**Answer all the questions by circling the most appropriate answer.**

1. Which of the following is not one of the categories of resources?

a. labor

b. government

c. capital

d. entrepreneurship

2. A produced goods used as inputs for the production of other goods is defined as

a. natural resources

b. services

c. capital

d. entrepreneurs

3. Choice is fundamentally a consequence of

a. living in a world where there is both good and bad.

b. how wealthy one is.

c. scarcity.

d. opportunity cost.

4. The opportunity cost of attending college is

a. the money one spends on college tuition, books, and so forth.

b. the highest valued alternative one forfeits to attend college.

c. the least valued alternative one forfeits to attend college.

d. equal to the salary one will earn when one graduates from college.

5. Microeconomics is the branch of economics that deals with

a. highly aggregated markets or the entire economy.

b. the production side of the economy, exclusively.

c. the buying side of the economy, exclusively.

d. human behavior and choices as they relate to relatively small units—an individual, a firm, an industry.

6. Which of the following is a microeconomics topic?

a. the study of how prices are determined in the computer industry

b. the study of unemployment in the economy

c. the study of how changes in the nation’s money supply affect the nation’s output

d. a and c

7. Points outside (or beyond) the PPF are

a. attainable.

b. unattainable.

c. efficient.

d. inefficient.

8. Which of the following statements is true?

a. In a world of efficiently used scarce resources, more of one good necessarily means less of some other good.

b. The law of increasing opportunity costs assumes that all people have the same ability to produce goods.

c. Even if a country has unemployed resources, it can still be operating on its production possibilities frontier (PPF).

d. a and c

9. Through war, many of the factories in country 1 are destroyed and many of its people are killed. As a result, the country’s

a. production possibilities frontier (PPF) after the war is probably farther away from the origin than its PPF before the war.

b. PPF after the war is probably closer to the origin than its PPF before the war.

c. PPF after the war is probably the same PPF as before the war.

d. ability to produce goods and services has increased.

10. You can determine producers’ surplus if you know the minimum selling price and

a. price received.

b. price paid.

c. tax paid.

d. tax received.

11. You can determine the consumers’ surplus if you know the

a. price received.

b. maximum buying price.

c. price paid.

d. b and c

12. As the price of good X rises, the demand for good Y falls. Therefore, goods X and Y are

a. substitutes.

b. normal goods.

c. complements.

d. inferior goods.

13. As the price of good A rises, the demand for good B rises. Therefore, goods A and B are

a. normal goods.

b. inferior goods.

c. substitutes.

d. complements

14. If good A is a normal good, an increase in income will

a. shift the demand curve for good A leftward.

b. shift the demand curve for good A rightward.

c. not affect the demand for good A.

d. result in a surplus of good A.

15. “As the price of apples goes up, the demand for apples goes down.” The author of this statement

a. implies that price and demand are unrelated.

b. uses the word “demand” when he should use the word “supply.”

c. uses the word “demand” when he should use the words “quantity demanded.”

d. implies that demand and price have a direct relationship.

16. The law of supply states that price and quantity supplied are

a. inversely related, *ceteris paribus*.

b. directly related, *ceteris paribus*.

c. not related.

d. fixed.

17. Which of the following is true about the relationship between price and quantity supplied?

a. There is always a direct relationship.

b. There is always an inverse relationship.

c. There is usually a direct relationship.

d. There is usually an inverse relationship.

****

1. Refer to Exhibit 4-1. Suppose the government imposes a price ceiling at P = $0. There will be

a. a shortage of kidneys equal to (Q3 – Q1).

b. a surplus of kidneys equal to (Q3 – Q1).

c. a shortage of kidneys equal to (Q2 – Q1).

d. a shortage of kidneys equal to (Q2 – Q1).

19. Refer to Exhibit 4-1. If a free market were allowed in the kidney market the equilibrium price would be P2. The number of kidneys transplanted would increase by \_\_\_\_\_\_\_\_\_ compared to the number transplanted at P= $0.

a. (Q3 – Q1).

b. (Q3 – Q2).

c. (Q2 – Q1).

d. Q2.

