

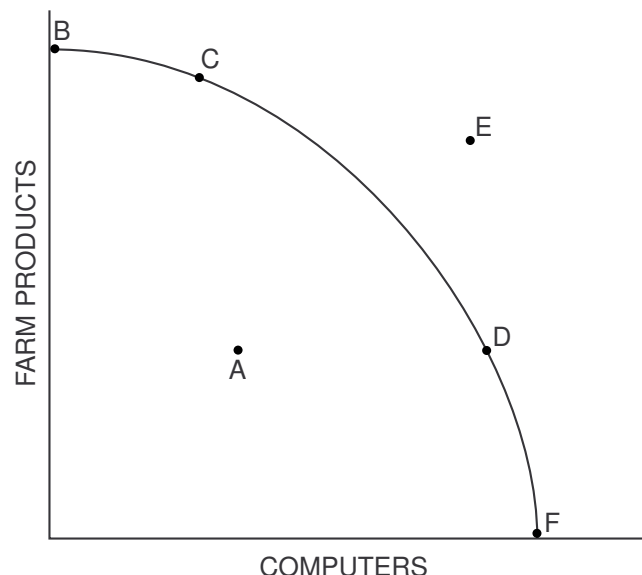
Sample Multiple-Choice Questions

Circle the letter of each correct answer.

- The crucial problem of economics is
 - establishing a fair tax system.
 - providing social goods and services.
 - developing a price mechanism that reflects the relative scarcities of products and resources.
 - allocating scarce productive resources to satisfy wants.
 - enacting a set of laws that protects resources from overuse.
- When one decision is made, the next best alternative not selected is called
 - economic resource.
 - opportunity cost.
 - scarcity.
 - comparative disadvantage.
 - production.
- Which of the following is true if the production possibilities curve is a curved line concave to the origin?
 - Resources are perfectly substitutable between the production of the two goods.
 - It is possible to produce more of both products.
 - Both products are equally capable of satisfying consumer wants.
 - The prices of the two products are the same.
 - As more of one good is produced, more and more of the other good must be given up.
- Which of the following is true of the concept of increasing opportunity cost?
 - It is unimportant in command economies because of central planning.
 - It suggests that the use of resources to produce a set of goods and services means that as more of one is produced, some of the other must be sacrificed.
 - It is irrelevant if the production possibilities curve is convex to the origin.
 - It suggests that unlimited wants can be fulfilled.
 - It means that resources are plentiful and opportunities to produce greater amounts of goods and services are unlimited.
- To be considered scarce, an economic resource must be which of the following?
 - Limited
 - Free
 - Desirable
 - I only
 - I and II only
 - II and III only
 - I and III only
 - I, II and III
- The basic economic problem is reflected in which of the following concepts?
 - Opportunity cost
 - Production possibilities
 - The fallacy of composition
 - Ceteris paribus*
 - I only
 - IV only
 - I and II only
 - II and III only
 - II, III and IV only

7. Which of the following goods would be considered scarce?
- I. Education
 - II. Gold
 - III. Time
- (A) I only
 - (B) II only
 - (C) III only
 - (D) I and II only
 - (E) I, II and III
8. The value of the best alternative forgone when a decision is made defines
- (A) economic good.
 - (B) opportunity cost.
 - (C) scarcity.
 - (D) trade-off.
 - (E) comparative advantage.
9. Which of the following problems do all economic systems face?
- I. How to allocate scarce resources among unlimited wants
 - II. How to distribute income equally among all the citizens
 - III. How to decentralize markets
 - IV. How to decide what to produce, how to produce and for whom to produce
- (A) I only
 - (B) I and IV only
 - (C) II and III only
 - (D) I, II and III only
 - (E) I, II, III and IV
10. The opportunity cost of building a new high school is
- (A) the expense of hiring more teachers for the new high school.
 - (B) the expense of new desks, chalkboards and books for the the new high school.
 - (C) other goods and services, which must now be sacrificed to build the new high school.
 - (D) overcrowded classrooms.
 - (E) the bond levy needed to build the new high school.
11. In which way does a straight line production possibilities curve differ from a concave production possibilities curve?
- (A) A straight line production possibilities curve has a decreasing opportunity cost.
 - (B) A straight line production possibilities curve has a constant opportunity cost.
 - (C) A straight line production possibilities curve has an increasing opportunity cost.
 - (D) A straight line production possibilities curve does not show opportunity cost.
 - (E) There is no difference between the two production possibilities curves.
12. The law of increasing opportunity cost is reflected in the shape of the
- (A) production possibilities curve concave to the origin.
 - (B) production possibilities curve convex to the origin.
 - (C) horizontal production possibilities curve.
 - (D) straight-line production possibilities curve.
 - (E) upward-sloping production possibilities curve.

Use the figure below for questions 13 through 16. It shows the production possibilities curve for a country with full employment of a given-size labor force.



