

## Practice Exam 1 Questions for Econ 211

1. The PPC shows:

- a) the level of output society should produce to satisfy most of its unlimited wants.
- b) the minimum amounts of two goods that can be produced when society uses its resources efficiently.
- c) the different combinations of two goods that can be produced when some society's resources are not fully employed.
- d) for each level of output of one good, the maximum amount of the other good that can be produced.
- e) (a) and (d).

2. Any point below the PPC:

- a) is attainable by society, given its current resource level and production technology, and represents higher outputs of both goods.
- b) is less efficient than any point on the PPC.
- c) cannot be attained, given society's current level of resources and technology.
- d) is more desirable than any point beyond the frontier.

3. You are stranded on an island and can either catch four fish in two hours or pick ten bananas in one hour. From this information, the opportunity cost of one fish is:

- a) 2 bananas.
- b) 1/2 bananas.
- c) 5 bananas.
- d) 2 1/2 bananas.
- e) zero, since you can't compare bananas and fish.

4. Economists sometimes tend to be unpopular and to be viewed as troublemakers because:

- a) their analyses are always oversimplified.
- b) they charge too much for their professional services.
- c) they tend to draw attention to the cost of various political choices, frustrating the attainment of political consensus.
- d) they always want the accountants to pay the bar tab.
- e) they always give the toughest exams to feeble-minded undergraduates. (You better not put this as the answer.)

5. Economists employ the ceteris paribus assumption because:

- a) economic rationality is not realistic.
- b) they prefer to concentrate on normative issues.
- c) it is a necessary simplifying assumption when conducting theoretical experiments.
- d) latin phrases make them sound intellectual.

6. In a country like the United States:

- a) all economic decisions are made in the market place.
- b) there is no planning.
- c) the government owns most of the productive inputs.
- d) there is a reliance on the market mixed with some planning.
- e) everyone is guaranteed a Chevrolet or a Ford.

7. Which of the following is not "capital", as economists use the term?

- a) money.
- b) an office building.
- c) machinery on an assembly line.
- d) an industrial robot.
- e) a computer used by a business.

8. "The price of food usually rises when there is an increase in the general level of prices. High food prices cause inflation." This statement best illustrates fallacious reasoning stemming from:

- a) the fallacy of composition.
- b) the ceteris paribus fallacy.
- c) failure to recognize that association is not causation.
- d) failure to consider the secondary effects of an action.
- e) failure to take Greg's econ class.

9. Pick the normative statement from the list below:

- a) If we doubled the size of transfer payments directed toward the poor, we could eliminate poverty.
- b) Teen-age employment increases the output potential of our economy.
- c) Old age pensions raise the living standard of the elderly.
- d) Increased female unemployment is due, in part, to the increased number of women looking for jobs.
- e) An expansion in the food stamp program is needed in order to make the lives of the poor more tolerable.

10. When deciding whether to purchase a second car, the economic way of thinking indicates that the purchaser should compare the:

- a) total benefits expected from two cars with the total cost of the two cars.
- b) dollar cost of two cars with the potential income that the two cars will generate.
- c) benefits of the second car with the cost of the first car.
- d) additional benefits of the second car with the cost of the second car.

11. Congress recently raised the speed limit to 65 MPH on some sections of interstate highway. If, in the next 5 years, the number of highway fatalities per hundred-thousand miles driven rises, which statement below is correct?

- a) The rising fatality rate is due to the higher speed limit if other factors affecting highway fatalities rates are also rising.
- b) To determine the effect of the higher speed limit on fatality rates, we can ignore other factors that may affect highway fatality rates.
- c) The rising fatality rate is definitely due to the higher speed limit.
- d) To determine the effect of the higher speed limit on fatality rates, other factors affecting highway fatality rates must be held constant.

12. Which of the following is a positive economic statement?

- a) Thoughtful people will oppose the farm subsidy program.
- b) Social conscience requires that we increase the minimum wage.
- c) A tax increase will cause inflation.
- d) The sales tax on food should be repealed.
- e) Increases in medical costs must be stopped.

