

**** Review ****

For Test 1

1. Microeconomics deals with:
 - A) the working of the entire economy or large sectors of it.
 - B) economic growth.
 - C) individual units in the economy.
 - D) gross domestic product.

2. Macroeconomics deals with:
 - A) bits and pieces of the economy.
 - B) the question of how a business unit should operate profitably.
 - C) the working of the entire economy or large sectors of it.
 - D) how individuals make decisions.

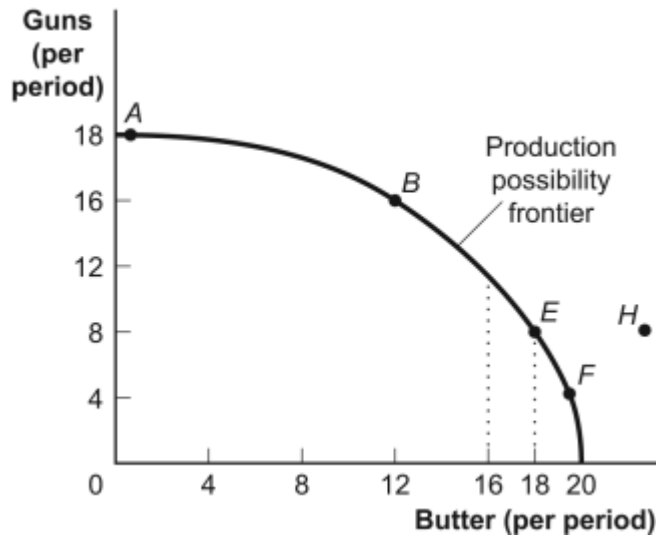
3. If resources are “scarce,” it means that they:
 - A) cannot provide enough goods or services to satisfy all human material wants and needs.
 - B) have no opportunity cost.
 - C) are probably not valued by consumers.
 - D) have an unlimited supply.

4. You can either spend \$100 on a new economics textbook or a new CD player. If you choose to buy the new economics textbook, the opportunity cost is:
 - A) \$100.
 - B) the new CD player.
 - C) both the \$100 and the new CD player.
 - D) impossible to determine.

5. For an economist, the cost of something is:
 - A) the amount of money you paid for it.
 - B) what you gave up to get it.
 - C) always equal to its market value.
 - D) the quantity of resources used to produce it.

Use the following to answer questions 6-8:

Figure: Guns and Butter



6. (Figure: Guns and Butter) In this figure, points *A*, *B*, *E*, and *F*:
- A) indicate combinations of guns and butter that society can produce using all of its factors efficiently.
 - B) show that the opportunity cost of more guns increases, but that of more butter decreases.
 - C) indicate that society wants butter more than it wants guns.
 - D) indicate constant costs for guns and increasing costs for butter.
7. (Figure: Guns and Butter) The combination of guns and butter at point *H*:
- A) can be attained, but would cost too much.
 - B) cannot be attained, given the current level of technology and the factors of production available.
 - C) has no meaning since it does not relate to the preferences of consumers.
 - D) is attainable but would increase unemployment.
8. (Figure: Guns and Butter) If the economy were producing 8 units of guns and 12 units of butter per period:
- A) the choice would involve unemployment and/or inefficiency.
 - B) the notion of increasing opportunity cost is invalidated.
 - C) the economy would still be efficient but would have made a decision not to buy as much as it could.
 - D) something would have to be done to reduce the amount of employment.

Use the following to answer question 9:

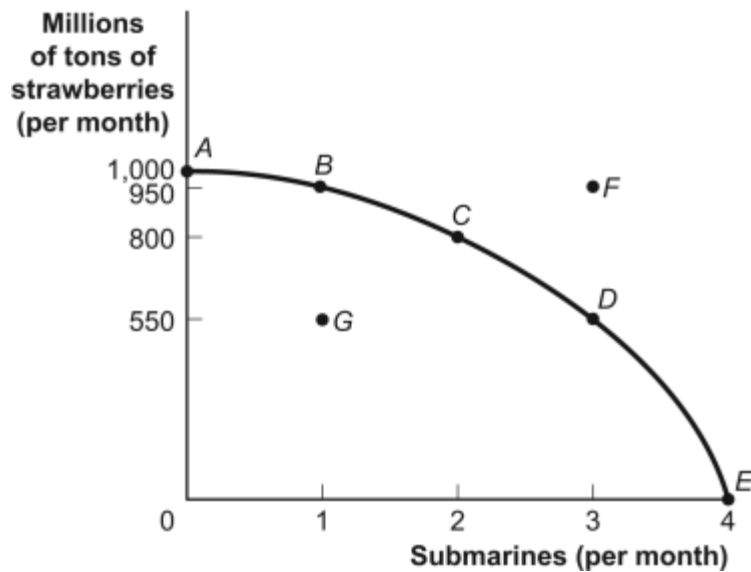
Table: Production Possibilities Schedule II

