1. *Economics* is BEST defined as the study of how:
   A) to classify resources used to produce final goods and services.
   B) resources are apportioned to satisfy human wants.
   C) people make rational decisions.
   D) technology can be used to change scarce resources into free resources.

2. *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.

3. To say that economics is a way of thinking about how people make rational decisions means that people:
   A) don't consider the cost of their decisions.
   B) consider only monetary terms in their decisions.
   C) respond to incentives.
   D) are irrational.

4. Which of the following statements about economics is correct?
   A) Economists do not believe that criminals behave rationally.
   B) Economics has little to say about social issues.
   C) Economists consider how rational people respond to incentives.
   D) Economists assume that people don't respond to incentives.

5. Microeconomics is concerned with issues such as:
   A) inflation.
   B) unemployment.
   C) which job to take.
   D) interest rates.

6. 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
7. An airline finds that its 6 A.M. flights are half-empty but its mid-afternoon flights are full. Which would be the MOST plausible thing for an economist to say?
   A) Cut the price of the early morning flight and raise the price of the afternoon flight.
   B) Nothing can be done to rectify the situation because of consumer sovereignty.
   C) Fewer flights should be scheduled in the afternoon to force travelers to take the morning flight.
   D) Nothing can be done because travelers are inflexible with their schedules.

8. When the government chooses to use resources to build tourist centers, the chosen resources are no longer available to build highways. This BEST illustrates the concept of:
   A) macroeconomics.
   B) scarcity.
   C) opportunity cost.
   D) efficiency.

9. Specialization in tasks in which one is more proficient coupled with trade:
   A) can lead to gains for all parties.
   B) leads to gains for one party and losses for the other parties.
   C) leads to losses for all parties.
   D) works only with government intervention.

10. Which of the following represents incentives for decisions?
    A) tax deductions for individual retirement accounts
    B) investment tax credits for businesses
    C) tax deductions for education savings account
    D) All of these are incentives.

11. “Thinking at the margin” involves:
    A) influencing how individuals make decisions.
    B) making wiser decisions given limited information.
    C) maximizing an firm's or individual's well-being.
    D) weighing the impact of one additional activity.

12. Suppose that a store sells candy bars for $0.89 for one, and $1.50 for two. The marginal cost of the second candy bar is:
    A) $0.61.
    B) $0.75.
    C) $0.89.
    D) $1.50.

13. Private markets will typically maximize production efficiency because they provide:
    A) incentives for profit.
    B) equity.
    C) market information.
    D) tax revenue for the government sector.
14. Which is NOT a basic economic question that societies must answer?
   A) What goods and services are to be produced?
   B) How are the goods and services to be produced?
   C) Why are these goods and services being produced?
   D) For whom are the goods and services being produced?

15. What are the three basic economic questions each society must answer?
   A) what to produce; how to produce; for whom to produce
   B) how much to produce; what quality to produce; and what price to sell at
   C) what to produce; how much to produce, how to consume
   D) how much goes to government; how much goes to consumers; how much is exported

16. In a pure market economy, the government's primary roles do NOT include:
   A) protecting property rights.
   B) enforcing contracts between private parties.
   C) providing public goods such as national defense.
   D) reallocating resources across the economy.

17. The conversion of resources to satisfy wants is described as:
   A) consumption.
   B) distribution.
   C) production.
   D) conservation.

18. 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

19. Natural resources such as copper deposits are:
   A) capital
   B) land
   C) labor
   D) investment capital

20. Economists refer to the payment to labor as:
   A) rent
   B) wages
   C) interest
   D) profit
21. The graphical tool we could use to represent the combinations of two goods that are possible with a given society at full employment is a(n):
   A) efficiency curve.
   B) allocation curve.
   C) production possibilities frontier.
   D) cost graph.

22. When an economy is operating efficiently, the production of one more unit of a good will result in the production of less of another good because:
   A) technology can only improve the production of one good.
   B) the PPF shifts inward as more of only one good is produced.
   C) resources are limited and efficiency implies that all resources are already in use.
   D) consumers will not want more of both goods.

23. Production levels to the left of the PPF are:
   A) attainable but efficient.
   B) attainable but inefficient.
   C) unattainable and efficient.
   D) unattainable and inefficient.

Use the following to answer question 24:

**Figure: Determining Production Possibilities**
24. (Figure: Determining Production Possibilities) The graph shows the PPF for goods A and B and X marks a combination that:
   A) has no opportunity costs.
   B) cannot be obtained even with improvements in technology.
   C) is unobtainable with current resources.
   D) is obtainable if workers work harder.

