1. *Scarcity* is BEST defined as when:
   A) the quantity demanded exceeds quantity supplied.
   B) the quantity supplied exceeds quantity demanded.
   C) unlimited resources exceed limited wants.
   D) unlimited wants exceed limited resources.

2. All of the following fall under the category of microeconomics, EXCEPT:
   A) cooks at McDonalds supply labor in return for wages.
   B) the cost of living has risen due to rising housing and food prices.
   C) Jonathan decided to go to the movies instead of go to work.
   D) Pepsi experienced an increase in revenue last quarter.

3. Which of the following is a microeconomic topic?
   A) the U.S. inflation rate in 2009
   B) the price of an iPad sold by Apple
   C) the U.S. unemployment rate in March 2010
   D) the U.S. rate of growth in GDP for the first quarter in 2010

4. Which of the following does NOT deal with macroeconomics?
   A) the effect of the budget deficit on the economy
   B) the effect of monetary policy on inflation
   C) the effect of Walmart's pricing policies on consumers
   D) the effect of the government policies on the country's unemployment rate

5. If society produces a pie at the lowest possible cost and then distributes the pie evenly among its population, then:
   A) production and allocative efficiency are achieved.
   B) only production efficiency is achieved.
   C) neither production efficiency nor allocative efficiency is achieved.
   D) only allocative efficiency is achieved.
6. A common definition of *economics* is that it is the study of:
   A) the allocation of scarce resources to competing wants.
   B) maximizing net personal disposable income.
   C) the factors underlying financial markets.
   D) maximizing personal financial wealth.

7. Opportunity costs:
   A) are generally the same from individual to individual.
   B) involve monetary rather than nonmonetary costs.
   C) decrease as individuals become wealthier.
   D) influence all economic decisions.

8. The ___________ of parking at school includes the amount of time I have to search for a parking space.
   A) opportunity cost
   B) equity concerns
   C) efficiency
   D) productivity

9. Which is TRUE about specialization and exchange between two individuals?
   A) They generally benefit the poorer individual at the expense of the richer individual.
   B) They generally benefit the richer individual at the expense of the poorer individual.
   C) They generally benefit the poorer individual as well as the richer individual.
   D) They generally benefit neither the poorer individual nor the richer individual.

10. Rational behavior requires “thinking at the margin.” Which of the following is an example of this type of thinking?
    A) deciding whether a second burger is worth the extra $2
    B) deciding whether your overtime pay is worth working on Saturday (your day off)
    C) deciding whether to pay a fine for polluting the local harbor or installing antipollution machinery
    D) All of these are examples of “thinking at the margin.”

11. A market economy is also known as a _____ economy, and decisions are made by _____.
    A) capitalist; the government
    B) capitalist; private individuals
    C) socialist; the government
    D) socialist; private individuals
12. If a pizza parlor uses an oven in its production process, the oven is an example of which factor of production?
A) capital
B) entrepreneurial ability
C) labor
D) land

13. ________________ occurs when goods and services are produced at their lowest resource cost, while ________________ occurs when the mix of goods and services produced is the most desired by society.
A) Allocative efficiency; production efficiency
B) Production efficiency; social efficiency
C) Allocative efficiency; social efficiency
D) Production efficiency; allocative efficiency

Use the following to answer question 14:

**Figure: Bran Muffins and Corn Flakes PPF**
14. (Figure: Bran Muffins and Corn Flakes PPF) The graph shows the possibilities frontier for a bakery that makes corn flakes and bran muffins. Which of the following is NOT correct?
   A) The opportunity cost of increasing production of corn flakes from 200 to 300 pounds is 50 pounds of bran muffins.
   B) Due to limited resources, there is a tradeoff between producing corn flakes and bran muffins.
   C) The graph implies that resources well-suited for making corn flakes are not as well-suited for producing bran muffins.
   D) The company faces decreasing opportunity costs.

