

1. High taxes have the effect of reducing the incentive of some individuals to work. This statement is best described as a
 - (a) positive statement.
 - (b) Marxist ideology.
 - (c) normative statement.
 - (d) descriptive economics statement.
2. Rent control laws are imposed in a city because landlords have been exploiting tenants. This statement is an example of
 - (a) efficiency.
 - (b) equity.
 - (c) growth.
 - (d) stability.
3. A voluntary trade is made between two individuals that makes each one better off. This statement is an example of
 - (a) efficiency.
 - (b) equity.
 - (c) growth.
 - (d) stability.
4. Whenever the Democrats gain control of the Congress, spending on social programs increases; whenever Republicans gain control of the Congress, spending on defense increases. Hence, we know what the next party in control will do. This statement is an example of
 - (a) fallacy of inductive reasoning.
 - (b) post hoc, ergo propter hoc fallacy.
 - (c) fallacy of composition.
 - (d) ceteris paribus fallacy.
5. I have lived in a house on the ocean for many years and have never seen a hurricane. Therefore, there is no reason for anyone to buy flood insurance. This statement is an example of
 - (a) fallacy of composition.
 - (b) post hoc, ergo propter hoc fallacy.
 - (c) fallacy of inductive reasoning.
 - (d) ceteris paribus fallacy.
6. Which of the following is the best definition of economics?
 - (a) The study of how individuals and societies choose to use the scarce resources that nature and previous generations have provided.
 - (b) The study of how consumers spend their income.
 - (c) The study of how business firms decide what inputs to hire and what outputs to produce.
 - (d) The study of how the federal government allocates tax dollars.
7. If you own a building and you decide to use that building to open a restaurant,
 - (a) there is no opportunity cost of using this building for a restaurant because you own it.
 - (b) there is an opportunity cost of using this building for a restaurant because it could have been used in other ways.
 - (c) there are no sunk costs involved in this decision.
 - (d) the only cost relevant to this decision is the price you paid for the building.

8. Studying how the management of US Steel, a large steel-producing company, decides how many tons of steel to produce and the price to charge for its steel would be considered
- descriptive economics.
 - empirical economics.
 - microeconomics.
 - macroeconomics.
9. To isolate the impact of one single factor, economists use the device of
- inductive reasoning.
 - Ockham's razor.
 - ceteris paribus.
 - post hoc, ergo propter hoc.
10. The principle that irrelevant detail should be cut away is known as
- Say's Identity.
 - ceteris paribus.
 - Ockham's razor.
 - Hobson's choice.
11. The phrase "ceteris paribus" is best expressed as
- "all else equal."
 - "everything affects everything else."
 - "scarcity is a fact of life."
 - "there is no such thing as a free lunch."

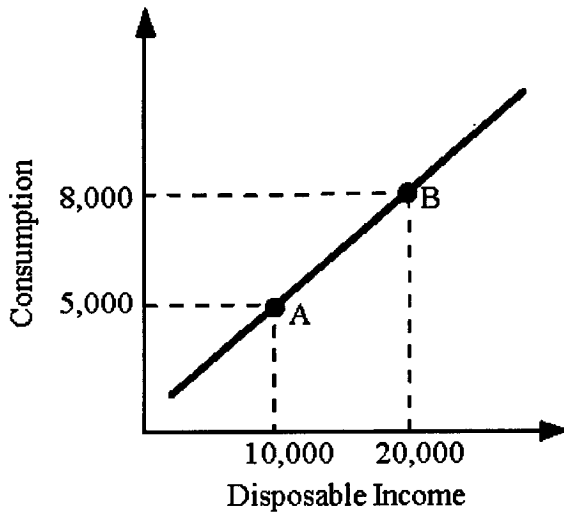


Figure 1.2

12. Refer to Figure 1.2. The slope of the line between points A and B is
- .3.
 - 2.3.
 - 3.3.
 - indeterminate from this information.
13. The process by which resources are transformed into useful forms is
- capitalization.
 - consumption.
 - production.
 - allocation.

14. Capital, as economists use the term,
- is the money the firm spends to hire resources.
 - is money the firm raises from selling stock.
 - refers to the process by which resources are transformed into useful forms.
 - refers to things that have already been produced that are in turn used to produce other goods and services.
15. According to the theory of comparative advantage, _____ raise(s) productivity by lowering opportunity costs.
- trade and specialization
 - investment in capital goods
 - economic growth
 - exchange and consumption
16. In economics, investment always refers to
- the act of buying stocks or bonds.
 - the creation of capital.
 - improving the productivity of labor.
 - an increase in per capita output.

