Miami Dade College

ECO 2013.004 Principles of Macroeconomics – Spring 2015

Practice Test #1

1. The study of economics:
   A) primarily considers the stock market.
   B) is about people's decisions regarding their use of scarce resources.
   C) doesn't apply to decisions made by businesses.
   D) states efficiency and equity don't conflict.

2. Economics is a social science that involves the study of how individuals, firms, and societies:
   A) maximum happiness.
   B) maximize incomes.
   C) choose among alternatives to satisfy their unlimited wants.
   D) develop their tastes and preferences.

3. Because of scarcity:
   A) resources are limitless.
   B) wants are limited.
   C) choices are unlimited.
   D) we face tradeoffs in nearly every choice we make.

4. Economists understand that people respond to:
   A) laws.
   B) incentives.
   C) threats more than rewards.
   D) positives, but not negatives.

5. The field of economics that focuses on decision-making by individuals, businesses, industries, and government is called:
   A) macroeconomics.
   B) decision science.
   C) mini-economics.
   D) microeconomics.
6. Macroeconomics is concerned with issues such as:
   A) which orange juice to buy.
   B) unemployment.
   C) which job to take.
   D) what price to charge for goods.

7. What would be a possible opportunity cost of you going to a doctor for a check-up?
   A) the cost of getting nontraditional care
   B) the opportunity to make an acquaintance in the waiting room
   C) lost income due to not being at work for those hours
   D) the cost of the insurance reimbursing the doctor

8. If you were not studying economics, you could be doing one of the following: sleeping in (which you value at $5), playing cards with your friends (which you value at $10), or working (you would have earned an extra $8). The opportunity cost of studying economics is therefore:
   A) $23.
   B) $10.
   C) $8.
   D) $5.

9. The opportunity cost of undertaking an activity is defined as the:
   A) cost forgone by not undertaking another activity.
   B) monetary cost of undertaking that activity.
   C) benefit forgone by not undertaking the next-best activity.
   D) monetary benefit of undertaking that activity.

10. With the use of specialization:
    A) society is more productive, while individuals are less productive.
    B) there are greater gains in material well-being.
    C) there is more emphasis on self-reliance.
    D) opportunity costs tend to be constant.

11. Marginal analysis would put an emphasis on:
    A) total monetary costs and benefits.
    B) total opportunity costs and benefits.
    C) additional costs and benefits.
    D) total tangible costs and benefits.
12. People make decisions at the margin. Therefore, when deciding whether to purchase a second car, they would compare:
   A) the dollar cost of having two cars with the potential income the two cars may generate.
   B) the additional benefits expected from a second car with the total cost of the two cars.
   C) the additional benefits expected from a second car with the additional costs of the second car.
   D) None of the answers is correct.

13. To answer the question of how the goods and services are to be produced, society must decide:
   A) what products businesses want to produce.
   B) how to combine its scarce resources to produce the desired products.
   C) what products government wants.
   D) what products to export.

14. The “what” question primarily refers to:
   A) the set of goods and services that are produced.
   B) production efficiency.
   C) whether the goods are produced under a communist system or a democratic system.
   D) who gets what.

15. In a planned economy, most of the productive resources are owned by:
   A) households.
   B) business firms.
   C) the government.
   D) foreign countries.

16. The process of converting factors of production into goods and services is called:
   A) distribution.
   B) production.
   C) factor conversion.
   D) efficiency.
17. In economics, capital refers to:
   A) funds used by businesses to acquire goods and services.
   B) the process of raising money in the stock market.
   C) actual manufactured products used in the production process.
   D) anything that adds to human capital.

18. Which of the following is NOT an example of an improvement to human capital?
   A) students taking a course in economics
   B) increasing the number of machines available to workers
   C) an intensive apprenticeship program
   D) an employee learning to use Microsoft Access

19. Capital includes all of the following, EXCEPT:
   A) dollar bills in a bank vault.
   B) copy machines in an insurance company.
   C) backhoes of a construction firm.
   D) drilling equipment at a tool-and-die company.

20. The ________ shows the combination of two goods that are possible for a society to produce at full employment.
    A) full employment line
    B) production possibilities frontier
    C) goods and services frontier
    D) maximal productivity curve

21. The derivation of a production possibilities frontier assumes:
    A) some resources are not being used.
    B) there is a fixed quantity of resources and technology available.
    C) some resources are not being produced efficiently.
    D) technology is free.

