1. For economists, the word "utility" means:
   A) versatility and flexibility.  
   B) rationality.  
   C) pleasure and satisfaction.  
   D) purposefulness.

2. When economists say that people act rationally in their self interest, they mean that individuals:
   A) look for and pursue opportunities to increase their utility.  
   B) generally disregard the interests of others.  
   C) are mainly creatures of habit.  
   D) are unpredictable.

3. The study of economics is primarily concerned with:
   A) keeping private businesses from losing money.  
   B) demonstrating that capitalistic economies are superior to socialistic economies.  
   C) choices that are made in seeking the best use of resources.  
   D) determining the most equitable distribution of society's output.

4. Which of the following is an economic explanation for why most college-aged movie stars do not attend college.
   A) they are too dumb to get into college  
   B) they would find college life boring  
   C) the opportunity cost in terms of reduced income is too great  
   D) they cannot afford the room, board, and tuition fees most colleges charge

5. Which of the following is a normative statement?
   A) The temperature is high today.  
   B) The humidity is high today.  
   C) It is too hot to play tennis today.  
   D) It will cool off later this evening.

6. Which of the following is a capital resource?
   A) a computer programmer  
   B) a corporate bond issued by a computer manufacturer  
   C) silicon (sand) used to make computer chips  
   D) a piece of software used by a firm

7. Which of the following will not produce an outward shift of the production possibilities curve?
   A) an upgrading of the quality of a nation's human resources  
   B) the reduction of unemployment  
   C) an increase in the quantity of a society's labor force  
   D) the improvement of a society's technological knowledge
8. Refer to the above diagram. Starting at point A, the opportunity cost of producing each successive unit of tractors is:

A) a constant 2 units of bread.  
B) 2, 4, 6, and 8 units of bread.  
C) 8, 6, 4, and 2 units of bread.  
D) the reciprocal of the output of tractors.

9. The production possibilities curve tells us:

A) the specific combination of two products that is most desired by society. 
B) that costs do not change as society varies its output.  
C) costs are irrelevant in a society that has fixed resources.  
D) the combinations of two goods that can be produced with society’s available resources.

10. Through specialization and international trade a nation:

A) can attain some combination of goods lying outside its production possibilities curve.  
B) can move from a high consumption-low investment to a high investment-low consumption point on its production possibilities curve.  
C) will attain some combination of goods lying within its production possibilities curve.  
D) will cause its production possibilities curve to shift leftward.

11. Economic scarcity:

A) is peculiar to the United States economy.  
B) applies to all economies.  
C) is peculiar to command systems.  
D) is peculiar to market systems.

12. A fundamental difference between the command system and the market system is that, in command systems:

A) the division of output is decided by central planning rather than by individuals operating freely through markets.  
B) all economic decisions are made by the government, whereas there is no government in a market system.  
C) scarcity does not exist, as it does in a market system.  
D) money is not used, whereas it is in a market system.

13. Which of the following is a fundamental characteristic of the market system?

A) property rights.  
B) central planning by government.  
C) unselfish behavior.  
D) government-set wages and prices.
14. The pursuit of self-interest:

A) is highly detrimental to the market system.  
B) means the same as "selfishness."  
C) is reflected in the behavior of firms, but not in the behavior of consumers.  
D) gives direction to the market system.

15. Well-defined property rights:

A) discourage investment and growth.  
B) discourage hard work.  
C) impede exchange.  
D) encourage owners to maintain or improve their property.

16. The presence of market failures implies that:

A) money is not an effective tool for exchange in a market system.  
B) there is an active role for government, even in a market system.  
C) individuals and firms should strive to be self-sufficient rather than specialize.  
D) command systems are superior to market systems in the allocation of resources.

17. From society's point of view the economic function of profits and losses is to:

A) promote the equal distribution of real assets and wealth.  
B) achieve full employment and price level stability.  
C) contribute to a more equal distribution of income.  
D) reallocate resources from less desired to more desired uses.

18. The dollar votes of consumers ultimately determine the composition of output and the allocation of resources in a market economy. This statement best describes the concept of:

A) derived demand.  
B) consumer sovereignty.  
C) the invisible hand.  
D) market failure.

19. The invisible-hand concept suggests that:

A) changes in product demands are only randomly reflected in changes in the demands for resources.  
B) profit maximization is inconsistent with an efficient allocation of resources.  
C) government action is necessary to correct for market failures.  
D) when firms maximize their profits, society's output will also be maximized.