Production alternatives	<i>V</i>	<i>W</i>	<i>X</i>	<i>Y</i>	<i>Z</i>
Capital goods per period	0	1	2	3	4
Consumer goods per period	20	18	14	8	0

9. (Table: Production Possibilities Schedule II) If the economy is producing at alternative *X*, the opportunity cost of producing at *Y* instead of *X* is _____ units of consumer goods per period.
- A) 0
 - B) 6
 - C) 8
 - D) 14

Use the following to answer question 10:

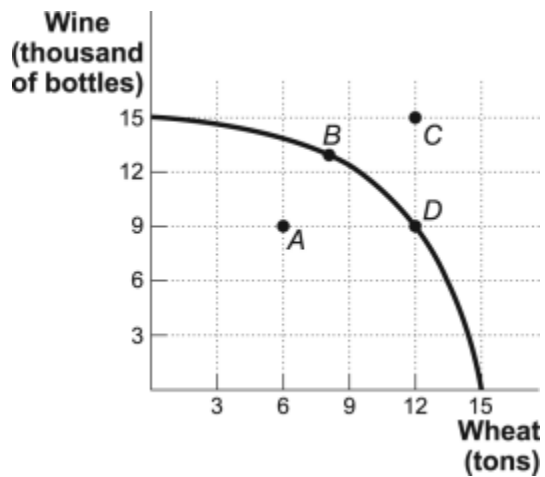
Figure: Strawberries and Submarines



10. (Figure: Strawberries and Submarines) As the economy moves from point *A* toward, say, point *D*, it will find that the opportunity cost of each additional submarine:
- A) falls.
 - B) rises.
 - C) remains unchanged.
 - D) doubles.

Use the following to answer question 11:

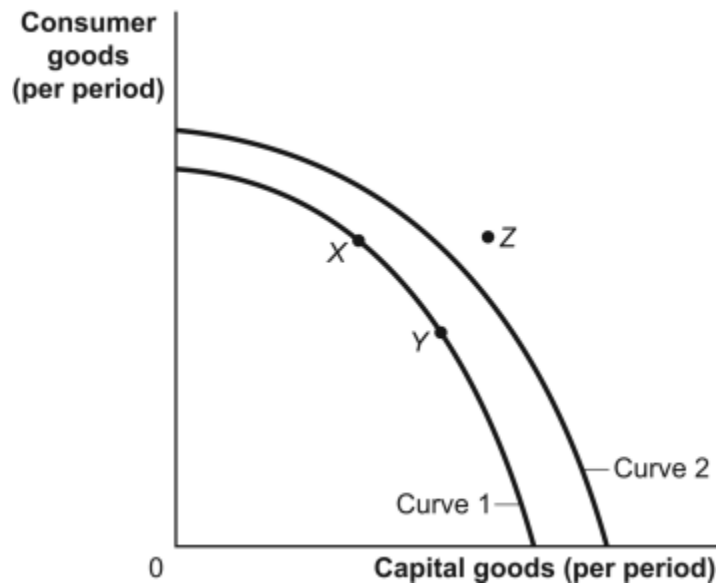
Figure: Wine and Wheat



11. (Figure: Wine and Wheat) What is the opportunity cost of moving from only producing wheat to only producing wine?
- A) 3 tons of wheat
 - B) 6 tons of wheat
 - C) 9 tons of wheat
 - D) 15 tons of wheat

Use the following to answer question 12:

Figure: Consumer and Capital Goods



12. (Figure: Consumer and Capital Goods) The movement from Curve 1 to Curve 2 indicates:
- A) economic growth.
 - B) going from unemployment to full employment.
 - C) a decrease in the factors of production.
 - D) a shift of the production possibility frontier toward producing less goods.
13. In a single day, Sarah can produce 10 hamburgers while Abe can produce 5 hamburgers. We then know that:
- A) Sarah has a comparative advantage in making hamburgers.
 - B) Sarah has an absolute advantage in making hamburgers.
 - C) Abe has a comparative advantage in making hamburgers.
 - D) Abe has an absolute advantage in making hamburgers.

Use the following to answer question 14:

Table: Coffee and Salmon Production Possibilities II

	Coffee	Salmon
Brazil	40	20
Alaska	20	20

14. (Table: Coffee and Salmon Production Possibilities II) This table shows the maximum amounts of coffee and salmon that Brazil and Alaska can produce if they just produce one good. Brazil has an absolute advantage in producing:
- A) coffee only.
 - B) salmon only.
 - C) both coffee and salmon.
 - D) neither coffee nor salmon.
15. An economy is said to have a comparative advantage in the production of one good if it:
- A) can produce more of all goods than another economy.
 - B) can produce less of all goods than another economy.
 - C) has the highest opportunity cost for producing a particular good.
 - D) has the lowest opportunity cost for producing a particular good.

