

Economics 101 section 5 - Practice exam #1

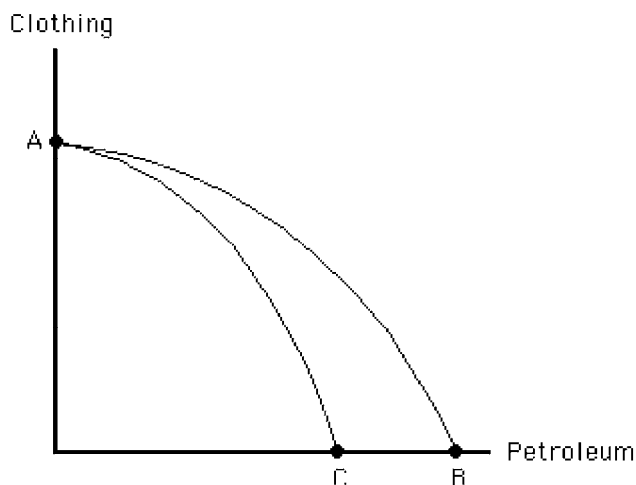
Multiple Choice

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

- ___ 1. Economics is the study of
- how to make money in financial markets
 - how to allocate unlimited resources to satisfy limited uses
 - how to allocate limited resources to satisfy unlimited wants
 - using stocks and bonds to their maximum potential
 - how to be conservative in financial affairs
- ___ 2. In examining consumer behavior, one of the constraints faced by consumers is
- utility
 - quantities consumed
 - tastes and preferences
 - entrepreneurial ability
 - income
- ___ 3. The three main categories of resources are
- labor, money, and capital
 - capital, land, and raw materials
 - raw materials, money, and labor
 - land, capital, and labor
 - human capital, physical capital, and labor
- ___ 4. How retail gasoline stations behave in a local market is an example of a macroeconomic issue.
- True
 - False
- ___ 5. Microeconomics
- addresses scarcity from a global perspective
 - examines how individuals, households, and firms make economic decisions
 - is purely theoretical and has little value in explaining real-world phenomena
 - focuses on what is happening in the economy as a whole
 - answers the fundamental economic questions of how, when, where, and why
- ___ 6. If the president of Chile commented that "the crime rate in Chile is currently too high," this would be an example of a normative statement.
- True
 - False
- ___ 7. The distinction between positive and normative economics
- is that positive economics applies only to microeconomic problems
 - is that normative economics applies only to microeconomic problems
 - is the difference between an assumption and a conclusion
 - helps us understand why economists sometimes disagree with one another
 - explains why economics is not a social science
- ___ 8. Reasons for studying economics would logically include
- all of the following
 - to better understand world issues by applying the tools of economic analysis
 - to help design more effective solutions to society's problems
 - to help prepare for careers in fields such as law and politics
 - to better understand the impact of world events on an individual's life

- ___ 9. An economic model is
 - a. a concrete representation of reality
 - b. as close to reality as possible
 - c. too abstract to be useful when assumptions are involved
 - d. unrelated to reality
 - e. an abstract representation of reality
- ___ 10. In order to eliminate unnecessary details and highlight the essential features of an economic model, an economist makes
 - a. critical assumptions
 - b. macroeconomic assumptions
 - c. normative assumptions
 - d. positive assumptions
 - e. simplifying assumptions
- ___ 11. High-income people will sometimes pay higher prices at convenience stores for goods that are available at discount stores. They do this because
 - a. they are irrational
 - b. their opportunity cost of time is low
 - c. crowded and understaffed discount stores impose higher *time costs*
 - d. they like to be seen paying more money
 - e. they do not mind wasting time
- ___ 12. Combinations of goods on the production possibilities curve
 - a. are unattainable without additional resources
 - b. can be produced using currently available resources and technology
 - c. reflect minimum normative value allocations
 - d. will meet society's *needs* but not its *wants*
 - e. are attainable only through international trade
- ___ 13. When all resources used in production are not perfectly substitutable,
 - a. specialization does not lead to greater production
 - b. the economy or firm is producing at a point outside of its production possibilities frontier
 - c. there will be constant opportunity costs
 - d. the production possibilities frontier will be concave (bowed outward)
 - e. the economy or firm will only produce one good in equilibrium