13. Increasing opportunity costs refer to the idea that as we move along a PPC,
- a) in order to have more of one good, the incremental sacrifices of the other good are constant.
  - b) in order to have more of one good, the incremental sacrifices of the other good will decline.
  - c) in order to have more of one good, the incremental sacrifices of the other good must increase.
  - d) if we choose to have less of one good, we must also have less of the other.

14. Macroeconomics studies:

- a) how the price of oil is determined.
- b) how the consumption of beer responds to a price change.
- c) how aggregate income and inflation are determined.
- d) why secretaries earn more than janitors.
- e) the effects of labor unions on workers.

15. The scarcity of resources requires:

- a) people to abstain from wanting goods and services.
- b) government to allocate productive factors among all alternative uses.
- c) people to make choices.
- d) people to reduce their standard of living.

16. The basic choices of What, How, and for Whom to produce:

- a) exist in every economic system.
- b) are never really addressed by most economies.
- c) cannot be addressed until scarcity is eliminated.
- d) do not arise in a market economy but are important in a planned economy.
- e) do not arise in a planned economy but are important in a market economy.

17. A concave (bowed-out) PPC indicates:

- a) constant opportunity costs.
- b) increasing opportunity costs.
- c) decreasing opportunity costs.
- d) zero opportunity costs.
- e) dunlop disease (my belly dun lop over my belt)

18. Within the context of economics, the statement "There are no free lunches" refers to which of the following?

- a) Individuals must always pay for the lunch that they consume.
- b) production of a good requires the use of scarce resources regardless of whether it is supplied free to the consumers.
- c) restaurant owners act in their own self interest.
- d) economic woman is selfish; therefore, she will not provide anything free for others.

19. Economic rationality implies that:

- a) individuals are selfish.
- b) individuals have studied economics.
- c) all other variables are held constant.
- d) individuals act in their own self-interest.
- e) individuals consider themselves better off when they take actions to make others worse off.

20. The opportunity cost of building a new civic center in your home town would be:

- a) the money cost of the structure.
- b) the necessary increase in tax revenue to finance the building.
- c) the highest valued bundle of other goods and services that must be foregone because of the civic center project.
- d) the enjoyment that must be foregone because the capacity of the current structure prevents many people from attending events.

21. A student basketball team manager examined potential variables influencing the team's winning of games. The manager concluded that the best scores resulted when the third-string team played the most minutes, and therefore recommended that the third stringers should become the first team. This conclusion was probably erroneous because the manager has:

- a) confused positive and normative analysis.
- b) committed the fallacy of composition.
- c) failed to recognize that what is true for the individual must also be true for the group.
- d) failed to consider the secondary effects.
- e) confused the direction of causal relationships.

22. The price of an airline ticket from Denver to Washington, DC is \$280. A bus ticket is only \$80. Traveling by plane would take 6 hours of time, compared with 26 hours by bus. Other things constant, an individual would gain by choosing air travel if, and only if, her time was valued at more than:

- a) \$6 per hour
- b) \$8 per hour
- c) \$10 per hour
- d) \$17 per hour
- e) \$22 per hour

23. What is the best test of an economic theory?

- a) its mathematical eloquence.
- b) how realistic its assumptions are.
- c) its value to economists when defending their normative (political) views.
- d) its usefulness in predicting what will happen when various changes occur in the real world.

24. If jail sentences were increased from 5 to 10 years for armed robbery and the probability of being caught and convicted remained constant, we would expect the quantity of armed robberies to:

- a) increase
- b) decrease
- c) remain about the same
- d) be indeterminate

25. The economic way of thinking stresses that:

- a) greed is the primary motivation for human action.
- b) as the benefits of an option increase, people will be more likely to choose that option.
- c) material goods lead to human happiness.
- d) objective value can be attained to physical goods.
- e) as the cost of an option decreases, people will be less likely to choose that option.

26. Fred owns a truck that he values at \$2,000. Sue, who does a lot of hauling, values the truck at \$5,000. If these two get together, which of the following is most likely to occur?

