

Name: _____ R Number: _____ Roster #: _____

1. Scarcity in economics means:
 - A) not having sufficient resources to produce all the goods and services we want.
 - B) the wants of people are limited.
 - C) there must be poor people in rich countries.
 - D) shortages exist in nearly all markets.

2. The basic concern of economics is:
 - A) to keep business firms from losing money.
 - B) to prove that capitalism is better than socialism.
 - C) to study the choices people make.
 - D) to use unlimited resources to produce goods and services to satisfy limited wants.

3. Opportunity cost is:
 - A) about half of the monetary cost of a product.
 - B) the dollar payment for a product.
 - C) the benefit derived from a product.
 - D) the value of the best alternative forgone in making any choice.

4. Which of the following policies is *most* likely to reduce traffic congestion in a large metropolitan area?
 - A) a limited number of free “early bird” parking passes given only to those who arrive prior to 6 A.M.
 - B) a toll road that requires each car to pay a fee to enter the city center
 - C) an increase in the price of subway and bus fare to and from the city
 - D) asking citizens to carpool

5. When the nations that comprise the Organization of Petroleum Exporting Countries (OPEC) restrict the supply of oil to increase their profits, the oil market:
 - A) achieves an efficient outcome because profits increase.
 - B) achieves an equitable outcome because nations with oil resources receive a fair level of profits.
 - C) fails because there is no longer an efficient allocation of resources.
 - D) fails because there is no longer an equitable allocation of resources.

6. The importance of an economic model is that it allows us to:
- A) build a complex and accurate model of the economy.
 - B) build an accurate mathematical model of the economy.
 - C) focus on the effects of only one change at a time.
 - D) avoid opportunity costs.

Use the following to answer question 7:

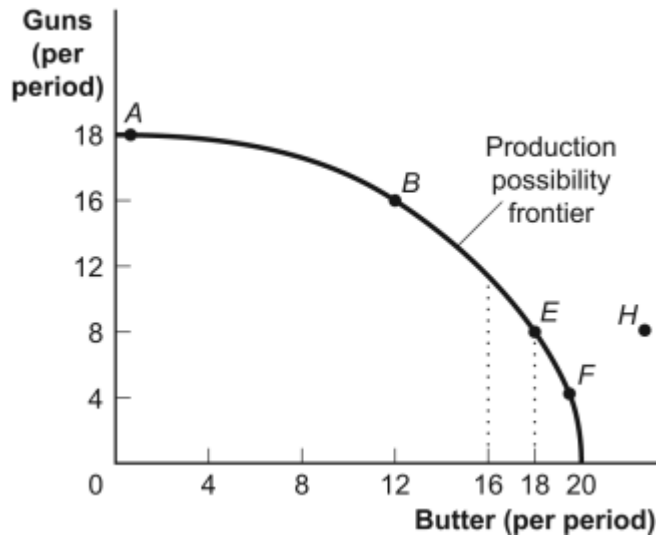
Table: Production Possibilities Schedule I

Alternatives	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>
Consumer goods per period	0	1	2	3	4	5
Capital goods per period	30	28	24	18	10	0

7. (Table: Production Possibilities Schedule I) The opportunity cost of producing the fourth unit of consumer goods is _____ units of capital goods.
- A) 2
 - B) 4
 - C) 6
 - D) 8

Use the following to answer questions 8-9:

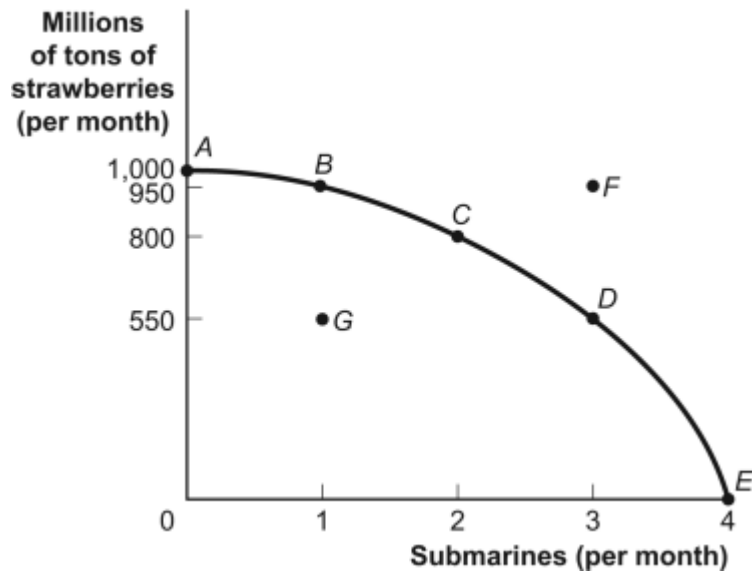
Figure: Guns and Butter



8. (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.
9. (Figure: Guns and Butter) If the economy were operating at point *B*, producing 16 units of guns and 12 units of butter per period, a decision to move to point *E* and produce 18 units of butter:
- A) indicates this economy can have more butter and guns simultaneously.
 - B) makes it clear that this economy experiences decreasing opportunity costs.
 - C) involves a loss of 8 units of guns per period.
 - D) involves a loss of 4 units of guns per period.
10. If the production possibility frontier were a straight line sloping down from left to right, this would suggest that:
- A) more of both goods could be produced moving along the frontier.
 - B) the two products must have the same price.
 - C) the opportunity costs of the products are constant.
 - D) there are no opportunity costs.
11. If an economy's factors of production are not equally suitable for producing different types of goods, this principle generates:
- A) economic growth.
 - B) technical efficiency.
 - C) resource underutilization.
 - D) the law of increasing opportunity cost.

Use the following to answer question 12:

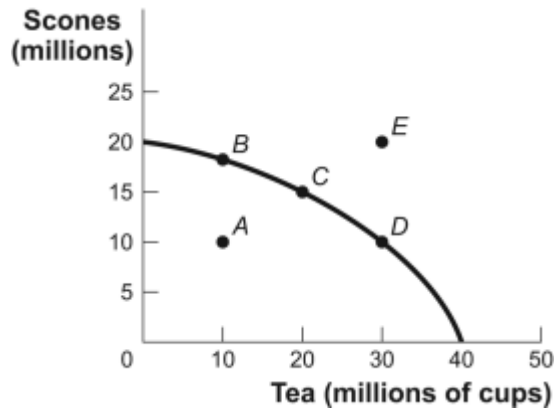
Figure: Strawberries and Submarines



12. (Figure: Strawberries and Submarines) Suppose the economy is operating at point *G*. This implies that:
- A) the economy can move to a point such as *C* only if it improves its technology.
 - B) the economy is experiencing unemployment and/or inefficient allocation of resources.
 - C) the economy lacks the resources to achieve a combination such as *C*.
 - D) people in this economy don't really like strawberries and submarines.
13. Technological improvements will:
- A) leave the production possibility frontier unchanged.
 - B) shift the production possibility frontier inward.
 - C) shift the production possibility frontier outward.
 - D) necessarily lead to increased unemployment.

Use the following to answer question 14:

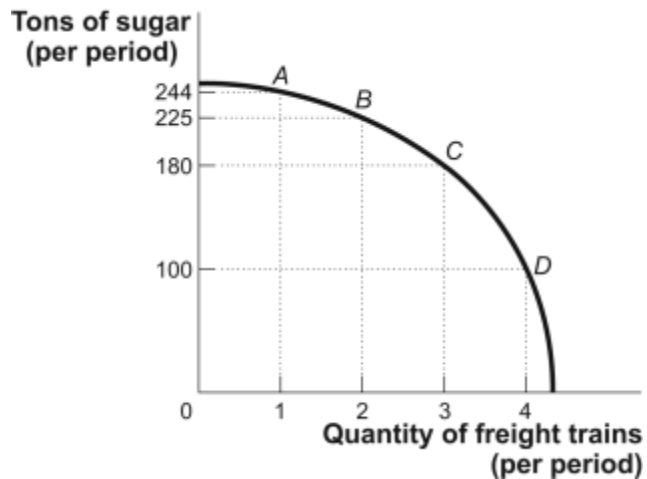
Figure: Production Possibility Frontier Curve for Tealand



14. (Figure: Production Possibility Frontier Curve for Tealand) In the figure, Tealand can only produce at point *E* if the government:
- A) eliminates unemployment.
 - B) raises taxes.
 - C) raises the age for mandatory retirement.
 - D) lowers the cost of production by decreasing the use of technology.

