

**Part I: Select the best single answer. Each is worth 2 points.**

1. Fundamental economic problems basically arise from
  - A) the fact that society has more than it needs.
  - B) turmoil in the stock market.
  - C) the unequal distribution of income.
  - D) a society's wants exceeding its scarce resources.
  
2. After you graduate, you have decided to accept a position working at the Bureau of Labor Statistics for \$33,000.00 a year. The other offers you received were for \$22,000, \$28,000, and \$19,000. What is the opportunity cost of accepting the position at the Bureau of Labor Statistics?
  - A) \$19,000.
  - B) \$22,000.
  - C) \$28,000.
  - D) \$69,000.
  
3. Jill, an economics student, has already spent 5 hours cleaning her room. In deciding whether or not to continue cleaning for another hour, she applies the economic principle(s) of
  - A) scarcity.
  - B) voluntary exchange.
  - C) marginal benefit and marginal cost.
  - D) productivity.
  
4. Which of the following will create an incentive to increase the level of an activity?
  - A) An increase in the marginal cost of the activity and a decrease in the marginal benefit of the activity.
  - B) A decrease in the marginal cost of the activity and an increase in the marginal benefit of the activity.
  - C) Constant marginal cost and constant marginal benefit of the activity.
  - D) None of the above will create an incentive to increase the level of an activity.
  
5. Which of the following is a positive statement?
  - A) Taxes should be lower because then people get to keep more of what they earn, so they will work more.
  - B) My economics class should last for two terms because it is my favorite class.
  - C) A 10 percent increase in income leads to a 4 percent increase in the consumption of beef.
  - D) Given their negative impact on productivity, the government should eliminate labor unions.
  
6. Some economists predicted that *ceteris paribus*, the large 1995 Federal tax increases would cause the economy's performance to deteriorate. Instead the economy has continued to perform extremely well. These facts mean that
  - A) the theory that lay behind the economists' prediction must be wrong.
  - B) a tax increase always results in the economy doing well.
  - C) other events may have happened around the same time to make the prediction incorrect.
  - D) this prediction is an example of a fallacy of composition.
  
7. Which of the following is NOT a resource?
  - A) Vans used by a bakery company for deliveries.
  - B) A person developing a production schedule for a new product.
  - C) 175 shares of Microsoft stock.
  - D) Wilderness areas that have yet to be developed.

8. The production possibility frontier
- A) depicts the boundary between those combinations of goods and services that can be produced and those that cannot given resources and the current state of technology.
  - B) shows how many goods and services are consumed by each person in a country.
  - C) is a model that assumes there is no scarcity and no opportunity cost.
  - D) is a graph with price on the vertical axis and income on the horizontal axis.
9. Which of the following causes the production possibility frontier to be concave?
- A) the assumption that resources are specialized
  - B) the assumption that resources are not specialized
  - C) scarcity of resources
  - D) holding technology constant
10. The table below shows production points on Sweet-Tooth Land's production possibility frontier. Which of the following statements is TRUE?
- A) Producing 0 chocolate bars and 100 cans of cola is both attainable and efficient.
  - B) Producing 20 chocolate bars and 80 cans of cola is attainable, but inefficient.
  - C) Producing 30 chocolate bars and 38 cans of cola is only attainable with an increase in technology.
  - D) Producing 40 chocolate bars and 0 cans of cola is unattainable and inefficient.

Point	Production chocolate bars	Production cans of cola
A	0	100
B	10	90
C	20	70
D	30	40
E	40	0