Figure B-8



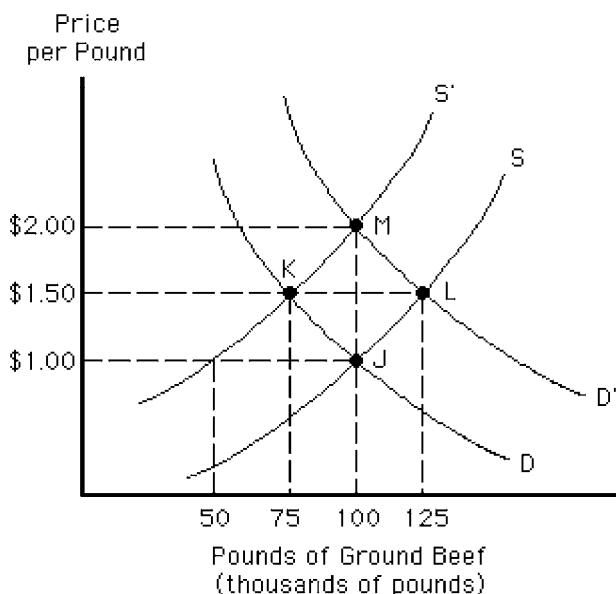
- ___ 14. Which of the following could explain the shift in the production possibilities frontier from AB to AC in Figure B-8?
- a productive improvement in petroleum production that has no effect on clothing production
 - a productive improvement in clothing production that has no effect on petroleum production
 - an increase in the size of the labor force that can produce either petroleum products or clothing
 - major oil reserves in Alaska are declared off-limits to producers in order to protect the environment
 - major oil reserves are discovered off the coast of Africa
- ___ 15. Which of the following could explain the shift in the production possibilities frontier shown in Figure B-8 from AC to AB?
- technical improvements in both petroleum and clothing production
 - a productive improvement in clothing production that has no effect on petroleum production
 - a decrease in the size of the labor force that can produce either petroleum products or clothing
 - major oil reserves in Alaska are declared off-limits to producers in order to protect the environment
 - major oil reserves are discovered off the coast of Africa
- ___ 16. 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

- ___ 17. As a society produces more and more of one good, it must give up increasing amounts of the alternative good. This demonstrates the
- law of demand
 - convexity of the production possibilities frontier
 - law of increasing opportunity cost
 - principle of productive inefficiency
 - effects of shifts in the level of technology
- ___ 18. If the labor force in an economy is not fully employed, then
- the economy is operating outside of its production possibilities frontier
 - the economy is operating on its production possibilities frontier
 - there must have been an increase in technology to compensate for the labor shortage
 - the opportunity cost of producing more of one good is negative
 - the economy is operating inside its production possibilities frontier
- ___ 19. If Alicia limits the range of her productive activities rather than trying to be self-sufficient, she is engaging in
- specialization
 - exchange
 - absolute advantage
 - increasing opportunity costs
 - reducing her standard of living
- ___ 20. If Mary has an absolute advantage over Bill in performing each of two tasks, then
- Mary must have a comparative advantage in both tasks
 - Mary cannot benefit by specializing in one and trading with Bill for the other
 - Mary should specialize in both tasks
 - Mary cannot have a comparative advantage in either task
 - Mary should specialize in the one in which she has a comparative advantage
- ___ 21. In deciding where to operate along its production possibilities frontier, a society is answering the question of
- which goods and services should be produced with its scarce resources
 - what production methods should be used to produce goods and services
 - how will output be allocated among the individuals in the society
 - what prices will be charged for goods and services
 - how much will it trade with other societies in the world
- ___ 22. Under a market system of resource allocation
- prices determine what consumers buy while the government determines what firms produce
 - prices determine what firms produce while the government determines what consumers buy
 - prices determine both what firms produce and what consumers buy
 - the government determines both what firms produce and what consumers buy
 - the government allocates resources while prices allocate goods and services
- ___ 23. Which of the following provides the best example of communal ownership of resources?
- the U.S. economy
 - the former Soviet Union
 - the kibbutzim in Israel
 - Yugoslavia
 - Sweden