Use the following to answer question 15:

**Figure: Bread and Honey**

15. (Figure: Bread and Honey) As more honey is produced, the opportunity cost of producing honey:
   A) decreases.
   B) increases.
   C) remains constant.
   D) is constant for the first 50 jars and then decreases as productive efficiency is achieved.
Use the following to answer question 16:

**Production Possibilities Schedule**

<table>
<thead>
<tr>
<th>iPads</th>
<th>HDTVs</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,000</td>
<td>0</td>
</tr>
<tr>
<td>4,500</td>
<td>1,000</td>
</tr>
<tr>
<td>3,500</td>
<td>2,000</td>
</tr>
<tr>
<td>2,000</td>
<td>3,000</td>
</tr>
<tr>
<td>0</td>
<td>4,000</td>
</tr>
</tbody>
</table>

16. (Table) In the table, a combination of 4,500 iPads and 2,000 HDTVs:
   A) is unattainable.
   B) shows as a point on the PPF
   C) shows as a point inside of the PPF
   D) is accomplished at full employment.

Use the following to answer question 17:

**Bread** | **Cookies**
---|---
(loaves) | (dozens)
0 | 100
25 | 90
50 | 75
75 | 45
100 | 0

17. (Table) Suppose an economy can produce the combinations of bread and cookies shown in the following table. The opportunity cost of increasing bread production from 25 to 50 loaves is ______ and the opportunity cost of increasing bread production from 50 to 75 loaves is ______.
   A) 25 loaves of bread; 30 dozen cookies
   B) 15 dozen cookies; 30 dozen cookies
   C) 90 dozen cookies; 45 dozen cookies
   D) 75 loaves of bread; 50 loaves of bread
18. The increased participation of women in the work force:
   A) has led to a shift in the structure of the work force toward services.
   B) has not contributed to the rate of economic growth, because the women have
      simply shifted from waged work to unwaged work.
   C) has contributed to the rate of economic growth.
   D) shifts the PPF curve to the left.

19. Which economist is known for first describing “comparative advantage”?
   A) Thomas Malthus
   B) John Stuart Mill
   C) David Ricardo
   D) Adam Smith

20. Suppose that if the United States produced only oil, it could produce 25 million barrels,
    and if it produced only microchips it could produce 20 million chips. Suppose that if
    Mexico produced only oil, it could produce 16 million barrels, and if it produced only
    microchips, it could produce 8 million chips. Which of the following statements is then
    correct?
    A) Mexico has a comparative advantage in producing both goods.
    B) The United States has an absolute advantage over Mexico in producing both goods.
    C) Mexico has an absolute advantage over the United States in producing both goods.
    D) The United States has a comparative advantage in producing both goods.

21. Which of the following is NOT an example of a market?
    A) neighborhood lemonade stand
    B) painting one's house
    C) ticket scalping
    D) New York Stock Exchange

22. Which of the following would NOT be a market transaction?
    A) payment for purchase of shares at a stock exchange
    B) payment for a used book purchased on eBay
    C) payment for a soft drink at a vending machine
    D) payment made to a disaster victim

23. An individual's valuation of a good or service is:
    A) generally the same from person to person.
    B) known as “willingness to pay.”
    C) impossible for individuals to express.
    D) lower than the maximum that the individual will pay.
Use the following to answer question 24:

<table>
<thead>
<tr>
<th></th>
<th>Person A</th>
<th>Person B</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Doughnut</td>
<td>$5</td>
<td>$8</td>
</tr>
<tr>
<td>Second Doughnut</td>
<td>$3</td>
<td>$6</td>
</tr>
<tr>
<td>Third Doughnut</td>
<td>$2</td>
<td>$4</td>
</tr>
<tr>
<td>Fourth Doughnut</td>
<td>$1</td>
<td>$0</td>
</tr>
</tbody>
</table>

24. (Table) The table shows that:
   A) Person A has a higher willingness to pay for the fourth doughnut as well as for the first doughnut.
   B) Person A has a higher willingness to pay for the fourth doughnut but not for the first doughnut.
   C) Person B has a higher willingness to pay for the fourth doughnut as well as for the first doughnut.
   D) Person B has a higher willingness to pay for the fourth doughnut but not for the first doughnut.

25. The law of demand states that:
   A) the lower a product's price, the less of that product consumers will purchase during a given period.
   B) the lower a product's price, the more of that product consumers will purchase during a given period.
   C) higher prices will lead producers to offer less of their products for sale during a given period.
   D) higher prices will lead producers to offer more of their products for sale during a given period.
Use the following to answer question 26:

**Figure: Interpreting a Market Graph**

![Graph showing price of shoes vs. quantity of shoes](image)

26. (Figure: Interpreting a Market Graph) The graph represents:
   A) willingness-to-pay.
   B) the price system.
   C) the law of supply.
   D) the law of demand.