13. If the country is currently producing at Point C, it can produce more computers by doing which of the following?
 - (A) Moving to Point A
 - (B) Moving to Point B
 - (C) Moving to Point D
 - (D) Moving to Point E
 - (E) Remaining at Point C, since computer production is maximized
14. Which of the following statements about the production possibilities curve is true?
 - (A) Point A is not attainable in a developed society.
 - (B) Point D is not attainable given the society's resources.
 - (C) The relative position of Points C and D reflect production alternatives rather than relative prices.
 - (D) Elimination of unemployment will move the production possibilities curve to the right, closer to Point E.
 - (E) Point E lies outside the production possibilities curve because it represents a combination of resources not desired by the citizens of the country.
15. How might Point E be attained?
 - (A) If the country's resources were more fully employed
 - (B) If the country's resources were shifted to encourage more efficient use of scarce resources
 - (C) If improvements in technology occurred in either the computer sector or the farm-products sector
 - (D) If firms decreased their output of computers
 - (E) If the nation used more of its scarce resources to produce farm products
16. Which of the following points would most likely lead to a rightward shift of the production possibilities curve over time?
 - (A) Point A
 - (B) Point B
 - (C) Point C
 - (D) Point D
 - (E) Point E

17. The opportunity cost of producing an additional unit of product A is
- (A) all of the human and capital resources used to produce product A.
 - (B) the retail price paid for product A.
 - (C) the wholesale price of product A.
 - (D) the amount of product B that cannot now be produced because of product A.
 - (E) the profit that was earned from producing product A.
18. Which of the following would cause a leftward shift of the production possibilities curve?
- (A) An increase in unemployment
 - (B) An increase in inflation
 - (C) An increase in capital equipment
 - (D) A decrease in consumer demand
 - (E) A decrease in working-age population
19. Which of the following would cause an outward or rightward shift in the production possibilities curve?
- (A) An increase in unemployment
 - (B) An increase in inflation
 - (C) An increase in capital equipment
 - (D) A decrease in natural resources
 - (E) A decrease in the number of workers

Use the following table for questions 20, 21 and 22.

Mars		Venus	
Food	Clothing	Food	Clothing
0	30	0	40
2	24	4	32
4	18	8*	24*
5*	12*	12	16
8	6	16	8
10	0	20	0

Two nations, Mars and Venus, each produce food and clothing. The table above gives points on each nation’s production possibilities curve. The asterisks indicate their current point of production.

20. In Mars, the opportunity cost of obtaining the first two units of food is how many units of clothing?
- (A) 2
 - (B) 3
 - (C) 6
 - (D) 8
 - (E) 12
21. In Venus, the opportunity cost of the first unit of
- (A) food is two units of clothing.
 - (B) food is eight units of clothing.
 - (C) clothing is two units of food.
 - (D) clothing is four units of food.
 - (E) clothing is eight units of food.
22. Which of the following statements is correct based on the concept of comparative advantage?
- (A) Mars and Venus should continue producing the quantities indicated by the asterisks.
 - (B) Mars should specialize in the production of food.
 - (C) Mars should specialize in the production of clothing.
 - (D) Venus has the comparative advantage in clothing.
 - (E) Mars has an absolute advantage in the production of food.

23. The table below shows the number of hours needed to produce one bushel of soybeans and one bushel of rice in each of two countries.

Country	One bushel of soybeans	One bushel of rice
U.S.	5 hours	7 hours
Japan	15 hours	10 hours

Which of the following statements must be true?

- I. The United States has an absolute advantage in producing soybeans.
 - II. Japan has an absolute advantage in producing rice.
 - III. Japan has a comparative advantage in producing soybeans.
 - IV. The United States should specialize in the production of soybeans and Japan should specialize in the production of rice.
- (A) I only
 (B) III only
 (C) I and IV only
 (D) II and IV only
 (E) I, II, III and IV
24. If there is an increase in demand for a good, what will most likely happen to the price and quantity of the good exchanged?

Price	Quantity
(A) Increase	Increase
(B) Increase	Decrease
(C) Decrease	Decrease
(D) Decrease	Increase
(E) No change	No change

25. If the demand for a good or service decreases, the equilibrium price and quantity are most likely to change in which of the following ways?

Price	Quantity
(A) Increase	Increase
(B) Increase	Decrease
(C) Decrease	Decrease
(D) Decrease	Increase
(E) No change	No change

26. A decrease in the price of silicon chips and increased production of user-friendly software will affect the price and quantity of computers in which of the following ways?