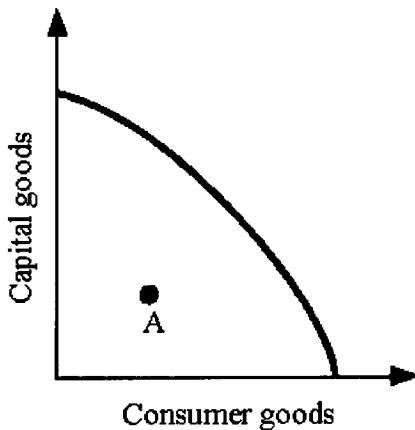


Figure 2.2
The production possibility
frontier for Macroland

17. Refer to Figure 2.2. Macroland is currently operating at point A. The best explanation for this is that
- the economy has very poor technology.
 - the economy's resources are being used inefficiently.
 - the economy has very few resources.
 - the economy is operated as a command economy.
18. A graph showing all the combinations of goods and services that can be produced if all of society's resources are used efficiently is the
- production possibility frontier.
 - capital consumption frontier.
 - Lorenz curve.
 - circular-flow diagram.

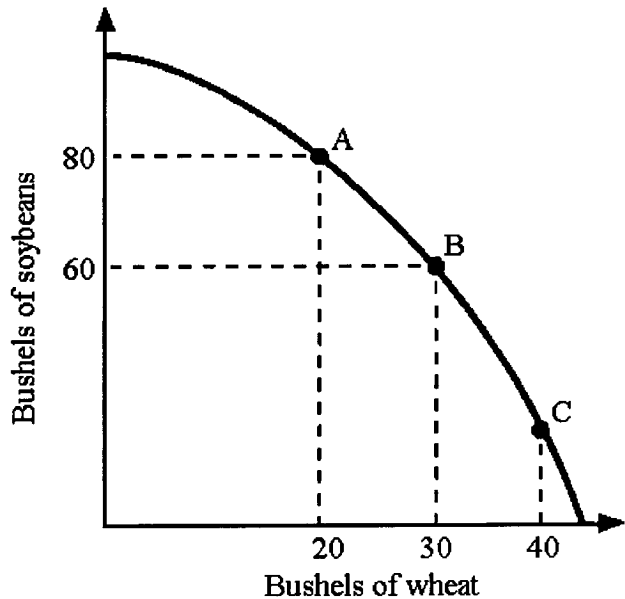


Figure 2.6

19. Refer to Figure 2.6. The economy is currently at point A. The opportunity cost of moving from point A to point B is
- the 60 bushels of soybeans that must be forgone to produce 10 additional bushels of wheat.
 - the 20 bushels of soybeans that must be forgone to produce 30 additional bushels of wheat.
 - the 80 bushels of soybeans that must be forgone to produce 20 additional bushels of wheat.
 - the 20 bushels of soybeans that must be forgone to produce 10 additional bushels of wheat.
20. A society can produce two goods: bread and cookies. The society's production possibility frontier is negatively sloped and "bowed outward" from the origin. As this society moves down its production possibility frontier producing more and more units of cookies, the opportunity cost of producing cookies
- decreases.
 - remains constant.
 - increases.
 - could decrease or increase depending on the technology.

