

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

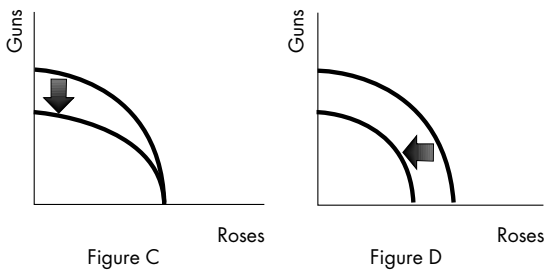
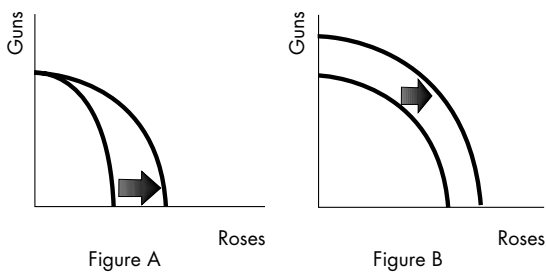
11. The above table shows production points on Sweet-Tooth Land's production possibility frontier. What is the opportunity cost of *one* chocolate bar if Sweet-tooth Land moves from point C to point D?
- A) 30 cans of cola
 - B) 10 cans of cola
 - C) 3 cans of cola
 - D) 1/3 can of cola
12. Comparative 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) an 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]

More Questions

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. 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.

9. 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.



10. 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.

11. 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.

12. Increasing opportunity costs refer to the idea that as we move along a PPF,

- 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.

13. 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.

14. 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.

15. 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.

16. A concave (bowed-out) PPF indicates:

- a) constant opportunity costs.
- b) increasing opportunity costs.
- c) decreasing opportunity costs.
- d) zero opportunity costs.



17. 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.

18. 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.

19. 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.

20. 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

21. 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.

22. 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

23. 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.



24. 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.

25. 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.

26. 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.

27. The construction of a PPF 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).

28. The PPF 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

29. 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.

30. 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.

31. 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.

32. 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."

33. 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.

34. 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?

35. 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?

36. 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.

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