27. Suppose that the price of pork rises. We would expect that the supply of beef will
   A) fall because pork is a resource used in beef production.
   B) fall because farmers will shift resources from beef production to pork production.
   C) rise because pork is a resource used in beef production.
   D) rise because farmers will shift resources from beef production to pork production.

Use the following to answer question 28:

**Figure: Predicting Supply Shifts**

![Graph showing supply shifts](image)
28. (Figure: Predicting Supply Shifts) The shift from supply curve 1 to supply curve 2 might be caused by an increase in:
   A) the prices of other goods made by firms.
   B) expected future costs of labor.
   C) resource costs.
   D) subsidies.

Use the following to answer question 29:

**Figure: Supply and Demand for Shoes**

29. (Figure: Supply and Demand for Shoes) If the price of shoes is $60, then we:
   A) are at equilibrium.
   B) have a shortage of shoes.
   C) have a surplus of shoes.
   D) There is not enough information to answer this question.

Use the following to answer question 30:

<table>
<thead>
<tr>
<th>P</th>
<th>Qd</th>
<th>Qs</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>$8</td>
<td>7</td>
<td>15</td>
</tr>
<tr>
<td>$6</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>$4</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>$2</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>$0</td>
<td>30</td>
<td>0</td>
</tr>
</tbody>
</table>

30. (Table) Using the data for the market for lattes in the table, at a price of $6:
   A) there is a surplus of lattes.
   B) there is a shortage of lattes.
   C) the price of lattes will rise.
   D) The price of lattes will stay the same.
31. An economy has historically grown at a rate of 2.25%. Currently, this economy is growing at a rate of 3%, and the unemployment rate is low by historical standards. The economy is expected to continue to grow in the near future, and the monetary authorities are concerned that inflation may increase. This economy is probably in the ______________ stage of the business cycle.

A) expansion  
B) recovery  
C) contraction  
D) trough

32. The economy is probably heading into a recession when the National Activity Index equals:

A) 0.  
B) 0.62.  
C) –0.94.  
D) 0.79.

33. We are most likely to see a recession if interest rates on long-term bonds are:

A) higher than interest rates on short-term bonds.  
B) the same as interest rates on short-term bonds.  
C) rising.  
D) lower than interest rates on short-term bonds.

34. GDP can be found either by adding up all of the __________ or all of the __________ in the economy.

A) spending; taxes  
B) spending; income  
C) investment; income  
D) net interest payments; taxes

35. Which ONE of the following would be included in the GDP calculations?

A) a windshield purchased by General Motors  
B) a hamburger purchased by a hungry restaurant patron  
C) petroleum purchased by a refiner from the company that drilled it  
D) nails purchased by a building contractor
36. The sum of all income, including wages, salaries and benefits, profits, rental income, and interest, is called:
   A) labor income.
   B) gross domestic income.
   C) national income.
   D) pretax income.

37. Which of the following items is NOT a category of personal consumption expenditures?
   A) durable goods
   B) nondurable goods
   C) residential housing
   D) services

38. Which ONE of the following transactions would be included in the national income and product accounts?
   A) A community group prepares a meal for the homeless at Thanksgiving.
   B) John pays Maria in cash for tutoring him in economics. Maria does not report this income.
   C) Residents of a city can take home the vegetables they grow in a community garden in exchange for working in the garden.
   D) Jaslyn is paid for her work as the volunteer coordinator for a women's shelter.

39. Which of the following activities is an example of a nonmarket transaction?
   A) hiring a maid to clean your home
   B) employing a lawn service worker to trim your bushes
   C) hiring a nanny to take care of your kids
   D) growing your own food in a vegetable garden

40. The brand of car you buy is a topic of interest for macroeconomics.
   A) True
   B) False
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Practice Test #1 - Answer Key

1. D
2. B
3. B
4. C
5. B
6. A
7. D
8. A
9. C
10. D
11. B
12. A
13. D
14. D
15. B
16. A
17. B
18. C
19. C
20. B
21. B
22. D
23. B
24. C
25. B
26. C
27. B
28. D
29. C
30. D
31. A
32. C
33. D
34. B
35. B
36. C
37. C
38. D
39. D
40. B