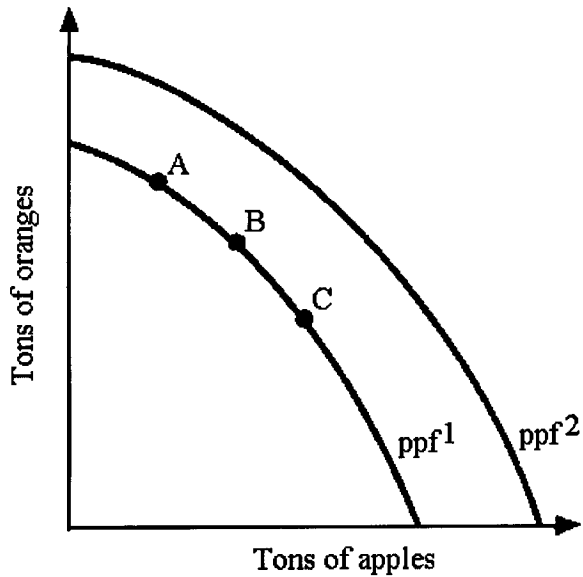


Figure 2.7

21. Refer to Figure 2.7. The economy's production possibility frontier shifted from ppf^1 to ppf^2 . Which of the following statements best explains this movement?
- The economy's productivity has increased and the productivity increases were greater in the production of apples than oranges.
 - The economy's productivity has increased and the productivity increases were greater in the production of oranges than apples.
 - The economy's unemployment rate has decreased and the reduction in unemployment has been greater in the production of apples than in the production of oranges.
 - The economy's unemployment rate has decreased and the reduction in unemployment has been greater in the production of oranges than in the production of apples.
22. In a laissez-faire economy _____ what gets produced, how it is produced, and who gets it.
- the behavior of buyers and sellers determines
 - the central government authority determines
 - firms but not consumers determine
 - consumers but not firms determine
23. According to the law of demand: As prices rise, *ceteris paribus*
- demand increases.
 - demand decreases.
 - quantity demanded decreases.
 - quantity demanded increases.
24. What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?
- the income effect.
 - the substitution effect.
 - the diminishing marginal utility effect.
 - the *ceteris paribus* effect.

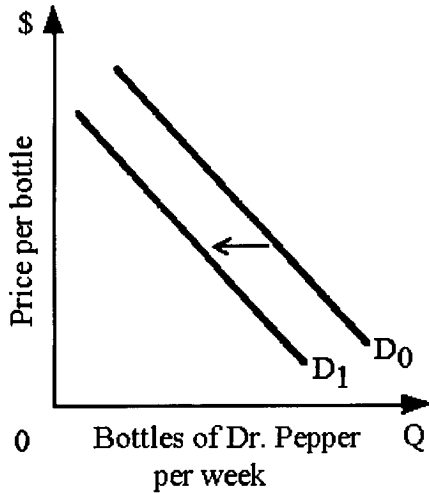


Figure 4.1

25. Refer to Figure 4.1. Which of the following would be most likely to cause the demand for Dr. Pepper to shift from D_0 to D_1 ?
- a decrease in income, assuming that Dr. Pepper is a normal good.
 - an increase in the price of 7-UP, assuming 7-UP is a substitute for Dr. Pepper.
 - a decrease in the price of Dr. Pepper.
 - a reduction in the price of sugar used to make Dr. Pepper.
26. If the demand for tortillas increases as income increases, tortillas are
- a normal good.
 - an inferior good.
 - a substitute good.
 - a complementary good.
27. In college you practically existed on tuna fish, but now that you have a \$45,000 a year job, you never want to see tuna fish again. We can safely conclude that you consider tuna fish to be
- a normal good.
 - a complementary good.
 - an inferior good.
 - a luxury.

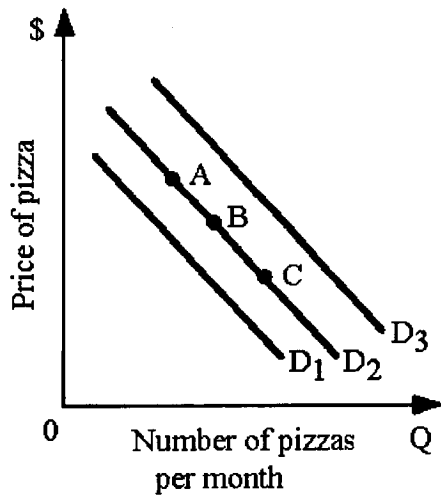


Figure 4.7

28. Refer to Figure 4.7. If pizza and hamburgers are substitutes, an increase in the price of hamburgers will cause a movement from point B on demand curve D_2 to
- demand curve D_1 .
 - demand curve D_3 .
 - point A on demand curve D_2 .
 - point C on demand curve D_2 .