Use the following to answer question 15:

Figure: Sugar and Freight Trains

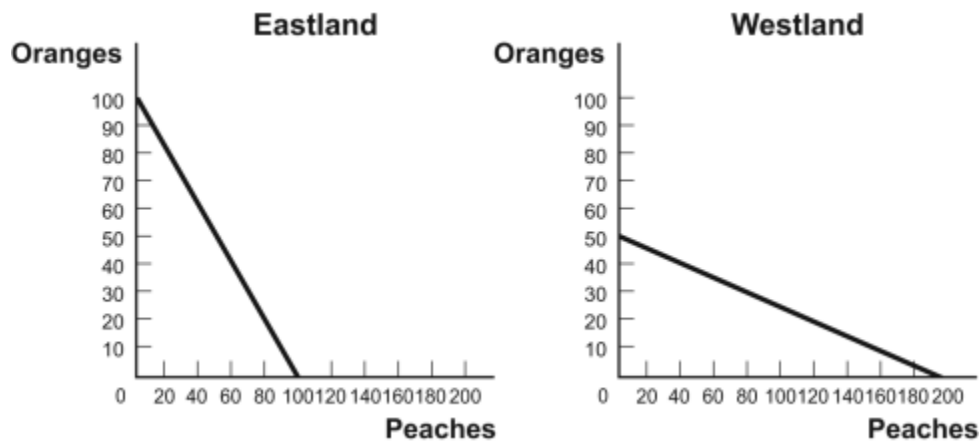


15. (Figure: Sugar and Freight Trains) Suppose the economy is operating at point *B*. The opportunity cost of producing the third freight train would be:
- A) 6 tons of sugar.
 - B) 19 tons of sugar.
 - C) 45 tons of sugar.
 - D) 80 tons of sugar.
16. In one hour, the United States can produce 25 tons of steel or 250 automobiles. In one hour, Japan can produce 30 tons of steel or 275 automobiles. This information implies that:
- A) Japan has a comparative advantage in the production of automobiles.
 - B) the United States has an absolute advantage in the production of steel.
 - C) Japan has a comparative advantage in the production of both goods.
 - D) the United States has a comparative advantage in the production of automobiles.
17. Which of the following statements is true?
- A) Some very talented people have a comparative advantage in everything they do.
 - B) Some very untalented people have a comparative advantage in nothing they do.
 - C) Some very talented people have a very low opportunity cost in everything they do.
 - D) It is possible to have an absolute disadvantage in doing something but still have a comparative advantage in the same thing.

Use the following to answer question 18:

Figure: Comparative Advantage

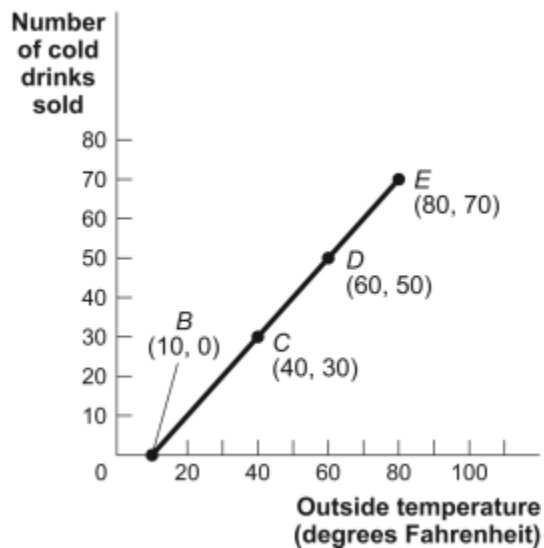
Eastland and Westland produce only two goods, peaches and oranges, and this figure shows each nation's production possibility frontier for the two goods.