- a) Fred will sell the truck for \$1,500.
- b) Sue will buy the truck for \$6,000.
- c) They will not agree on a price and no exchange will occur.
- d) The truck will be sold at a price greater than \$2000 but less than \$5000, and both parties will benefit.
- e) This is a trick question because the same truck cannot have different values to different people.

27. All of the following will lead to economic growth except:

- a) population growth.
- b) capital investment.
- c) utilizing previously unemployed resources.
- d) investment in human capital through education.
- e) improvements in technology.

28. The central problem of every economic system is to:

- a) get people to compete in such a way as to assure that what is needed is also what is wanted.
- b) get people to cooperate effectively in using what is available to provide what is wanted.
- c) get people to see that what is available is all that is necessary.
- d) redistribute income fairly.

29. The construction of a PPC requires that:

- a) the economy's resource base be held constant.
- b) the economy's resource base is steadily increasing.
- c) the economy's resources are fully and efficiently employed.
- d) (a) and (b).
- e) (a) and (c).

30. The PPC is downward-sloping because:

- a) the economy is inefficient.
- b) an efficient economy cannot produce more of one good without producing less of another.
- c) economic growth is occurring.
- d) the economy cannot produce outside its bounds.
- e) wants are unlimited.

Country A		Country B	
Good X (units of X)	Good Y (units of Y)	Good X (units of X)	Good Y (units of Y)
0	16	0	12
2	12	2	9
4	8	4	6
6	4	6	3
8	0	8	0

31. In the table above, country A is producing 4 units of X and 8 units of Y and country B is producing 4 units of X and 6 units of Y. Regarding the production of good X:

- a) country A has an absolute advantage.
- b) country B has an absolute advantage.
- c) country A has a comparative advantage.
- d) country B has a comparative advantage.

32. Referring to the table above, Country A should specialize in the production of \_\_\_\_\_ while Country B should specialize in the production of \_\_\_\_\_.

- a) both goods; neither good.
- b) good X; good Y.
- c) good Y; good X.
- d) neither good; both goods.

33. One of the largest categories of exports from the United States is now pop culture: movies, music, TV programming, and videos. A direct conclusion from this information is that, compared to other countries, the United States has

- a) lower wages for producers of pop culture.
- b) higher wages for producers of pop culture.
- c) an absolute advantage in producing pop culture.
- d) a comparative advantage in producing pop culture.

## Part II: Short Answers.

34. Evaluate the following statement: "A society can always produce more computers if it chooses to do so; therefore there can never be any real scarcity."

35. "The market share of foreign imported cars has risen over the past twenty years. Profit rates of US automobile producers have fallen over this same time period. Imported cars are the cause of the decline in the profits of US automobile producers." Explain the logical fallacy this statement represents.

36. Janine is an accountant who makes \$30,000 a year. Robert is a college student who makes \$8,000 a year. *Ceteris paribus*, who is more likely to stand in a long line to get a concert ticket? Explain.

37. In 1963 an average car cost about \$2000; in 1991 an average car cost about \$17,000. But on the average, what cost \$100 in 1963 cost about \$390 in 1991. Did the relative price of a car increase or fall compared to most goods and services?

38. Have you ever noticed how few gasoline stations are found in the center of large cities? With such heavy traffic one ought to be able to do an excellent business. Why then are there so few?

39. Is it more expensive to build dams with lots of direct labor and little machinery or with lots of machinery and little labor? Why will the answer vary from country to country?

40. Alesa can wait on 20 customers per hour or prepare 10 pizzas per hour. Jason can wait on 10 customers per hour or prepare 8 pizzas per hour. If Alesa and Jason were to open a pizza parlor, who would be the cook? Who would be the waiter? Would Alesa do both? Explain.

41. Explain the following statement by a military recruiter: "There's nothing like a good recession to cure our recruiting problems."

42. Bill can prepare 20 legal briefs per month or argue 5 cases before the court per month. Hillary can prepare 30 briefs per month or argue 10 cases before the court per month. If Bill and Hillary were to open a law firm, who would prepare the briefs? Who would argue the cases before the court? Would Hillary do both? Explain.