20. On net, the demand for new cars

a. would definitely be higher if the used car market did not exist.

b. would definitely be lower if the used car market did not exist.

c. could be higher, lower, or remain the same if the used car market did not exist.

d. none of the above

21. In year 1 the CPI is 140.1, and in year 2 the CPI is 148.9. If Sarah’s salary was $33,500 in year 1, what salary in year 2 would cause her to exactly “keep up with inflation”?

a. $36,448

b. $42,300

c. $40,508

d. $35,604

# Exhibit 2

|  |  |
| --- | --- |
| **Year** | **CPI**  **(1982 = 100)** |
| 1980 | 85.7 |
| 1981 | 94.0 |
| 1982 | 100.0 |
| 1983 | 103.9 |
| 1984 | 107.7 |

1. Refer to Exhibit 2. Prices rose by \_\_\_\_\_\_\_\_\_\_ percent from 1981 to 1982.

a. 6.0

b. 6.5

c. 6.2

d. 6.4

1. Refer to Exhibit 2. Prices rose by \_\_\_\_\_\_\_\_\_\_ percent from 1983 to 1984.

a. 3.7

b. 3.8

c. 3.5

d. 3.6

1. Refer to Exhibit 2. Prices rose by \_\_\_\_\_\_\_\_\_\_ percent from 1980 to 1984.

a. 22.0

b. 25.7

c. 20.4

d. 29.3

1. Norman just bought shares of stock in Amazon.com for $1,000 and paid a $45 commission to his broker. How did this affect GDP?

a. It had no impact on GDP.

b. GDP increased by $45.

c. GDP increased by $955.

d. GDP increased by $1,000.

1. Which of the following would *not* be included in the calculation of this year’s GDP?

a. a headlight bulb purchased at Joe’s Auto Supply by Susan to replace a burnt out bulb in her car

b. a headlight bulb purchased by Ford Motor Co. from a supplier

c. a headlight bulb produced but not sold this year and thus ending up as inventory

d. none of the above, i.e., all would be included

1. If in the process of calculating GDP, the market value of all intermediate goods is added to the market value of all final goods, this would

a. overstate the actual value of GDP.

b. produce the correct value of GDP.

c. understate the actual value of GDP.

d. avoid the possible error of double counting.

1. “Economic growth” has occurred if the

a. inflation rate between this year and last year is zero or less.

b. GDP this year exceeds the Real GDP this year.

c. unemployment rate this year is above the natural rate of unemployment.

d. Real GDP or per-capita Real GDP this year exceeds those of last year.

1. Which of the following is true?

a. GDP is the total market value of all final goods and services produced annually by the citizens of a country.

b. GNP is the total market value of all final goods and services produced annually within a country’s borders.

c. a and b

d. none of the above

1. Which of the following is a macroeconomic measurement used to gauge macroeconomic activity?

a. National income.

b. Personal income.

c. Disposable income.

d. all of the above

1. A lower income tax rate \_\_\_\_\_\_\_\_\_\_ consumption, causing a \_\_\_\_\_\_\_\_\_\_ the AD curve.

a. stimulates; rightward shift of

b. stimulates; movement down along

c. depresses; leftward shift of

d. depresses; movement up along

1. Business optimism about future sales tends to \_\_\_\_\_\_\_\_\_\_ investment expenditures, shifting the AD curve to the \_\_\_\_\_\_\_\_\_\_.

a. increase; left

b. increase; right

c. decrease; left

d. decrease; right

1. A decrease in business taxes, by \_\_\_\_\_\_\_\_\_\_ the expected profitability of investment projects, shifts the AD curve to the \_\_\_\_\_\_\_\_\_\_.

a. raising; right

b. raising; left

c. lowering; right

d. lowering; left

1. A rise in foreign real national income tends to raise U.S. \_\_\_\_\_\_\_\_\_\_, shifting the U.S. AD curve to the \_\_\_\_\_\_\_\_\_\_.

a. exports; left

b. exports; right

c. imports; left

d. imports; right

1. Suppose the real exchange rate of 115 Japanese yen to the dollar moves to 105 yen to the dollar. The dollar has \_\_\_\_\_\_\_\_\_\_, making Japanese goods \_\_\_\_\_\_\_\_\_\_ expensive for Americans.

a. appreciated; less

b. appreciated; more

c. depreciated; less

d. depreciated; more

1. A decrease in the price of electricity will cause

a. a movement down the AS curve.

b. a movement up the AS curve.

c. a leftward shift in the AS curve.

d. a rightward shift in the AS curve.

1. An increase in labor’s productivity will cause the AS curve to shift \_\_\_\_\_\_\_\_\_\_ and the price level to \_\_\_\_\_\_\_\_\_\_.

a. leftward; increase

b. rightward; decrease

c. rightward; increase

d. leftward; decrease

****

38. Refer to Exhibit F-1. The economy is currently producing Q1. At this level of Real GDP, the economy is in a(n)

a. inflationary gap.

b. recessionary gap.

c. unemployment gap.

d. high Real GDP gap.

39. Refer to Exhibit F-1. The economy is currently producing Q1. If an economist believes the economy (itself) can move to QN, then he believes that the

a. LRAS curve will shift leftward until it intersects the SRAS and AD curves at Q1.

b. AD curve will shift rightward and intersect the SRAS curve at point B.

c. SRAS curve will shift rightward and intersect the AD curve at point A.

d. economy will likely stay “stuck” in short-run equilibrium.