18. (Figure: Comparative Advantage) Eastland has an absolute advantage in producing:
- A) oranges only.
 - B) peaches only.
 - C) both oranges and peaches.
 - D) neither oranges nor peaches.
19. Which of the following is an example of a normative statement?
- A) The rate of unemployment is 4%.
 - B) A high rate of economic growth is good for the country.
 - C) The federal government spends half of its budget on national defense.
 - D) Millions of Americans lack health insurance.
20. Which of the following would be a positive economic statement?
- A) Government has grown too large and should be reduced.
 - B) There has been an increase in the rate of inflation.
 - C) Government should be subject to the same rules as all other institutions.
 - D) Women should be paid as much as men for the same work.

Use the following to answer question 21:

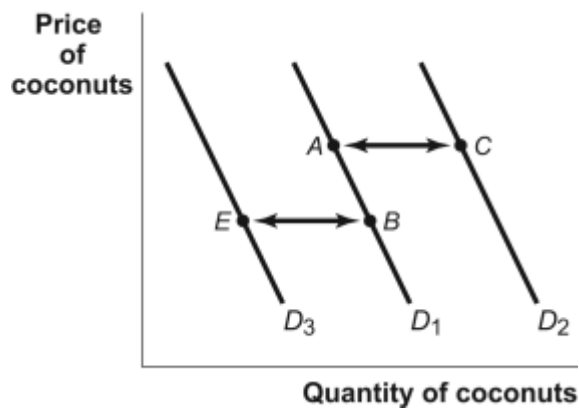
Figure: Cold Drinks Sold and Temperature



21. (Figure: Cold Drinks Sold and Temperature) If we move from point *C* to point *E* in the figure, the outside temperature has _____ and the number of cold drinks sold has _____.
- A) decreased by 30 degrees; decreased by 30 units
 - B) increased by 20 degrees; increased by 20 units
 - C) increased by 30 degrees; increased by 30 units
 - D) increased by 40 degrees; increased by 40 units
22. A shift of the demand curve for Luis's Pizza would *not* be caused by a change in the:
- A) buyers' incomes.
 - B) price of Luis's Pizza.
 - C) price of Humberto's Pizza.
 - D) popularity of Luis's Pizza.
23. 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.

Use the following to answer question 24:

Figure: Demand for Coconuts



24. (Figure: Demand for Coconuts) If a coconut is a normal good and the price of coconuts increases, 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 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

25. (Table: The Demand for Chocolate-Covered Peanuts) If Barbara is only able to purchase 20 bags of chocolate-covered peanuts, the maximum price she is willing and able to pay for each bag is _____.
- A) \$0.90
 - B) \$0.80
 - C) \$0.70
 - D) \$0.60
26. 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.

27. Economists know that a particular good can be classified as an inferior good if a(n) _____ in buyers' income causes a(n) _____.
- A) increase; increase in demand
 - B) increase; increase in quantity demanded
 - C) increase; decrease in demand
 - D) decrease; decrease in demand
28. An increase in supply is caused by:
- A) an increase in input prices.
 - B) suppliers' expectations of higher prices in the future.
 - C) an increase in the price of the good.
 - D) a decrease in prices of goods that are substitutes in production.

Use the following to answer question 29:

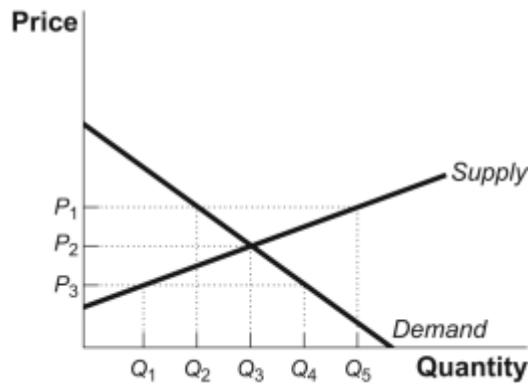
Table: The Market for Chocolate-Covered Peanuts

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

29. (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.

