

1. Given that resources are scarce:

<p>A) A "free lunch" is possible but only for a limited number of people</p> <p>B) Poor countries must make choices but rich countries do not have to make choices</p>	<p>C) Opportunity costs are experienced whenever choices are made</p> <p>D) Some choices involve opportunity costs while other choices do not</p>
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2. The central problem of economics is the:

<p>A) Distribution of goods and services to those in need</p> <p>B) Scarcity of resources relative to human wants</p>	<p>C) Inefficiency of government operations</p> <p>D) Unemployment of certain factors of production</p>
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3. If resources are limited:

<p>A) People will rush to buy more goods than they would otherwise</p> <p>B) Businesses will sell more products than they would otherwise</p>	<p>C) Choices must be made which involve tradeoffs</p> <p>D) All individuals are deprived of basic necessities</p>
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4. Which of the following are available in limited quantity and contribute to the problem of scarcity?

<p>A) Supply of and demand for goods and services</p> <p>B) Land, labor, capital and entrepreneurship</p>	<p>C) Net exports</p> <p>D) Welfare of individuals and business firms</p>
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5. Which of the following is the best example of the "WHAT" economic question?

<p>A) Is labor being substituted for capital in the production process?</p> <p>B) Who gets the goods once they are produced?</p>	<p>C) What is the most efficient method for producing goods?</p> <p>D) What is the optimal mix of output?</p>
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6. Which of the following is *not* a factor of production?

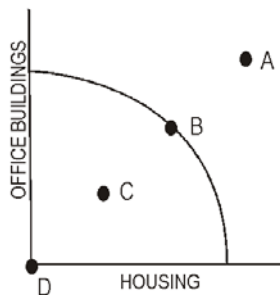
<p>A) The \$100,000 used to start a small business</p> <p>B) A professor at a local college</p>	<p>C) Five thousand acres of farmland</p> <p>D) A computer used by an accountant</p>
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7. In economics, capital refers to:

<p>A) Money</p> <p>B) Savings put aside for future investment</p>	<p>C) Goods that can be used to produce other goods</p> <p>D) The value of a corporation's assets</p>
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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

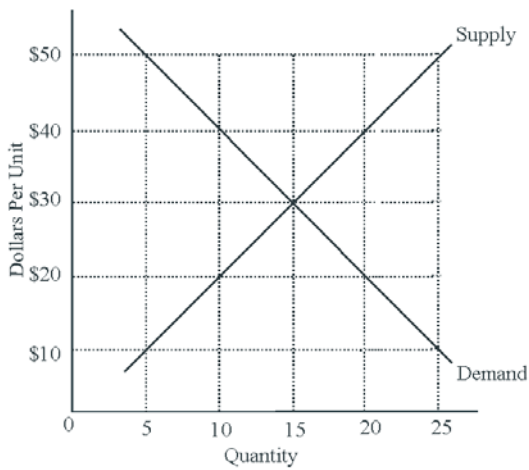


10. Society might be able to produce this combination if new resources were discovered but cannot produce it with current resources. Select the appropriate point. (See Figure 1.1.)
- A) A
 - B) B
 - C) C
 - D) D
11. Which of the following best describes the way resources are allocated in the U.S. economy?
- 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?
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|---|---|
| A) The federal income tax is regressive but sales, property and other taxes tend to be progressive | C) The federal income tax is progressive but sales, property and other taxes tend to be regressive |
| B) The U.S. tax system is completely progressive | 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 | C) Profit maximization |
| B) Total revenue maximization | D) Unit sales maximization |
25. For consumers, most market activity can be explained by the goal of:
- | | |
|-------------------------------------|--------------------------------|
| A) Charitable responsibility | C) Profit maximization |
| B) Maximizing income | D) Maximizing happiness |
26. Consumers _____ finished goods and services in the _____ market.
- | | |
|------------------------|-------------------------|
| A) Buy; product | C) Sell; product |
| B) Sell; factor | D) Buy; factor |
27. In order to demand a good, the buyer must:
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|--|---|
| A) Want the good very much | C) Think that the good has significant utility |
| B) Be both willing and able to pay for it | D) Be aware of the opportunity costs |
28. According to the law of demand:
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|---|--|
| A) Price and quantity demanded are inversely related | C) The demand curve will shift rightward as price increases |
| B) Price is constant along a particular demand curve | 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 | C) The interaction of both demand and supply |
| B) Only what sellers are willing and able to offer for sale | 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 | C) Fall because sellers are likely to reduce their production if prices rise |
| B) Rise because some buyers will offer to pay a higher price | D) Rise because the government will put a price ceiling in place |

Figure 3.2 - Supply and demand



31. Which of the following is true about American spending habits?
- A)** Women spend more than men on alcohol and smoking
B) Young men spend more than young women on clothing and personal-care items
C) Teenagers spend their money on electronics, cars and clothes
D) Young women are likely to go into debt because of their spending but not young men
32. Price elasticity of demand indicates the consumer response to changes in:
- A)** Quantity
B) Demand
C) Price
D) Supply
33. Suppose the price elasticity of demand for tacos is 0.80. If the price of tacos increases by 10 percent, then the quantity demanded of tacos should, *ceteris paribus*:
- A)** Decrease by 8 percent
B) Increase by 8 percent
C) Decrease by 1.25 percent
D) Increase by 1.25 percent
34. Suppose a university raises its tuition by 8 percent and as a result the enrollment of students drops by 4 percent. The price elasticity of demand is closest to:
- A)** 8.0
B) 4.0
C) 2.0
D) 0.5
35. Suppose the local government decides to reduce traffic congestion on a bridge by imposing a toll. The toll will be most effective if the price elasticity of demand for the bridge is:
- A)** Inelastic
B) Elastic
C) Unitary
D) Either unitary or inelastic
36. The demand for _____ is relatively elastic.
- A)** Long-distance phone calls
B) Electricity
C) Vacation travel
D) Coffee

37. Which of the following is most likely to be inelastic with respect to demand?

- A) Illegal drugs
- B) Airline travel in the long run
- C) New cars
- D) HDTV sets

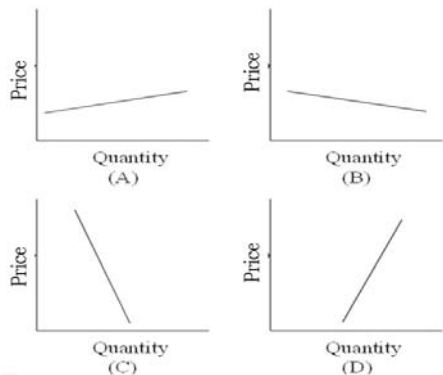
38. If the price elasticity of demand for Baja Fresh tacos is 2.5, then Baja Fresh can:

- A) Reduce the price of tacos by 25 percent and total revenue will remain the same
- B) Raise the price of tacos and total revenue will increase
- C) Reduce the price of tacos by less than 25 percent and total sales will remain the same
- D) Reduce the price of tacos and total revenue will increase

39. One of the objectives of advertising, from an economic perspective is to shift the:

- A) Supply curve to the left
- B) Supply curve to the right
- C) Demand curve to the left
- D) Demand curve to the right

Figure 4.1



40. In Figure 4.1, the price elasticity of demand in Graph C is:

- A) Relatively inelastic
- B) Relatively elastic
- C) Unitary elastic
- D) Impossible to determine by looking at the graph

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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

31. C

32. C

33. A

34. D

35. B

36. C

37. A

38. D

39. D

40. A