40. Refer to Exhibit F-1. The unemployment rate is lower at

a. Q1 than QN.

b. QN than Q1.

c. point A than point B.

d. point B than point A.

41. Refer to Exhibit F-1. The price level is

a. lower in short-run equilibrium than in long-run equilibrium.

b. lower in long-run equilibrium than in short-run equilibrium.

c. higher in long-run equilibrium than in short-run equilibrium.

d. lower when the economy is in a recessionary gap than when it is in long-run equilibrium.

42. Refer to Exhibit F-1. The economy is currently producing Q1. An economist who believes wages are flexible in the downward direction would argue that

a. it is likely the economy will soon move to point B.

b. it is likely the economy will soon move to point A.

c. it is not likely the economy will move to point A on its own accord now or anytime soon.

d. Real GDP will soon take a downturn.

43. A balanced budget occurs when

a. the national debt is reduced to zero dollars.

b. a budget deficit during one year is matched by a budget surplus in the next year.

c. transfer payments equal tax receipts.

d. government expenditures equal tax receipts.

1. A central government budget surplus

a. occurs when government expenditures outstrip tax receipts.

b. occurs when tax receipts outstrip government expenditures.

c. occurs when tax receipts outstrip transfer payments.

d. occurs when monetary policy works in the opposite direction of fiscal policy.

1. A central government budget deficit

a. occurs when government expenditures outstrip tax receipts.

b. occurs when tax receipts outstrip government expenditures.

c. occurs when transfer payments outstrip tax receipts.

d. will always result when Congress and the president cannot agree on expenditures.

1. Fiscal policy refers to

a. efforts to balance a government’s budget.

b. changes in the money supply to achieve particular economic goals.

c. changes in government expenditures and taxation to achieve particular economic goals.

d. the change in private expenditures that occurs as a consequence of changes in government spending.

1. Suppose the Ministry of Finance increases income taxes. This is an example of

a. expansionary fiscal policy.

b. expansionary monetary policy.

c. contractionary fiscal policy.

d. contractionary monetary policy.

1. Suppose the Ministry of Finance decreases income taxes. This is an example of

a. expansionary fiscal policy.

b. expansionary monetary policy.

c. contractionary fiscal policy.

d. contractionary monetary policy.

1. Transfer payments may be thought of as \_\_\_\_\_\_\_\_\_\_ taxes.

a. substitute

b. replacement

c. negative

d. pay-per-use

1. \_\_\_\_\_\_\_\_\_\_ flows from government to households.

a. A transfer payment

b. A tax payment

c. The Laffer Curve

d. Crowding out

1. An expansionary fiscal policy will

a. always result in a budget deficit.

b. always result in a budget surplus.

c. sometimes result in a budget deficit.

d. never result in a budget surplus.

1. A recessionary gap is the

a. condition where Real GDP is greater than Natural Real GDP.

b. condition where Real GDP is less than Natural Real GDP.

c. gap that occurs between the unemployment rate and the inflation rate as a result of a recession.

d. difference between budget receipts and expenditures.

1. An inflationary gap is the

a. condition where Real GDP is greater than Natural Real GDP.

b. condition where Real GDP is less than Natural Real GDP.

c. gap that occurs between the unemployment rate and the inflation rate as a result of a recession.

d. gap (difference) between the natural rate and the actual rate of inflation.

1. In a barter economy, people are \_\_\_\_\_\_\_\_\_ to specialize in the production of one good or service, compared to in a money economy.

a. more likely

b. less likely

c. equally likely

d. almost always going

1. M2 is comprised of

a. small-denomination time deposits + savings deposits + money market accounts.

b. small-denomination time deposits + credit cards + money market accounts + gold deposits.

1. M1 + small-denomination time deposits + savings deposits + money market mutual funds.

d. M1 + small denomination time deposits + credit cards + money market accounts.

1. Which of the following can be considered money or near money?

a. credit cards

b. checkable deposits

c. savings deposits

d. b and c

1. A savings account functions as

a. a unit of account.

b. a store of value.

c. a medium of exchange.

d. none of the above

1. The first bankers were

a. sheriffs.

b. goldsmiths.

c. clergy.

d. innkeepers.

1. Real GDP in a small country is worth $10 billion. The population of the country is 250,000. What is per capita Real GDP?

a. $25,000

b. $40,000

c. $80,000

d. $400,000

1. Movement toward the boundary of a production possibilities frontier (PPF) from a point beneath it is called

a. economic growth from an inefficient level of production.

b. economic growth from an efficient level of production.

c. absolute real economic growth.

d. per-capita real economic growth.