22. A point on a nation's production possibilities frontier indicates:
    A) an undesirable combination of goods and services.
    B) combinations of output that are unattainable, given the current stock of resources and technology.
    C) levels of production that will cause both unemployment and inflation.
    D) that resources are fully utilized in producing a given combination of goods and services.
23. Production levels to the right of the PPF are:
   A) attainable.
   B) efficient.
   C) inefficient.
   D) unattainable.

**Figure: Production Possibilities**

24. (Figure: Production Possibilities) Which of the following is NOT correct regarding combination X?
   A) The combination is productively efficient.
   B) Society might judge other combinations on the line to be preferable to X.
   C) Because it is on the line, combination X has no opportunity cost.
   D) The combination might not be allocatively efficient.
25. (Figure: Tanks and Health Care) Which of the following points in the figure is obtainable but NOT efficient?
   A) point a
   B) point b
   C) point f
   D) point g

Use the following to answer question 26:

<table>
<thead>
<tr>
<th>Bananas</th>
<th>Apples</th>
</tr>
</thead>
<tbody>
<tr>
<td>E</td>
<td>12</td>
</tr>
<tr>
<td>F</td>
<td>9</td>
</tr>
<tr>
<td>G</td>
<td>5</td>
</tr>
<tr>
<td>H</td>
<td>0</td>
</tr>
</tbody>
</table>

26. (Table) Given the production possibilities schedule shown in the table, what is the opportunity cost of moving from E to F?
   A) 2 bananas
   B) 3 bananas
   C) 2 apples
   D) 4 apples
Use the following to answer questions 27 & 28:

**Figure: Bread and Honey**

27. (Figure: Bread and Honey) In the graph, a move from point $a$ to point $b$ costs:
   A) 70 jars of honey.
   B) 75 loaves of bread.
   C) 90 loaves of bread.
   D) 15 loaves of bread.

28. (Figure: Bread and Honey) In the graph, a move from point $f$ to point $g$:
   A) is a move from full employment to less than full employment.
   B) is impossible at present.
   C) is a move from an inefficient point to one that fully utilizes all the available resources.
   D) reflects a positive opportunity cost tradeoff.

29. If an economy faces increasing opportunity costs with respect to the production of two goods, then the production possibilities frontier between the two goods will be:
   A) bowed inward.
   B) a straight downward-sloped curve.
   C) bowed outward.
   D) a positively sloped curve.
Use the following to answer question 30:

**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>

30. (Table) In the table, a combination of 3,500 iPads and 1,500 HDTVs:
   A) is unattainable.
   B) wastes resources.
   C) is accomplished at full employment.
   D) lies outside of the PPF.

31. An institution that enables buyers and sellers to interact and transact with one another is known as a(n):
   A) bank.
   B) economy.
   C) stock exchange.
   D) market.

32. Markets differ in:
   A) geographical location.
   B) products offered.
   C) size.
   D) Markets differ in all of these.

33. Prices:
   A) allow sellers to determine what goods to sell.
   B) help buyers find possible substitute goods.
   C) contain information useful for all people involved in a transaction.
   D) allow sellers to determine what goods to sell, help buyers find possible substitute goods, and contain information useful for all people involved in a transaction.
34. Suppose that an artist prices his painting at $150, but it remains unsold. We can conclude that the price of $150 is too:
   A) high for this painting and it should be lowered.
   B) high for this painting but it should not be lowered.
   C) low for this painting and it should be raised.
   D) low for this painting but it should not be raised.

35. Willingness-to-pay is the:
   A) price a consumer pays for a good or service.
   B) price that all the consumers in a market pay for a good or service.
   C) highest value that a consumer believes a good or service is worth.
   D) highest value that a producer believes consumers will pay for his product.

36. (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.

37. _____ refers to the goods and services people are willing and able to buy during a certain period of time, at various prices, *ceteris paribus*.
   A) Supply
   B) Demand
   C) Price
   D) Quantity demanded
38. 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.
   Ans: B

Use the following to answer question 39:

<table>
<thead>
<tr>
<th>Price</th>
<th>$Q_J$</th>
<th>$Q_S$</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>10</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>15</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>20</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

39. (Table) If the local pizzeria has only two buyers, Jake and Sue, for its calzones, what is the market demand for calzones at each of the prices listed? $Q_J$ is the quantity demanded at each price by Jake, and $Q_S$ is the quantity demanded at each price below by Sue.
   A) 11, 14, 17, 21
   B) 4, 3, 2, 1
   C) 6, 4, 2, 1
   D) 6, 4, 0, 0
40. (Figure: Individual and Market Demand Curves) According to the graph, the market quantity demanded at $20 is:

A) 1.
B) 10.
C) 3.
D) 6.
Use the following to answer question 41:

**Figure: Interpreting Demand Curves**

41. (Figure: Interpreting Demand Curves) In the demand curve shown, an increase in price from $1 to $2 will:
   A) cause quantity demanded to rise from 20 to 30 units.
   B) cause quantity demanded to fall from 30 to 20 units.
   C) have no impact on sales.
   D) make buyers happy.