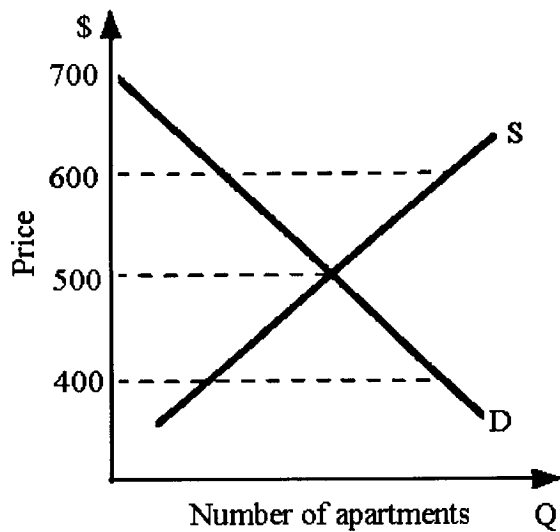


Figure 5.2

29. Refer to Figure 5.2. An example of an effective price ceiling would be the government setting rental rates for apartments at
- \$400.
 - \$500.
 - \$600.
 - \$700.

30. People scalping tickets for the Super Bowl will be successful
- any time the Super Bowl is popular.
 - when prices are too high.
 - when the price set by the National Football League is less than the market equilibrium price.
 - only when there is excess supply.

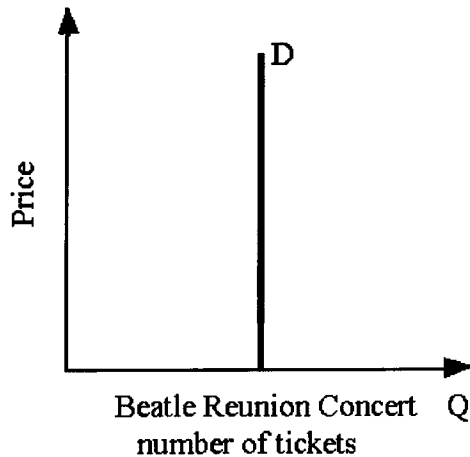


Figure 5.5

31. Refer to Figure 5.5. The demand for tickets is
- perfectly elastic.
 - perfectly inelastic.
 - unitarily elastic.
 - income elastic.
32. The price of a newspaper increases by 10% and quantity demanded of newspapers falls by 10%. The demand for newspapers is
- perfectly elastic.
 - unitarily elastic.
 - elastic.
 - inelastic.
33. The ABC Computer Company wants to increase the quantity of computers it sells by 5%. If the price elasticity of demand is -2.5 the company must
- increase price by 2.0%.
 - decrease price by 2.0%.
 - decrease price by .5%.
 - decrease price by 10%.

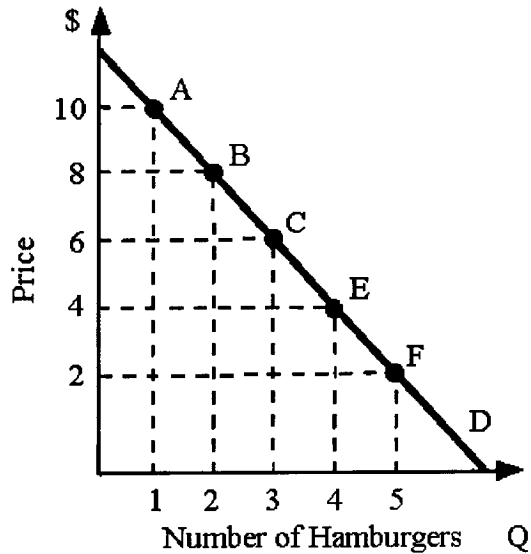


Figure 5.6

34. Refer to Figure 5.6. Using the midpoint formula, if the price of a hamburger is increased from \$6 to \$8, the price elasticity of demand equals
- 0.24.
 - 71.
 - 1.4.
 - 2.
35. As you move down a straight-line downward-sloping demand curve, the price elasticity of demand
- becomes more elastic.
 - becomes more inelastic.
 - remains constant because the slope is constant.
 - may become more or less elastic depending on the slope of the demand curve.

ANSWER KEY FOR TEST - FALL981

1. (a)
2. (b)
3. (a)
4. (b)
5. (a)
6. (a)
7. (b)
8. (c)
9. (c)
10. (c)
11. (a)
12. (a)
13. (c)
14. (d)
15. (a)
16. (b)
17. (b)
18. (a)
19. (d)
20. (c)
21. (a)
22. (a)
23. (c)
24. (b)
25. (a)
26. (a)
27. (c)
28. (b)
29. (a)
30. (c)
31. (b)

32. (b)

33. (b)

34. (c)

35. (b)