- _____ 24. An economic system in which resources are allocated primarily through prices but are owned primarily by the state is known as
- centrally planned socialism
 - market socialism
 - centrally planned capitalism
 - market capitalism
 - communism
- _____ 25. One way to increase economic efficiency in saving lives is to
- shift resources toward methods with low cost per life saved
 - shift resources toward methods with high cost per life saved
 - allocate more resources to saving lives
 - allocate fewer resources to saving lives
 - move along the production possibilities frontier and increase the number of lives saved
- _____ 26. Which of the following is characteristic of an imperfectly competitive market?
- all of the following are correct
 - no single buyer or seller can influence the market price
 - a large seller can raise its price without reducing its sales volume
 - a large buyer can increase its purchases without affecting the price
 - a seller can increase its sales by lowering the price of its product
- _____ 27. In a market system, prices are determined by
- corporate executives
 - government bureaucrats
 - supply and demand
 - total market demand
 - production costs
- _____ 28. The amount of a commodity that buyers in the market would like to purchase at a particular price is
- equilibrium
 - quantity supplied
 - quantity produced
 - infinite
 - quantity demanded
- _____ 29. Which of the following statements about demand is correct?
- a change in the price of bicycles will not lead to a shift in the demand curve for bicycles
 - a change in the price of automobiles will lead to a shift in the demand curve for motorcycles
 - a change in demand is equivalent to a movement along a given demand curve
 - when price falls, so does the quantity demanded
 - when the demand curve shifts to the right, so will the supply curve
- _____ 30. Which of the following would increase the amount of an inferior good that buyers would like to purchase?
- an increase in buyers' incomes
 - an increase in the price of a complement
 - a decrease in the price of a substitute
 - a decrease in buyers' incomes
 - a decrease in its expected future price

- ___ 31. "As income rises, the demand for most goods also rises." This statement
- is inconsistent with the law of demand
 - suggests that many goods are inferior goods
 - shows that the quantity demanded is inversely related to price
 - suggests that most goods are normal goods
 - does not apply to goods traded in competitive markets
- ___ 32. If a good is a normal good then
- other things equal, no consumer will buy it
 - a rise in income or wealth will increase the amount of the good that consumers will purchase
 - a decline in income will increase the amount of it that consumers will purchase
 - abnormal goods are never substituted for it
 - normal consumers will always demand it
- ___ 33. 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
- ___ 34. The supply curve is upward sloping because
- supply equals demand
 - price and quantity supplied are inversely related
 - price and quantity demanded are directly related
 - price and quantity supplied are directly related
 - price and quantity demanded are inversely related
- ___ 35. If prices are free to rise and fall, neither excess demand nor excess supply can persist in a market.
- True
 - False
- ___ 36. If both the demand and supply curves for computers shift to the right, the price of computers may rise, fall, or remain unchanged.
- True
 - False
- ___ 37. Which of the following could lead to an increase in the equilibrium quantity of a good?
- a decrease in supply and a decrease in demand
 - a fall in the equilibrium price of the good
 - an increase in demand and an increase in supply
 - a decrease in demand regardless of supply
 - a rise in the equilibrium price of the good

Figure C-12



38. 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
39. In the late 1980s,
- an increase in the price of oil led to an increase in the price of natural gas
 - a decrease in the price of oil led to a decrease in the price of natural gas
 - the supply of oil decreased because of an anticipated rise in the price of oil
 - the supply of oil increased, which led college administrators to expect the price of natural gas to rise
 - the supply of oil increased, which led college administrators to expect the price of natural gas to fall
40. The mistake made by some college administrators during the late 1980s was
- ignoring the decrease in the supply of oil
 - ignoring the increase in the supply of oil
 - choosing an inefficient technology for heating campus buildings
 - a failure to recognize that natural gas and oil are complements
 - a failure to recognize that oil and natural gas are substitutes