Use the following to answer question 30:

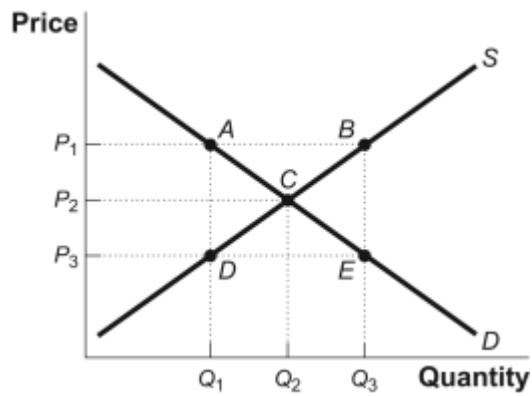
Figure: Market for Candies



30. (Figure: Market for Candies) A surplus of the good will exist at a price of:
- A) P_1 .
 - B) P_2 .
 - C) P_3 .
 - D) There are no surpluses in this market.

Use the following to answer question 31:

Figure: Supply and Demand in the Orange Juice Market



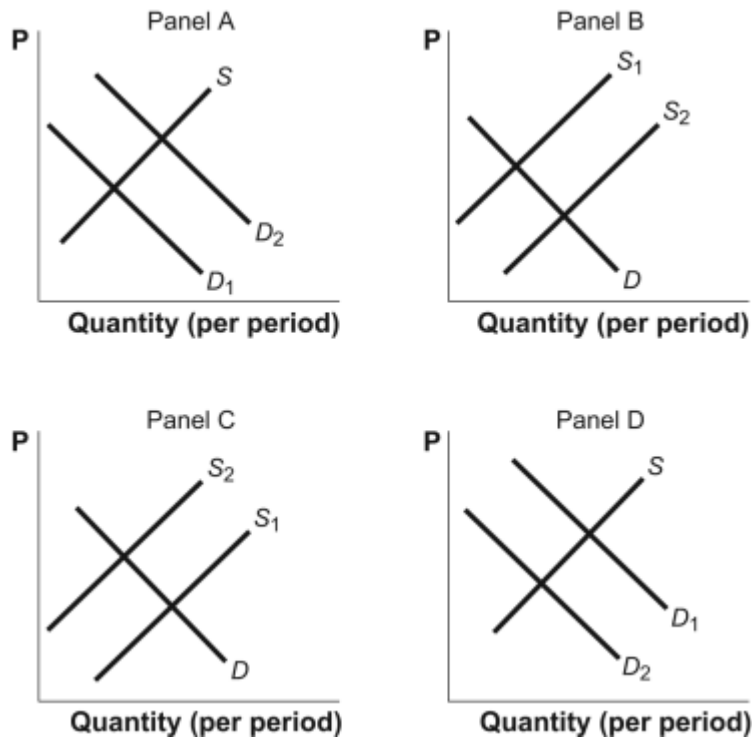
31. (Figure: Supply and Demand in the Orange Juice Market) Suppose most people only drink orange juice with champagne. What will be the new equilibrium point in the orange juice market if a law banning alcohol passes?
- A) *A*
 - B) *B*
 - C) *D*
 - D) *E*
32. The market for corn is currently in equilibrium. Which of the following is *most* likely to increase the equilibrium price of corn?
- A) a bountiful harvest
 - B) increasing production of corn-based ethanol
 - C) decreasing household incomes and corn is a normal good
 - D) a subsidy given by the government to growers of corn
33. The price of microchips used to produce computers falls. As a result, the equilibrium price of computers _____ and the equilibrium quantity _____.
- A) rises; increases
 - B) rises; decreases
 - C) falls; decreases
 - D) falls; increases

Bonus Question(5 points):

How does an Economist say "*I love you*"? (Use a graph to describe it *if applicable*)

Use the following to answer question 34:

Figure: Shifts in Demand and Supply III



34. (Figure: Shifts in Demand and Supply III) The figure shows how supply and demand might shift in response to specific events. Suppose consumer incomes increase. Which panel best describes how this will affect the market for designer boots, a normal good?
- A) Panel A
 - B) Panel B
 - C) Panel C
 - D) Panel D
35. 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

Answer Key

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