1. Economics is the study of:
   A. the government's decision making process.
   B. why state and federal governments disagree.
   C. the study of how people manage resources.
   D. All of these are true.

2. Decisions about how to allocate resources are made by:
   A. individuals.
   B. businesses.
   C. governments.
   D. Resource allocation decisions are made by all of these.

3. Which of the following statements best describes the study of economics?
   A. Economics studies how the Federal Reserve handles fluctuation in business cycles.
   B. Economics studies how individuals and groups manage resources.
   C. Economics studies how people maximize returns in the stock market.
   D. Economics studies how governments determine appropriate tax rates.
4. The two broad fields that make up the subject of economics are:

A. microeconomics and macroeconomics.
B. personal investments and business investments.
C. fiscal policy and monetary policy.
D. imports and exports.

5. Which of the following could be considered microeconomic issue?

A. The local university decides to raise tuition for online course offerings.
B. Zimbabwe has experienced a decline in inflation.
C. The economic growth rate was reported at 2.4 percent in the first quarter of 2013 for the United States.
D. The unemployment rate in Greece is 22.8 percent.

6. The Bureau of Economic Analysis releases last quarter's growth rate in real GDP. This release would most likely have been written by what kind of an economist?

A. A monetary economist
B. A macroeconomist
C. A microeconomist
D. An labor economist

7. Scarcity reflects our inability to satisfy wants due to:

A. unlimited resources.
B. limited resources.
C. inefficient political systems.
D. unemployed workers.
8. "There is no such thing as a free lunch." This is an example of which economic concept?

A. Maximization
B. Trade-offs
C. Basic necessities
D. Income effect

9. Judy would like to enjoy freshly grown vegetables from her own garden but also wants her daughter to enjoy summers with a swimming pool in the backyard. Despite having a green thumb, she chooses to use her extra land for a swimming pool. The opportunity cost of the swimming pool is:

A. equal to the cost of building and maintaining the pool.
B. the value she places on having her own garden.
C. the value of watching her daughter grow up enjoying a swimming pool.
D. the savings gained by not having to pay for fertilizer and vegetable plants.

10. The price of pizza falls relative to the price of spaghetti, and so people buy more pizza instead of spaghetti. This is an example of responding to:

A. marginal science.
B. incentives.
C. disincentives.
D. sunk benefit.
11. The invisible hand refers to:
   
   A. the coordination that occurs from everyone working in their own self-interest.
   
   B. the coordination that occurs from a government agency finding efficiencies.
   
   C. the coordination that occurs from everyone working for the overall good of society.
   
   D. the coordination that occurs from a government coordinating economic activity.

12. The concepts of specialization and gains from trade explain:
   
   A. international trade.
   
   B. why globalization has expanded recently.
   
   C. consumer decisions.
   
   D. both international trade and the choices individuals make.

13. A production possibilities frontier is a line or curve that:
   
   A. shows all the possible combinations of outputs that can be produced using all available resources.
   
   B. shows what can be produced when all available resources are efficiently used.
   
   C. shows the best combinations of outputs that can be produced using all available resources.
   
   D. explains why societies make the choices they do.
Consider the production possibilities frontier displayed in the figure shown. The fact that the line slopes downward displays which economic concept?

A. Production possibilities  
B. Trade-offs  
C. Specialization  
D. Efficiency

15. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. A Canadian worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost for the United States is:

A. 5 apples for each pair of shoes.  
B. 5 pairs of shoes for each apple.  
C. \( \frac{1}{5} \) apple for each pair of shoes.  
D. 1 pair of shoes for every 2 apples.
16. Suppose an American worker can make 50 pairs of gloves or grow 300 radishes per day. A Bangladeshi worker, on the other hand, can produce 100 pairs of gloves or grow 200 radishes per day. Using the concepts of absolute and comparative advantage, we can say that:

A. the United States has the comparative advantage in the production of both gloves and radishes.

B. the United States has the comparative advantage in neither the production of gloves nor radishes.

C. the United States has the comparative advantage in the production of gloves only.

D. the United States has the comparative advantage in the production of radishes only.

17. When a producer has a comparative advantage at producing a good, it means the producer:

A. can produce more of that good than others with the same number of workers.

B. has the ability to produce a good or service at a lower opportunity cost than others.

C. has no reason to trade with others.

D. is efficient.

18. When two countries specialize and trade with one another:

A. total production remains unchanged, but consumption rises.

B. total production increases, but only if comparative advantage exists.

C. total production may increase, depending on trade relations.

D. total production and consumption remain unchanged.
19. When a country loses its comparative advantage in the production of a good:

A. it should stop trading and become self-sufficient.

B. it will gain the comparative advantage in the production of another good.

C. it will become a loser in trade in the long run.

D. it will still have the absolute advantage in the production of the good.

20. Assume for Germany that the opportunity cost to produce a jet is 50 cars. Some possible combinations of output for Germany could be:

A. (1,000 jets, 5,000 cars) and (900 jets, 10,000 cars).

B. (1,000 jets, 5,000 cars) and (900 jets, 15,000 cars).

C. (2,500 jets, 2,000 cars) and (2,300 jets, 20,000 cars).

D. (2,500 jets, 2,000 cars) and (2,300 jets, 3,000 cars).

21. An economy where private individuals who are guided by the invisible hand make decisions is known as a:

A. market economy.

B. centrally planned economy.

C. socialist economy.

D. barter economy.

22. The buyers and sellers who trade a particular good or service make up what we call a:

A. market.

B. store.

C. mall.

D. barterers.
23. The amount of a particular good that buyers in a market will purchase at a given price during a specified period is called:

A. quantity demanded.
B. quantity supplied.
C. demand.
D. supply.

24. The law of demand describes the:

A. inverse relationship between price and quantity demanded.
B. direct relationship between price and quantity demanded.
C. inverse relationship between income and quantity demanded.
D. direct relationship between income and quantity demanded.

25. Ceteris paribus is:

A. the Latin term for "all other things being the same."
B. necessary for the definition of the law of demand.
C. often used by economists to isolate the effect of a single change.
D. All of these statements are true.

26. A change in a nonprice factor of demand will cause:

A. a movement along the demand curve.
B. a shift of the demand curve.
C. the demand curve to rotate inward.
D. the demand curve to rotate outward.
27. The amount of a particular good that sellers in a market will sell at a given price during a specified period is called:

A. quantity demanded.
B. quantity supplied.
C. demand.
D. supply.

28. The law of supply describes the:

A. inverse relationship between price and quantity supplied.
B. direct relationship between price and quantity supplied.
C. inverse relationship between income and quantity supplied.
D. direct relationship between income and quantity supplied.

29. When quantity supplied equals quantity demanded:

A. equilibrium is reached.
B. the market forces push the economy to produce more.
C. the market forces push the economy to produce less.
D. the market forces cease to function.

30. The equilibrium price is sometimes called:

A. the market-clearing price.
B. the optimum price.
C. the maximum.
D. the quantity-clearing price.
31. Elasticity measures:
   A. how much a market will respond to a change in market conditions.
   B. how much consumers and producers will respond to a change in market conditions.
   C. how quickly consumers and producers will respond to a change in market conditions.
   D. how quickly a market will respond to a change in market conditions.

32. The concept of elasticity can be applied to:
   A. changes in demand, but not supply.
   B. changes in supply, but not demand.
   C. changes in both supply and demand.
   D. neither supply nor demand.

33. When a good has a lot of close substitutes available, it is likely to be:
   A. more price elastic than goods without close substitutes available.
   B. less price elastic than goods without close substitutes available.
   C. more price elastic than those with a lot of complement goods available.
   D. less price elastic than those with a lot of complement goods available.

34. Many say that there is no substitute for a real diamond. This would imply that diamonds:
   A. are price elastic.
   B. are price inelastic.
   C. are unit elastic.
   D. are not a sustainable market.
35. A movie ticket is _______________ than a ticket to a Broadway show because _______________.

A. less price elastic; it is a smaller portion of one's income
B. more price elastic; it is a smaller portion of one's income
C. less price elastic; it has less available substitutes
D. more price elastic; it has less available substitutes

36. The size of the percentage change in the quantity supplied of a good or service when its price changes is called by one percent is called:

A. price elasticity of supply.
B. price elasticity of demand.
C. cross-price elasticity.
D. income elasticity of supply.

37. Suppose that when the price of coffee beans goes from $1 to $1.20 per pound, production increases from 90 million pounds of coffee beans per year to 100 million pounds. Using the mid-point method, the percentage change in quantity supplied would be:

A. 11 percent.
B. 18 percent
C. 0.6.
D. 6.
38. Suppose that when the price of pineapples goes from $5 to $3 per pineapple, production decreases from 3,500 pineapples per year to 2,000 pineapples. Using the mid-point method, the percentage change in price would be:

A. 0.50.
B. 50 percent.
C. 0.54.
D. 54 percent.

39. How much the demand for one good changes in response to a change in the price of a different good is measured by:

A. price elasticity of supply.
B. price elasticity of demand.
C. income elasticity.
D. cross-price elasticity.

40. Bob got laid off six months ago. He used to go to the movies once a month, but he's only been twice since losing his job. This type of behavior can be measured using:

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