1. A point on a nation’s production possibilities curve represents
   a) An undesirable combination of goods and services.
   b) Combinations of production that are unattainable, given current technology and resources.
   c) Levels of production that will cause both unemployment and inflation.
   d) The full employment of resource to achieve a particular combination of goods and services.

2. If the United States decides to convert automobile factories to tank production, as it did during World War II, but finds that some auto manufacturing facilities are not well suited to tank production, then
   a) The production possibilities curve between tanks and automobiles will appear as a straight line.
   b) The production possibilities curve between tanks and automobiles will shift outward.
   c) Decreasing opportunity costs will occur with greater automobile production.
   d) Increasing opportunity costs will occur with greater tank production.

3. The points on a production possibilities curve show
   a) Desired output.
   b) Actual output.
   c) Potential output.
   d) None of the choices are correct.

---

**Figure 1.3**

Output of Brooms

Output of Mops
4. A movement from point **F** to point **D** in Figure 1.3 results in
a) A reallocation of resources from mops production to broom production.
b) Permanent unemployment of workers producing brooms.
c) A reallocation of resources from broom production to mop production
d) More efficient production.

![Diagram of output of plasma televisions and MP3 players](image)

**Figure 1.4**

5. Using Figure 1.4 and starting at PP1, an increase in the capacity to produce can be represented by a movement from point
a) A to point B.
b) C to point E.
c) A to point C.
d) D to point E.

6. Using Figure 1.4, which of the following is true about the combination of plasma televisions and MP3 players represented by point **F** in Figure 1.4?

   a) Point **F** is inefficient now.
   b) Point **F** is unattainable even with advances in technology.
   c) Point **F** will be more easily attainable if the government takes control of all privately run factories.
   d) Point **F** can possibly be reached if more economic resources become available or technology improves.
Table 1.3 shows the hypothetical trade-off between different combinations of brushes and combs that might be produced in a year with the limited capacity of Country X, ceteris paribus. Complete the table by calculating the required opportunity costs for brushes and combs.

<table>
<thead>
<tr>
<th>Combination</th>
<th>Number of Brushes</th>
<th>Opportunity Cost of Brushes in Terms of Combs</th>
<th>Number of Combs</th>
<th>Opportunity Cost of Combs in Terms of Brushes</th>
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<tr>
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</tr>
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Table 1.3
Production Possibilities for Brushes and Combs

7. On the basis of your calculations in Table 1.3, what is gained from producing a point L rather than point K?
   a) 17 combs.
   b) 10 combs.
   c) 1 brush.
   d) 7 brushes.

8. Figure 1.8 suggest that
   a) The law of increasing opportunity of costs does not apply.
b) Resources can be perfectly adapted between study time and grade point average.
c) The relationship between study time and grade point average is first linear, then nonlinear.
d) The relationship between study time and grade point average is constant.

9. In using guns and butter production possibilities curve with increasing opportunity cost, producing more and more guns.
a) Lower cost of each individual gun.
b) Can be done at the constant opportunity cost.
c) Requires us to give up larger and larger amounts of butter per gun produced.
d) Is not possible due to scarcity.

10. Scarcity results when available resources cannot satisfy all desired uses of those resources.
a) True
b) False

11. *Ceteris paribus*, if the price of a digital camera rises, then we can expect
a) An increase in the demand for digital cameras.
b) An increase in the quantity demanded of digital cameras.
c) A decrease in the demand for digital cameras.
d) A decrease in the quantity demanded for digital cameras.

12. *Ceteris paribus*, means
a) Holding everything constant except for the variables you are interested in examining.
b) Allowing the free market to decide, not government.
c) Changing prices to see how demand and supply shifts.
d) Holding constant the determinant of demand or supply that you are interested in examining.

13. If there is a shortage at a given price, then
a) That price is the equilibrium price.
b) That price is greater than the equilibrium price.
c) That price is less than the equilibrium price.
d) There is no equilibrium price in the market.

14. When a surplus exists for a product.
a) Producers increase supply.
b) Consumers increase demand.
c) Government purchases decrease.
d) Producers reduce the level of output and reduce price.
15. Tickets to a sporting event go on sale and sell out almost instantly. This implies that
   a) There are too many tickets to the event.
   b) The price for the tickets is below the equilibrium price.
   c) The tickets must be very expensive.
   d) There is a surplus of tickets.

16. A rightward shift in a demand curve and a rightward shift in a supply curve both result in a
   a) Lower equilibrium price.
   b) Lower equilibrium quantity.
   c) Higher equilibrium price.
   d) High equilibrium quantity.

17. Which of the following is most likely to occur because of an increase in the price of electricity in California?
   a) An increase in electricity imported into California.
   b) A decrease in electricity imported into California.
   c) An increase in the consumption of electricity in California.
   d) A decrease in the supply of electricity in California.

Complete Table 3.1. Then answer the indicated question.