Use the following to answer question 42:

**Figure: Predicting Demand Shifts**
42. (Figure: Predicting Demand Shifts) Which of the following would change demand from $D_0$ to $D_1$?
A) increase in consumer income if this is an inferior good
B) change in consumer taste so that consumers want less of the good
C) increase in the price of a substitute good
D) increase in the price of a complement

43. The law of supply states that as prices _____, the quantity _____.
A) fall; demanded rises
B) fall; supplied rises
C) rise; demanded falls
D) rise; supplied rises

44. The supply curve:
A) slopes downward and to the right.
B) shows a negative relationship between price and quantity supplied.
C) shows a positive relationship between price and quantity supplied.
D) shows that producers can charge whatever price they wish for their products.

Use the following to answer question 45:

**Figure: Interpreting a Market Graph**

![Graph showing the supply curve](Figure: Interpreting a Market Graph)

45. (Figure: Interpreting a Market Graph) If the price of shoes is $40 per pair, the quantity supplied will be _____ pairs of shoes.
A) 5
B) 10
C) 15
D) 20
46. Subsidies on domestically produced sport utility vehicles cause a(n):
   A) increase in the supply of domestic sport utility vehicles.
   B) increase in the supply of foreign sport utility vehicles.
   C) decrease in the supply of domestic sport utility vehicles.
   D) decrease in the supply of foreign sport utility vehicles.

47. An increase in the cost of coffee beans, which is used to make coffee, will cause the
    __________ for coffee to shift __________.
   A) demand; right
   B) supply; right
   C) demand; left
   D) supply; left

48. When quantity demanded in a market equals quantity supplied, then the:
   A) market is in equilibrium.
   B) equilibrium price is less than expected by buyers.
   C) market will not clear without further price adjustments.
   D) market is in temporary disequilibrium.

49. The market-clearing price:
   A) refers to a demand curve.
   B) refers to a surplus.
   C) is the price at which quantity demanded equals quantity supplied.
   D) refers to a shortage.

50. A surplus exists:
    A) any time the market is out of equilibrium.
    B) at the market clearing price.
    C) when quantity supplied exceeds the quantity demanded.
    D) when quantity supplied is less than quantity demanded.

51. When quantity demanded exceeds quantity supplied, a:
    A) shortage occurs and prices are bid up toward equilibrium.
    B) shortage occurs and prices are pushed down toward equilibrium.
    C) surplus occurs and prices are bid up toward equilibrium.
    D) surplus occurs and prices are pushed down toward equilibrium.
Use the following to answer question 52:

**Figure: Supply and Demand for Shoes**

52. (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 53:

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity Demanded</th>
<th>Quantity Supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15</td>
<td>40</td>
<td>80</td>
</tr>
<tr>
<td>$12</td>
<td>50</td>
<td>70</td>
</tr>
<tr>
<td>$10</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>$7</td>
<td>70</td>
<td>50</td>
</tr>
<tr>
<td>$5</td>
<td>80</td>
<td>40</td>
</tr>
</tbody>
</table>

53. (Table) In the table, the equilibrium price is _____, and the equilibrium output is _____.
   A) $12; 70
   B) $15; 40
   C) $10; 60
   D) $12; 60
Use the following to answer question 54:

**Figure: Interpreting Market Equilibrium**

54. (Figure: Interpreting Market Equilibrium) If price were $10, then there would be:
   A) a shortage of 4,000 units and price will fall.
   B) a shortage of 2,000 units and price will rise.
   C) a surplus of 4,000 units and price will fall.
   D) a surplus of 2,000 units and price will fall.
ANSWER KEY

1. B
2. C
3. D
4. B
5. D
6. B
7. C
8. B
9. C
10. B
11. C
12. C
13. B
14. A
15. C
16. B
17. C
18. B
19. A
20. B
21. B
22. D
23. D
24. C
25. C
26. B
27. D
28. B
29. C
30. B
31. D
32. D
33. D
34. A
35. C
36. B
37. B
38. B
39. C
40. B
41. B
42. C
43. D
44. C
45. D
46. A
47. D
48. A
49. C
50. C
51. A
52. C
53. C
54. B