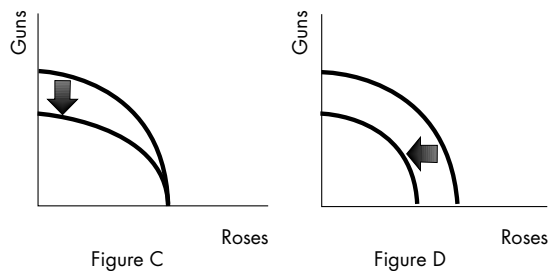
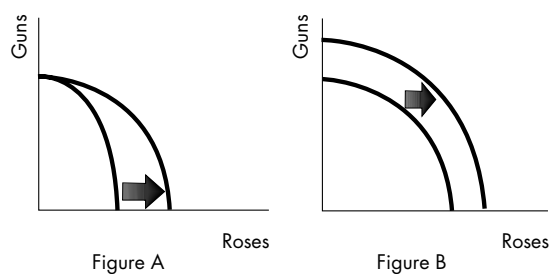
11. The above table shows production points on Sweet-Tooth Land's production possibility frontier. What is the opportunity cost of *one* chocolate bar if Sweet-tooth Land moves from point C to point D?
- A) 30 cans of cola
  - B) 10 cans of cola
  - C) 3 cans of cola
  - D) 1/3 can of cola
12. Comparative advantage is
- A) the ability to perform an activity at a lower opportunity cost than anyone else.
  - B) the ability to perform an activity at a higher opportunity cost than anyone else.
  - C) the ability to perform an activity at a zero opportunity cost.
  - D) identical to absolute advantage.
13. A store remains open from 8 am to 4 pm each weekday. The store owner is deciding whether to stay open an extra hour each evening. The owner's marginal benefit
- A) is the benefit the owner receives from staying open from 8 am to 5 pm.
  - B) depends on the revenues the owner makes during the day.
  - C) must be greater than or equal to the owner's marginal cost if the owner decides to stay open.
  - D) is equal to revenues minus operating costs.

14. Suppose that a typical German factory can produce 20 cameras or 1 computer in an hour, and that a typical American factory can produce 10 cameras or one computer in an hour. If Germany produces one less computer and switches resources to cameras, and the US produces one more computer and takes resources out of cameras, then the net change in camera production in both countries taken together is

- A) 0
- B) minus 10 cameras
- C) plus 10 cameras
- D) plus 20 cameras

15. Which of the graphs below shows the impact of scientists developing a more powerful fertilizer?

- A) Figure A.
- B) Figure B.
- C) Figure C.
- D) Figure D.



16. In terms of what America produces, the largest sector of the economy is:

- A) services.
- B) goods.
- C) food.
- D) education.

17. Human capital:

- A) is a gift of nature
- B) are machines that are user friendly
- C) is the knowledge and skills people obtain through training and education
- D) is the work effort people devote to producing goods and services

18. E-bay, the online auction site, arranges for buyers and sellers to communicate to buy and sell any number of new and used goods. E-bay is in what part of the circular flow model?

- A) a market
- B) the household
- C) the factor market
- D) the government

19. Which of the following illustrates a negative (inverse) relationship between two variables?
- A) as auto insurance rates decrease, the number of automobile purchases remains unchanged.
  - B) as patrol cars out on the road increase, highway speeding decreases.
  - C) as highway speeding decreases, highway fatalities decrease.
  - D) as drunken driving increases, auto insurance rates increase.
20. An economic system that relies upon some people giving orders to make economic decision would be
- A) a traditional system.
  - B) a market system.
  - C) a command or central planning system.
  - D) a incentive-failure system

**Part II: Answer any TWO questions from this part. Each is worth 5 points.**

21. Some economists favor raising the minimum wage to \$6 per hour while others favor abolishing the minimum wage entirely. Using the debate over the minimum wage as an example, give an example of a positive AND a normative statement. What is the critical difference between the two types of statements?
22. You are the adviser to President Scott of Marietta College. A wealthy alumnus buys, then gives a plot of land to the university for use for a new recreation facility. The president says that, as far as the land is concerned, it does not cost the college anything to use the land for a recreation facility. What do you say? That is, what is the cost of using the land as a recreation facility?
23. Consider the decision to attend college. Why go to college now rather than when you are much older? Explain in terms of both the expected benefits and expected costs of your decision

**Part III: You must answer the question below.**

24. The table below describes the production possibilities for two countries. Assume that each country can use its resources to produce combinations of stuffed animals and pineapples that lie on a linear PPC.

	Country A	Country B
Stuffed Animal Toys	200	300
Pineapples	400	900

- a) Draw the PPC for each country on the same diagram. Plot pineapples on the horizontal axis. [2 pts]
- b) Which country has a comparative advantage making stuffed animals? Explain why. [2 pts]
- c) Which country has a comparative advantage making pineapples? Explain why. [2 pts]
- d) Which country will tend to export stuffed animals? Which will tend to export pineapples? [2 pts]
- e) If these countries were to trade with each other, at approximately what ratio would stuffed animals trade for pineapples? Why? [2 pts]