in Figure P-1?
- Colombia has an absolute advantage in producing both calculators and radios
  - Korea has an absolute advantage only in producing calculators
  - Korea has an absolute advantage in producing both radios and calculators
  - neither country has an absolute advantage in producing radios
  - Colombia has an absolute advantage only in producing calculators
- \_\_\_\_\_ 45. If all we know is that the opportunity cost of a car equals 100 refrigerators in France, and the opportunity cost of a car equals 200 refrigerators in Italy, we can conclude
- nothing about who has the absolute advantage in refrigerator production
  - that France has a comparative advantage in refrigerator production
  - that mutually beneficial international trade might involve the market exchange of 1 car for 80 refrigerators (whereby France would gain more than Italy)
  - that mutually beneficial international trade might involve the market exchange of 1 car for 300 refrigerators (whereby Italy would gain more than France)
  - that France has the absolute advantage in car production
- \_\_\_\_\_ 46. In a Mexican factory, one worker can produce  $\frac{1}{8}$  of a vase or  $\frac{1}{16}$  of a statue per hour. If there are 400 workers at the factory, the maximum number of vases that could be produced in one hour is
- 400
  - 25
  - 50
  - 100
  - 80

**Figure P-2**

Number of workers needed to produce  
one unit of each of the following goods:

	Korea	Colombia
1 Radio	3	4
1 Calculator	6	2

- \_\_\_\_\_ 47. In Figure P-2, if Korea produces two fewer radios, then how many more calculators could it produce?
- 12
  - 2
  - 1
  - 4
  - 6

**Figure P-4**

Number of workers needed to produce one unit of each of the following goods:

	Korea	Colombia
1 Radio	3	4
1 Calculator	6	2

- \_\_\_\_\_ 48. In Figure P-4, which of the following is true?
- gains from trade are possible if Korea produces radios and Colombia produces calculators
  - no gains from trade are possible since neither country has an absolute advantage in producing both radios and calculators
  - gains from trade are not possible if Korea produces calculators and Colombia produces radios
  - no trade will occur because neither country has a comparative advantage in producing either good
  - no trade will occur because neither country has a comparative advantage in producing both radios and calculators
- \_\_\_\_\_ 49. The cost of producing an additional car in Germany is 2,000 bushels of wheat, and the cost of producing a car in Canada is 1,200 bushels of wheat. The two countries can gain from trade if the terms of trade are
- greater than 2,000 of wheat per car
  - less than 1,200 bushels of wheat per car
  - between 1,200 bushels and 2,000 bushels of wheat per car, and Germany produces wheat
  - between 1,200 bushels and 2,000 bushels of wheat per car, and Germany produces cars
  - between 1,200 bushels and 2,000 bushels of wheat per car, and Canada produces wheat
- \_\_\_\_\_ 50. Objections to free trade
- often come from those who are harmed by trade
  - make no sense because everyone benefits from trade
  - usually arise outside of the United States
  - reflect a lack of understanding of how international trade works
  - reflect a lack of understanding of the benefits of international trade

**Completion**

Complete each sentence or statement.

- The basic problem of economics arises when there are \_\_\_\_\_ resources available to fulfill society's limited wants.
- In examining consumer behavior, the \_\_\_\_\_ constraint faced by consumers dictates how many market goods can be purchased.
- \_\_\_\_\_ is the study of the economy as a whole.
- International trade occurs whenever both countries can gain from \_\_\_\_\_.
- Both supply and demand curves show a relationship between \_\_\_\_\_ and \_\_\_\_\_.
- \_\_\_\_\_ costs arise because of resource scarcity.
- Increasing opportunity costs are the reason the \_\_\_\_\_ \_\_\_\_\_ frontier will be concave (*bowed out*) with respect to the origin.

Name: \_\_\_\_\_

ID: A

58. Usually, disagreements among economists are based on \_\_\_\_\_ types are arguments
59. The law of supply says that price and quantity supplied are \_\_\_\_\_ related.
60. A group of buyers and sellers with the potential to trade is known as a(n) \_\_\_\_\_.

**MULTIPLE CHOICE**

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

- 42. ANS: D
- 43. ANS: C
- 44. ANS: E
- 45. ANS: A
- 46. ANS: C
- 47. ANS: C
- 48. ANS: A or C - Note: This question was removed from exam scoring
- 49. ANS: C
- 50. ANS: A

**COMPLETION**

- 51. ANS: Limited
- 52. ANS: Income
- 53. ANS: Macroeconomics
- 54. ANS: trade
- 55. ANS: price and quantity
- 56. ANS: Opportunity
- 57. ANS: production possibilities
- 58. ANS: normative
- 59. ANS: positively (or directly)
- 60. ANS: market