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<thead>
<tr>
<th>Price</th>
<th>Alejandro</th>
<th>Ben</th>
<th>Carl</th>
<th>Market</th>
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<table>
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<th>Brandon</th>
<th>Cassandra</th>
<th>Market</th>
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</tr>
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<td>20</td>
<td></td>
</tr>
<tr>
<td>$4.00</td>
<td>12</td>
<td>6</td>
<td>12</td>
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</tr>
<tr>
<td>$2.00</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

Table 3.1
Individual Demand and Supply Schedules

18. In Table 3.1, if the price is $8, the market will
   a) Be in equilibrium.
   b) Experience a surplus of 30 units.
   c) Experience a shortage of 22 units
   d) Experience a surplus of 56 units.
19. If the market wage for fast-food restaurants is $11 and the government enforces a minimum wage of $7, the unemployment rate will
a) Increase as quantity of labor supply increases and quantity of labor demand decreases.
b) Increase as quantity of labor supply decreases and quantity of labor demand increases.
c) Increase as quantity of labor supply increases and quantity of labor demand increases.
d) Not be affected by the minimum wages.

20. An increase in the price of gasoline above equilibrium will
a) Shift the gasoline supply curve to the right.
b) Shift the gasoline demand curve to the right.
c) Cause a surplus of gasoline.
d) Cause a shortage of gasoline.

21. Government intervention may be appropriate to correct market outcomes because of
a) Externalities.
b) Private goods.
c) Production possibilities.
d) None of the choices are correct.

22. Monopolies
a) Have great productive efficiency and are always beneficial to society.
b) May be beneficial to society if they are allowed to act like monopolies without government interference.
c) May be beneficial to society if they are natural monopolies and are regulated.
d) Are never beneficial in society.

23. When the economy experiences unemployment,
 a) There is government failure.
b) There is a marco instability.
c) There is a micro instability.
d) No market failure occurs.

24. Cities and other local governments receive most of their tax revenues from
a) Local income taxes.
b) Sales tax.
c) Property taxes.
d) Excise taxes

25. The amendment to the U. S. Constitution that granted the federal government the authority to collect income taxes was the
a) 8th
b) 16th
c) 26th
d) 28th
26. In real terms, the cost of government spending is measured by
   a) Combining the private sector output with the public sector output sacrificed when the government employs scarce resources.
   b) Subtracting private sector output from the public sector output sacrificed when the government employs scarce resources.
   c) Only the private sector output sacrificed when the government employs scarce resources.
   d) Only the public sector output sacrificed when the government employs scarce resources.

27. Government failure will likely arise if
   a) There are not valuation problems.
   b) Public service have reliable market prices.
   c) Government officials attempt to maximize their own utility.
   d) The free-rider problem occurs.

28. An in the News article titled “Perpetuating Poverty: Lotteries Prey on the Poor” reports that poor people spend a larger percentage of their income on government-promoted gambling than do rich people. On the basis of this information, we can conclude that lotteries function as
   a) An income tax.
   b) A progressive tax.
   c) A property tax.
   d) A regressive tax.

29. Social demand equals market demand plus externalities when there are positive external benefits
   a) True
   b) False

30. Market power created a flawed response to an accurate price signal.
   a) True
   b) False

31. National income accounting is defined as the
   a) Use of economic theory to predict future income.
   b) Measurement of aggregate economic activity.
   c) Accounting cost associated with economic choices.
   d) Assessment of the distribution of output.

32. Suppose iPhones cost consumers $200 and USB cables cost consumers $25. What contribution does the production of 2,000 iPhones and 1,200 USB cables make to GDP?
   a) $1,200,000.
   b) $ 430,000.
   c) $ 200,000.
   d) $ 580,000.
33. The stock of capital in the United States can grow only if
a) Depreciation is positive.
b) Gross investment minus depreciation is positive.
c) GDP minus depreciation is positive.
d) The production possibilities curve shifts inward toward the origin.

34. The addition to the economy’s capital stock can be found by
a) Subtracting the NDP from GDP.
b) Subtracting depreciation from GDP.
c) Subtracting depreciation from gross investment.
d) Subtracting net income from gross investment.

35. Net exports are
a) Goods sold to foreigners.
b) Not included to GDP.
c) The value of exports minus the value of imports.
d) Exports that ultimately are imported back into the United States.

| Expenditures for consumer goods and services | $4,565 |
| Exports                                     | $740  |
| Government purchases of goods and services  | $1,465 |
| Social Security taxes                       | $510  |
| Net investments                             | $225  |
| Indirect business taxes                     | $520  |
| Imports                                     | $825  |
| Gross investment                            | $865  |
| Corporate income taxes                      | $185  |
| Personal income taxes                       | $750  |
| Corporate retained earnings                 | $45   |
| Net foreign factor income                   | $20   |
| Government transfers payments to households | $690  |
| Net interest payments to households         | $0    |

Table 5.1
National Income Accounts (dollar figures are in billions)

36. On the basis of Table 5.1, net exports are
a) $-205 billion.
b) $ 85 billion.
c) $ -85 billion.
d) $ 205 billion.

37. On the basis of Table 5.1, depreciation is
a) $640 billion.
b) $ 50 billion.
c) $ 85 billion.
d) $690 billion.
38. The value of total output must equal the value of total income in an economy for all the following reasons except
a) One person’s expenditures on good and services in another person income.
b) Income earned is spend on good and services, which creates additional production.
c) For the circular nature of the economy.
d) Government expenditures must equal government revenues.

39. GDP can be calculated by summing up the “value added” at every stage of production.
a) True
b) False

40. The dollar value of output for an economy must always equal the dollar value of income.
a) True
b) False
ANSWER KEY

1 D
2 D
3 C
4 C
5 B
6 D
7 D
8 C
9 C
10 A
11 D
12 A
13 C
14 D
15 B
16 D
17 A
18 D
19 D
20 C
21 A
22 C
23 B
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36 C
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40 A