- ___ 41. 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
- ___ 42. 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
- ___ 43. 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
- ___ 44. 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 statues that could be produced in one hour is
- 50
 - 100
 - 80
 - 25
 - 160

Figure P-3

Quantities of goods that can be produced
in one day with available resources:

Panama	Costa Rica
20 rugs	10 rugs
5 bicycles	2 bicycles

- ___ 45. In Figure P-3, the opportunity cost in Costa Rica of producing one additional bicycle is
- 10 rugs
 - 20 rugs
 - 4 rugs
 - 5 rugs
 - one fifth of a rug

- ___ 46. In Figure P-3, if Costa Rica and Panama have identical resources, then Panama has a(n)
- absolute advantage only in producing bicycles
 - comparative advantage in producing both bicycles and rugs
 - absolute advantage only in producing rugs
 - comparative advantage only in producing rugs
 - absolute advantage in producing both rugs and bicycles
- ___ 47. Given an opportunity cost of 10 bicycles per 1 sewing machine in Germany and 20 bicycles per 2 sewing machines in Hungary,
- neither country has a comparative advantage in the production of either good
 - Germany has a comparative advantage in the production of sewing machines
 - Germany has an absolute advantage in the production of sewing machines
 - Hungary has an absolute advantage in the production of bicycles
 - changing the above 20 to 40 would give Hungary a comparative advantage in sewing machines
- ___ 48. If countries specialize according to comparative advantage, a more efficient use of given resources occurs. As a result, the world output of at least one good increases, without decreasing the output of any other good.
- True
 - False
- ___ 49. The limits of the terms of trade between two countries are determined by those countries' opportunity costs of production.
- True
 - False
- ___ 50. Assume Chile can produce one pound of coffee or 40 pillows in an hour, and the United States can produce one pound of coffee or 20 pillows in an hour,
- the terms of trade should be between 20 and 40 pillows per pound of coffee, and the United States should produce both coffee and pillows
 - the terms of trade should be between 20 and 40 pillows per pound of coffee, and Chile should produce pillows
 - the terms of trade should be between 20 and 40 pillows per pound of coffee, and Chile should produce coffee
 - the terms of trade should exceed 40 pillows per pound of coffee, and Chile should produce coffee
 - no trade will occur, since the United States does not have an absolute advantage in producing either good
- ___ 51. A nation's comparative advantage
- can almost always be traced to its natural resources
 - is often based on its natural resources
 - is often based on barriers to international trade
 - is reflected in the shape of its demand curve for imported goods
 - is a result of increasing marginal returns
- ___ 52. 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

- _____ 53. When free international trade takes place, in accordance with a country's comparative advantage,
- a. producers in export industries are likely to favor it because they sell a larger quantity at identical prices
 - b. producers in export industries are likely to oppose it because they sell a larger quantity, which lowers prices in accordance with the laws of supply and demand
 - c. producers in import industries are likely to favor it because they sell a larger quantity at only slightly depressed prices
 - d. export industry workers are likely to love it, import industry workers are likely to hate it
 - e. consumers are likely to be of two minds: they hate the more expensive import goods, but they love the cheaper export goods
- _____ 54. A *tariff* is
- a. a law restricting the quantity of a good that may be imported
 - b. a tax imposed on imports
 - c. a penalty imposed on consumers for supplying goods to the market
 - d. the terms of trade between two nations
 - e. the ratio of opportunity costs in two nations

