

1. Given that resources are scarce:
 - A) A "free lunch" is possible but only for a limited number of people
 - B) Poor countries must make choices but rich countries do not have to make choices
 - C) Opportunity costs are experienced whenever choices are made
 - D) Some choices involve opportunity costs while other choices do not

2. The central problem of economics is the:
 - A) Distribution of goods and services to those in need
 - B) Scarcity of resources relative to human wants
 - C) Inefficiency of government operations
 - D) Unemployment of certain factors of production

3. If resources are limited:
 - A) People will rush to buy more goods than they would otherwise
 - B) Businesses will sell more products than they would otherwise
 - C) Choices must be made which involve tradeoffs
 - D) All individuals are deprived of basic necessities

4. Which of the following are available in limited quantity and contribute to the problem of scarcity?
 - A) Supply of and demand for goods and services
 - B) Land, labor, capital and entrepreneurship
 - C) Net exports
 - D) Welfare of individuals and business firms

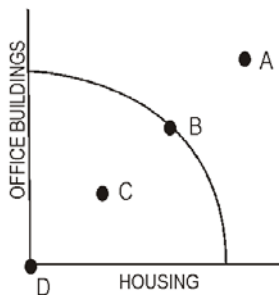
5. Which of the following is the best example of the "WHAT" economic question?
 - A) Is labor being substituted for capital in the production process?
 - B) Who gets the goods once they are produced?
 - C) What is the most efficient method for producing goods?
 - D) What is the optimal mix of output?

6. Which of the following is *not* a factor of production?
 - A) The \$100,000 used to start a small business
 - B) A professor at a local college
 - C) Five thousand acres of farmland
 - D) A computer used by an accountant

7. In economics, capital refers to:
 - A) Money
 - B) Savings put aside for future investment
 - C) Goods that can be used to produce other goods
 - D) The value of a corporation's assets

8. In attempting to answer the WHAT question, a society seeks to:
- A) Produce the optimal mix of output
 - B) Exploit its workers in order to produce more output
 - C) Produce more military goods so that the citizens will be safe
 - D) Distribute an equal amount of goods to all citizens
9. Economic growth is represented by:
- A) An inward shift of the production possibilities curve
 - B) A point inside the production possibilities curve
 - C) An outward shift of the production possibilities curve
 - D) A movement along the production possibilities curve

Figure 1.1 - Production possibilities curve



10. Society might be able to produce this combination if new resources were discovered but cannot produce it with current resources. Select the appropriate point. (See Figure 1.1.)
- A) A
 - B) B
 - C) C
 - D) D
11. Which of the following best describes the way resources are allocated in the U.S. economy?
- A) By rules
 - B) By markets
 - C) By regulations
 - D) By government
12. The price of a good or service:
- A) Never has an impact on the market mechanism
 - B) Serves as the essential signal of the market mechanism
 - C) Sometimes plays a role in the market mechanism
 - D) Rarely has an impact on the market mechanism

13. Market failure means:
- A) Government solutions fail to improve economic outcomes
 - B) The market mechanism does not produce the best mix of output
 - C) The market allocates goods more efficiently than does the government
 - D) The market is responsive to consumer demand
14. Which of the following is an example of an externality?
- A) Pollution
 - B) Inflation
 - C) Government failure
 - D) Laissez faire
15. GDP most closely measures:
- A) Output per worker
 - B) A summary of the world's output
 - C) The total value of all final goods and services produced within a nation's borders in a given year
 - D) The rate of change in capital stock
16. The inflation-adjusted value of final goods and services produced in the United States measures:
- A) Nominal GDP
 - B) Real GDP
 - C) Per capita GDP
 - D) GDP per worker
17. The amount of output potentially available to the average person is best measured using:
- A) Nominal GDP
 - B) Real GDP
 - C) Per capita GDP
 - D) GDP per worker
18. The largest component of U.S. GDP is:
- A) Government services at the federal, state and local levels combined
 - B) Business investment
 - C) Household consumption
 - D) Net exports
19. The goods and services purchased from foreign sources are:
- A) Investment
 - B) Exports
 - C) Imports
 - D) Income transfers

20. American production is described as capital intensive, which means that:
- A) Foreign investment is relatively small
 - B) The ratio of machinery to labor is high
 - C) The ratio of labor to machinery is high
 - D) Government control of production processes is high
21. A firm that produces the entire market supply of a certain good or service is known as:
- A) A competitive firm
 - B) An oligopoly
 - C) A monopsony
 - D) A monopoly
22. Which of the following is true concerning the distribution of income in the United States?
- A) Income is distributed almost equally across households
 - B) The richest fifth of U.S. households receives about one-half of all the income
 - C) The richest fifth of U.S. households receives nearly twice as much income as the poorest fifth
 - D) The tax system has a significant impact on income inequality
23. Which of the following is the best description of the U.S. tax system?
- A) The federal income tax is regressive but sales, property and other taxes tend to be progressive
 - B) The U.S. tax system is completely progressive
 - C) The federal income tax is progressive but sales, property and other taxes tend to be regressive
 - D) The U.S. tax system is completely regressive
24. For producers, most market activity can be explained by the goal of:
- A) Income maximization
 - B) Total revenue maximization
 - C) Profit maximization
 - D) Unit sales maximization
25. For consumers, most market activity can be explained by the goal of:
- A) Charitable responsibility
 - B) Maximizing income
 - C) Profit maximization
 - D) Maximizing happiness
26. Consumers _____ finished goods and services in the _____ market.
- A) Buy; product
 - B) Sell; factor
 - C) Sell; product
 - D) Buy; factor

27. In order to demand a good, the buyer must:

- A) Want the good very much
- B) Be both willing and able to pay for it
- C) Think that the good has significant utility
- D) Be aware of the opportunity costs

28. According to the law of demand:

- A) Price and quantity demanded are inversely related
- B) Price is constant along a particular demand curve
- C) The demand curve will shift rightward as price increases
- D) Businesses will produce more as price increases

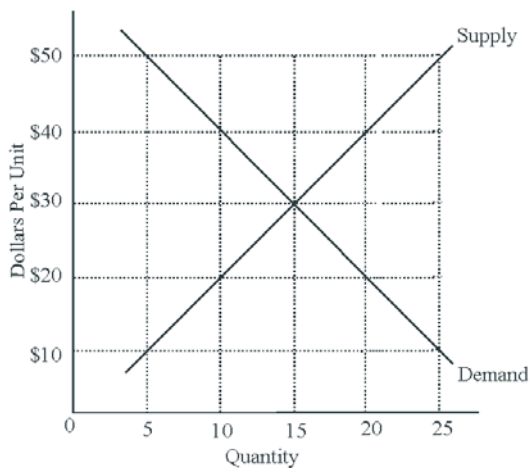
29. In a market, the equilibrium price is determined by:

- A) Only what buyers are willing and able to purchase
- B) Only what sellers are willing and able to offer for sale
- C) The interaction of both demand and supply
- D) The government

30. When there is a shortage in a market, prices are likely to:

- A) Fall because buyers do not wish to buy as much as sellers want to sell
- B) Rise because some buyers will offer to pay a higher price
- C) Fall because sellers are likely to reduce their production if prices rise
- D) Rise because the government will put a price ceiling in place

Figure 3.2 - Supply and demand



sp09 ex1 Key

1. C
2. B
3. C
4. B
5. D
6. A
7. C
8. A
9. C
10. A
11. B
12. B
13. B
14. A
15. C
16. B
17. C
18. C
19. C
20. B
21. D
22. B
23. C
24. C
25. D
26. A
27. B
28. A
29. C
30. B