Use the following to answer question 25:

**Figure: Pork and Corn PPF**

25. (Figure: Pork and Corn PPF) When we move from point b to point c, the opportunity cost of producing more corn is _____ the opportunity cost of moving from point d to point e.
   A) greater than
   B) exactly the same as
   C) less than
   D) It is indeterminate.
26. (Figure: Interpreting PPF Shifts 2) The graph describes a situation in which:
   A) both industries have experienced technological improvements.
   B) only Industry 1 has had a technological improvement.
   C) neither industry has had technological improvements.
   D) only Industry 2 has had a technological improvement.

27. Institutions that bring buyers and sellers together so they can interact and transact with each other are called:
   A) networking sites.
   B) interactive modes.
   C) markets.
   D) arenas.

28. 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
29. Prices typically contain useful information:
   A) both for buyers and for sellers.
   B) more for buyers than for sellers.
   C) more for sellers than for buyers.
   D) neither for buyers nor for sellers.

30. Demand refers to:
   A) consumers wanting a product so much that they insist on it.
   B) the goods and services buyers are willing and able to purchase at various prices in a given period of time.
   C) the amount consumers wish they could consume.
   D) the relationship between price and quantity that sellers bring to the market.

Use the following to answer question 31:

<table>
<thead>
<tr>
<th>Willingness to Pay for</th>
</tr>
</thead>
<tbody>
<tr>
<td>One, Two, Three, Four,</td>
</tr>
<tr>
<td>Doughnuts</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Person A</td>
</tr>
<tr>
<td>First Doughnut</td>
</tr>
<tr>
<td>Second Doughnut</td>
</tr>
<tr>
<td>Third Doughnut</td>
</tr>
<tr>
<td>Fourth Doughnut</td>
</tr>
</tbody>
</table>

31. (Table) According to the table, in a two-person market that includes Person A and Person B, the willingness to pay for the third doughnut is:
   A) $2.
   B) $4.
   C) $5.
   D) $6.

32. Which of the following illustrates the law of demand?
   A) Lindsay offers to buy more sticks of chewing gum at $2 than at $1.
   B) Lindsay offers to buy more sticks of chewing gum at $1 than at $2.
   C) Marcus offers to sell more sticks of chewing gum at $2 than at $1.
   D) Marcus offers to sell more sticks of chewing gum at $1 than at $2.
Use the following to answer question 33:

<table>
<thead>
<tr>
<th>Price</th>
<th>Angel's Quantity Demanded</th>
<th>Sally's Quantity Demanded</th>
<th>Nadia's Quantity Demanded</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5</td>
<td>9</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>$10</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>$15</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>$20</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>$25</td>
<td>1</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

33. (Table) The table shows the demand of three individuals in a market. Assuming these are the only buyers, what is total market demand if price is $20?
   A) 5 units
   B) 1 unit
   C) 20 units
   D) The answer cannot be determined from the information given.

34. Which of the following would be considered a complementary good for a kayak?
   A) canoe
   B) Jet Ski
   C) life jacket
   D) good weather

35. A graphical representation of how much a seller would be willing and able to bring to the market at various prices is known as the:
   A) maximal quantity curve.
   B) demand curve.
   C) price-quantity line.
   D) supply curve.

36. The supply curve slopes up and to the right because:
   A) due to constant opportunity costs, producers feel that people will buy more if they charge a higher price.
   B) due to efficiencies, producers feel that people will buy more if they charge a higher price.
   C) due to increasing opportunity costs, producers must charge more to produce more in order to cover their costs.
   D) The supply curve actually slopes down and to the right.
37. (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.

38. Which of the following events would shift the supply curve for gasoline to the right?
   A) an increase in property taxes
   B) an explosion in a major refinery
   C) a technological innovation in the solar power energy industry
   D) a technological innovation in the oil-drilling industry that dramatically lowers the cost of exploration

39. The price that results when quantity demanded is just equal to quantity supplied is known as:
   A) nonsurplus price.
   B) equitable price.
   C) stable price.
   D) equilibrium price.

40. Suppose that quantity supplied of a product equals 5 and quantity demanded equals 8. In this market, there is a:
   A) shortage of this product and the price should fall.
   B) shortage of this product and the price should rise.
   C) surplus of this product and the price should fall.
   D) surplus of this product and the price should rise.
Practice Test #1 - ANSWER KEY

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