Economics 101 section 5 - Practice exam #1

Answer Section

MULTIPLE CHOICE

- | | | |
|------------|--|---|
| 1. ANS: C | DIF: 1 | TOP: Economics, Scarcity and Choice |
| 2. ANS: E | DIF: 1 | TOP: Economics, Scarcity and Choice |
| 3. ANS: D | DIF: 2 | TOP: The World of Economics |
| 4. ANS: B | TOP: Microeconomics and Macroeconomics | |
| 5. ANS: B | DIF: 2 | TOP: Microeconomics and Macroeconomics |
| 6. ANS: A | TOP: Positive and Normative Economics | |
| 7. ANS: D | DIF: 3 | TOP: Positive and Normative Economics |
| 8. ANS: E | DIF: 1 | TOP: Why Study Economics? |
| 9. ANS: E | DIF: 2 | TOP: The Methods of Economics |
| 10. ANS: E | DIF: 2 | TOP: The Methods of Economics |
| 11. ANS: C | DIF: 2 | TOP: The Concept of Opportunity Cost |
| 12. ANS: B | DIF: 2 | TOP: Production Possibilities Frontiers |
| 13. ANS: D | DIF: 2 | TOP: Production Possibilities Frontiers |
| 14. ANS: D | DIF: 2 | TOP: Production Possibilities Frontiers |
| 15. ANS: E | DIF: 2 | TOP: Production Possibilities Frontiers |
| 16. ANS: C | DIF: 2 | TOP: Increasing Opportunity Cost |
| 17. ANS: C | DIF: 2 | TOP: Increasing Opportunity Cost |
| 18. ANS: E | DIF: 2 | TOP: Specialization and Exchanges |
| 19. ANS: A | DIF: 2 | TOP: Specialization and Exchanges |
| 20. ANS: E | DIF: 2 | TOP: Absolute Advantage: A Detour |
| 21. ANS: A | DIF: 2 | TOP: Resource Allocation |
| 22. ANS: C | DIF: 2 | TOP: The Three Methods of Resource Allocation |
| 23. ANS: C | DIF: 2 | TOP: Resource Ownership |
| 24. ANS: B | DIF: 2 | TOP: Types of Economic Systems |
| 25. ANS: A | DIF: 2 | TOP: Using the Theory: Are We Saving Lives Efficiently? |
| 26. ANS: E | DIF: 2 | TOP: Markets |
| 27. ANS: C | DIF: 1 | TOP: Markets |
| 28. ANS: E | DIF: 1 | TOP: Demand |
| 29. ANS: A | DIF: 2 | TOP: Changes in Quantity Demanded |
| 30. ANS: D | DIF: 2 | TOP: Changes in Demand |
| 31. ANS: D | DIF: 2 | TOP: Changes in Demand |
| 32. ANS: B | DIF: 1 | TOP: Changes in Demand |
| 33. ANS: D | DIF: 2 | TOP: Supply |
| 34. ANS: D | DIF: 2 | TOP: Supply |
| 35. ANS: A | TOP: What Happens When Things Change | |
| 36. ANS: A | TOP: What Happens When Things Change | |
| 37. ANS: C | DIF: 2 | TOP: What Happens When Things Change |
| 38. ANS: D | DIF: 2 | TOP: What Happens When Things Change |
| 39. ANS: A | DIF: 2 | TOP: Using the Theory: Anticipating a Price Change |
| 40. ANS: E | DIF: 2 | TOP: Using the Theory: Anticipating a Price Change |
| 41. ANS: C | DIF: 3 | TOP: The Theory of Comparative Advantage |

42.	ANS: A	DIF: 3	TOP: The Theory of Comparative Advantage
43.	ANS: C	DIF: 2	TOP: Opportunity Cost and Comparative Advantage
44.	ANS: D	DIF: 2	TOP: Opportunity Cost and Comparative Advantage
45.	ANS: D	DIF: 2	TOP: Opportunity Cost and Comparative Advantage
46.	ANS: E	DIF: 2	TOP: Opportunity Cost and Comparative Advantage
47.	ANS: A	DIF: 3	TOP: Opportunity Cost and Comparative Advantage
48.	ANS: A	TOP: Specialization and World Production	
49.	ANS: A	TOP: The Terms of Trade	
50.	ANS: B	DIF: 3	TOP: The Terms of Trade
51.	ANS: B	DIF: 3	TOP: The Sources of Comparative Advantage
52.	ANS: A	DIF: 2	TOP: Why Some People Object to Free Trade
53.	ANS: D	DIF: 2	TOP: Attitudes Toward Free Trade: A Summary
54.	ANS: B	DIF: 1	TOP: Tariffs