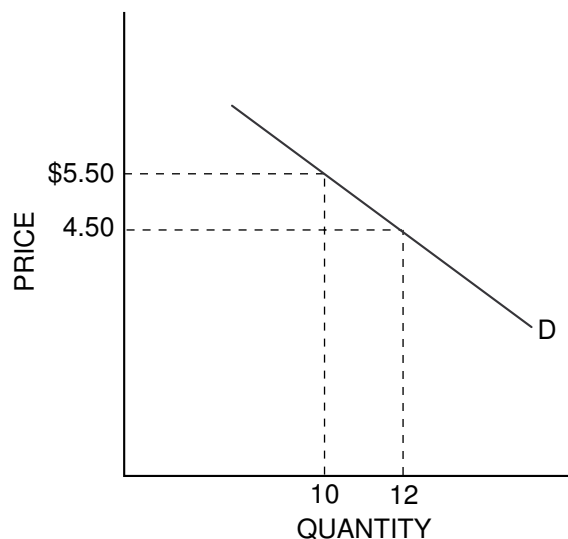
Price	Quantity
(A) Increase	Increase
(B) Increase	Decrease
(C) Decrease	Decrease
(D) Decrease	May increase, decrease or remain the same
(E) May increase, decrease or remain the same	Increase

27. An improvement in the technology used in the production of automobiles and an increase in the need for automobile transportation will most likely cause the price and quantity of automobiles to change in which of the following ways?

Price	Quantity
(A) Increase	Increase
(B) Increase	Decrease
(C) May increase, decrease, or stay the same	Increase
(D) Decrease	May increase, decrease or remain the same
(E) Decrease	Increase

28. An increase in the price of peanut butter will cause the demand curve for jelly to shift in which of the following directions?
- (A) To the right, because peanut butter is a product that the government says is good for you
 - (B) To the right, if jelly is purchased by people with lower incomes and peanut butter is a luxury good for them
 - (C) To the right, if peanut butter and jelly are complementary goods
 - (D) To the left, if peanut butter and jelly are complementary goods
 - (E) To the left, if peanut butter and jelly are substitute goods
29. According to the theory of comparative advantage, a good should be produced at the point where
- (A) its explicit costs are least.
 - (B) its opportunity costs are least.
 - (C) the cost of real resources used is least.
 - (D) production can occur with the greatest increase in employment.
 - (E) production can occur with the lowest increase in employment.
30. An increase in the price of gasoline will *most likely* cause the demand curve for tires to change in which direction?
- (A) To the left, because gasoline and tires are substitutes
 - (B) To the left, because gasoline and tires are complements
 - (C) To the right, because gasoline and tires are substitutes
 - (D) To the right, because gasoline and tires are complements
 - (E) To the right, because an increase in the price of gasoline makes consumers poorer and thus not willing to pay as much for tires
31. All of the following might reasonably be expected to shift the demand curve for beef to a new position *except*
- (A) a decrease in the price of beef.
 - (B) a change in people's tastes with respect to beef.
 - (C) an increase in the money incomes of beef consumers.
 - (D) a widespread advertising campaign by the producers of a product competitive with beef, such as pork.
 - (E) expectations that beef prices will fall in the future.
32. Specialization and trade will not take place in which of the following cases?
- I. The opportunity costs of making two goods are the same in both countries.
 - II. Wartime emergencies completely cut off trade routes.
 - III. Tariff barriers increase the delivered cost of ordinary imported goods.
- (A) I only
 - (B) II only
 - (C) III only
 - (D) I and II only
 - (E) I, II and III

33. The Hatfields and McCoy's have been fumin' fussin' and 'a fightin' for years. In the Hatfield family, a unit of cloth is worth 0.8 units of corn. At the McCoy's, a unit of cloth is worth 1.25 units of corn. The Hatfields, however, produce more corn and cloth than the McCoy's because they have higher quality resources. Despite the feud, is there a basis for specialization and trade?
- (A) No, the McCoy's bring no net value to the community of Hatfield and McCoy.
 - (B) No, the opportunity costs are the same for the Hatfields and the McCoy's.
 - (C) Yes, the Hatfields enjoy both a comparative and absolute advantage in cloth.
 - (D) Yes, the Hatfields enjoy both a comparative and absolute advantage in corn.
 - (E) Yes, the Hatfields enjoy both a comparative and absolute advantage in both corn and cloth.



34. Between a price of \$5.50 and \$4.50, the demand curve in the figure above can be described as
- (A) perfectly elastic.
 - (B) relatively elastic.
 - (C) unit elastic.
 - (D) relatively inelastic.
 - (E) perfectly inelastic.
35. With a relatively elastic demand curve, if price increases by 10 percent, the quantity will most likely
- (A) increase by less than 10 percent.
 - (B) increase by more than 10 percent.
 - (C) decrease by less than 10 percent.
 - (D) decrease by exactly 10 percent.
 - (E) decrease by more than 10 percent.
36. "If you want to have anything done correctly, you have to do it yourself." This quote violates the principle of which of the following economic concepts?
- (A) Scarcity
 - (B) Supply
 - (C) Comparative advantage
 - (D) Diminishing returns
 - (E) Demand