Use the following to answer question 16:

Table: Comparative Advantage I

Sweden and Finland produce only two goods, herring and cell phones, and this table shows the maximum amount that each nation can produce of the two goods.

	Sweden	Finland
Herring	100,000	50,000
Cell phones	10,000	10,000

16. (Table: Comparative Advantage I) Sweden has an absolute advantage in producing:
- A) cell phones only.
 - B) herring only.
 - C) both cell phones and herring.
 - D) neither cell phones nor herring.

17. An example of a positive statement is:
- A) the rate of unemployment is 4%.
 - B) a high rate of economic growth is good for the country.
 - C) everyone in the country needs to be covered by national health insurance.
 - D) baseball players should not be paid higher salaries than the president of the United States.
18. The current rate of unemployment, 5%, is too high. This is an example of:
- A) a normative statement.
 - B) a positive statement.
 - C) the circular-flow model.
 - D) comparative advantage.
19. The law of demand states that, other things equal:
- A) as the price increases, the quantity demanded will increase.
 - B) as the price decreases, the demand curve will shift to the right.
 - C) as the price increases, the demand will decrease.
 - D) as the price increases, the quantity demanded will decrease.
20. A good is normal if:
- A) when income increases, the demand remains unchanged.
 - B) when income increases, the demand decreases.
 - C) when income increases, the demand increases.
 - D) income and the demand are unrelated.
21. A good is inferior if:
- A) when income increases, the demand remains unchanged.
 - B) when income increases, the demand decreases.
 - C) when income increases, the demand increases.
 - D) income and the demand are unrelated.

Use the following to answer question 22:

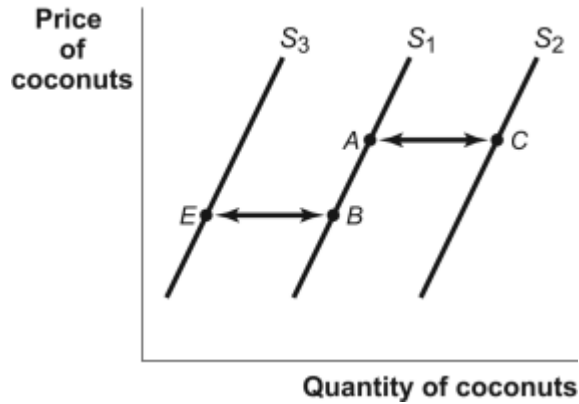
Table: The Demand for Chocolate-Covered Peanuts

Price per Bag	Quantity Demanded (bags per month)		
	George	Barbara	Dan
\$0.90	10	0	60
0.80	15	10	80
0.70	20	20	100
0.60	25	30	120
0.50	30	40	140
0.40	35	50	160
0.30	40	60	180

22. (Table: The Demand for Chocolate-Covered Peanuts) If George, Barbara, and Dan are the only three buyers in the market, and the price of a bag of chocolate-covered peanuts is \$0.80, the total market demand is _____ bags per month.
- A) 70
 - B) 80
 - C) 105
 - D) 280
23. When the price of gas goes up, the demand for tires goes down. This means that tires and gas are:
- A) substitutes.
 - B) complements.
 - C) both expensive.
 - D) both inexpensive.

Use the following to answer question 24:

Figure: Supply of Coconuts



24. (Figure: Supply of Coconuts) If the price of coconuts decreases, then the movement that would take place in the model could be:
- A) *A to B.*
 - B) *B to A.*
 - C) *C to A.*
 - D) *E to B.*

Use the following to answer question 25:

Table: The Market for Chocolate-Covered Peanuts

Price (per bag)	Quantity Demanded (bags per month)	Quantity Supplied (bags per month)
\$0.90	70	280
0.80	105	245
0.70	140	210
0.60	175	175
0.50	210	140
0.40	245	105
0.30	280	70

25. (Table: The Market for Chocolate-Covered Peanuts) If the price of chocolate-covered peanuts is \$0.60, the price will:
- A) remain unchanged.
 - B) fall to \$0.30.
 - C) fall to \$0.50.
 - D) rise to \$0.70.
26. If the supply and demand curves intersect at a price of \$47, then any price above that would result in a(n):
- A) shortage.
 - B) surplus.
 - C) equilibrium.
 - D) increase in demand.
27. A competitive market occurs when there are many buyers and sellers of the same good.
- A) True
 - B) False
28. According to the law of demand, if the price of steak increases in Rhode Island, the demand for steak will decrease in Rhode Island.
- A) True
 - B) False
29. An increase in income will always shift the demand curve to the right.
- A) True
 - B) False
30. If the price of gasoline rises and stays high for an extended period of time, we expect people to:
- A) reduce the number of miles they drive.
 - B) buy smaller and more fuel-efficient cars.
 - C) use more public transportation.
 - D) reduce the number of miles they drive, buy smaller and more gas efficient cars, and use more public transportation.

Name: _____ Date: _____