20. In terms of the circular flow diagram, households make expenditures in the _____ market and receive income through the _____ market.

A) product; financial  
B) resource; product  
C) product; resource  
D) capital; product

21. The law of demand states that:

A) price and quantity demanded are inversely related.  
B) the larger the number of buyers in a market the lower will be product price.  
C) price and quantity demanded are directly related.  
D) consumers will buy more of a product at high prices than at low prices.
22. A recent study found that an increase in the Federal tax on beer (and thus an increase in the price of beer) would reduce the demand for marijuana. We can conclude that:

A) beer and marijuana are substitute goods.  
B) beer and marijuana are complementary goods.  
C) beer is an inferior good.  
D) marijuana is an inferior good.

23. Which of the following is most likely to be an inferior good?

A) fur coats  
B) ocean cruises  
C) used clothing  
D) steak

Answer the next question(s) on the basis of the given supply and demand data for wheat:

<table>
<thead>
<tr>
<th>Bushels Demanded Per Month</th>
<th>Price Per Bushel</th>
<th>Bushels Supplied Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>45</td>
<td>$5</td>
<td>77</td>
</tr>
<tr>
<td>50</td>
<td>4</td>
<td>73</td>
</tr>
<tr>
<td>55</td>
<td>3</td>
<td>68</td>
</tr>
<tr>
<td>61</td>
<td>2</td>
<td>61</td>
</tr>
<tr>
<td>67</td>
<td>1</td>
<td>57</td>
</tr>
</tbody>
</table>

24. Refer to the above data. Equilibrium price will be:

A) $4.  
B) $3.  
C) $2.  
D) $1.

25. Refer to the above data. If the price in this market was $4:

A) the market would clear; quantity demanded would equal quantity supplied.  
B) buyers would want to purchase more wheat than is currently being supplied.  
C) farmers would not be able to sell all their wheat.  
D) there would be a shortage of wheat.

26. The personal distribution of income in the United States is such that the richest fifth receives about _____ percent of personal income.

A) 30  
B) 40  
C) 50  
D) 60

27. Most output in the United States is produced by:

A) cooperatives.  
B) partnerships.  
C) sole proprietorships.  
D) corporations.

28. For which of the following goods or services would a government subsidy be most likely to improve the allocation of resources?

A) wheat  
B) cancer research  
C) newspaper publishing  
D) toys
29. Market failure occurs when:

A) not every consumer can buy as much of a good as they want at the price they want it.
B) the competitive market system produces too much or too little of a good.
C) competitive market forces produce incomes that are unequal.
D) government interferes with competitive market forces.

30. Ebenezer likes to decorate the exterior of his house for the Christmas holidays. If his neighbors enjoy the display then it has created:

A) a negative externality, and government should respond by subsidizing holiday displays.
B) a negative externality, and government should respond by taxing holiday displays.
C) a positive externality, and government should respond by subsidizing holiday displays.
D) a positive externality and government should respond by taxing holiday displays.

31. Which of the following is an example of a public good?

A) a fireworks display
B) a hotdog
C) a barbeque grill
D) a personal computer

32. The market system does not produce public goods because:

A) there is no need or demand for such goods.
B) private firms cannot stop consumers who are unwilling to pay for such goods from benefiting from them.
C) public enterprises can produce such goods at lower cost than can private enterprises.
D) their production seriously distorts the distribution of income.

33. Government's economic role is complicated by the fact that:

A) public goods entail no opportunity costs.
B) the public sector cannot base decisions on marginal costs and marginal benefits.
C) economic decisions are made in a political context.
D) the marginal utility of public goods rises rather than falls.

34. Street entertainers generally have a difficult time making large incomes from their performances because they:

A) are not sufficiently talented.
B) provide public goods and therefore face free-rider problems.
C) fail to attract audiences.
D) tend to lack marketing skills.

35. In the 1990s, corporations attempted to address the principal-agent problem by:

A) providing stock or stock options as part of executive compensation.
B) hiring additional managers to oversee potentially unscrupulous agents.
C) supporting increased government oversight of corporate boards of directors.
D) firing a significant number of managers believed to be acting contrary to the owners' interests.
1. C
2. A
3. C
4. C
5. C
6. D
7. B
8. B
9. D
10. A
11. B
12. A
13. A
14. D
15. D
16. B
17. D
18. B
19. D
20. C
21. A
22. B
23. C
24. C
25. C
26. C
27. D
28. B
29. B
30. C
31. A
32. B
33. C
34. B
35. A