

ECONOMICS TEST ONE

CHAPTER ONE: BASIC CONCEPTS

PART ONE: Multiple Choice (choose the best answer that is *available* and bubble in on the Scantron form)

- Which of the following is the best **definition** of economics?
 - The study of how individuals and societies choose to use the scarce resources that nature and previous generations have provided.
 - The study of how consumers spend their income.
 - The study of how business firms decide what inputs to hire and what outputs to produce.
 - The study of how the federal government allocates tax dollars.
- Which of the following is a **reason** to study economics?
 - to understand society
 - to understand global affairs
 - to be an informed voter
 - all of the above
- Opportunity cost** is . . .
 - that which we forgo, or give up, when we make a choice or a decision.
 - a cost that cannot be avoided, regardless of what is done in the future.
 - the additional cost of producing an additional unit of output.
 - the additional cost of buying an additional unit of a product.
- The concept of **opportunity cost** . . .
 - is relevant only for a capitalist economy like the United States.
 - suggests all our wants can be achieved.
 - would be irrelevant if we eliminated poverty.
 - suggests a major increase in public health-care spending means an expansion in other areas will be harder to achieve.
- A **graph** showing all the combinations of goods and services that can be produced if all of society's resources are used efficiently is the . . .
 - production possibility frontier.
 - capital consumption frontier.
 - Lorenz curve.
 - circular-flow diagram.
- Periods of less than full employment on this graph correspond to . . .
 - points outside the curve.
 - points inside the curve.
 - points on the curve.
 - either points inside or outside the curve.

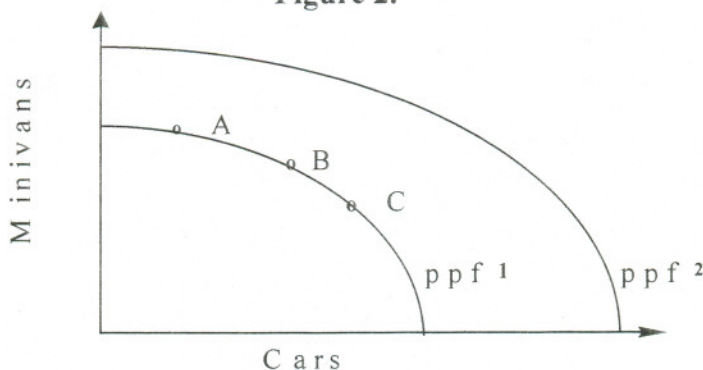
Figure 1

	Joseph	Andrew
Minivans washed	10	12
Windows washed	2	3

- Refer to Figure 1. For Joseph, the opportunity cost of washing one minivan is . . .
 - 1/5 of a window washed.
 - 4 windows washed.
 - 5 windows washed.
 - 10 windows washed

8. What seems to be the greatest economic problem that exists?
- How can the economy improve technology so as to shift the production possibility frontier up and to the right?
 - Given scarce resources, how exactly do large, complex societies go about deciding what to produce, how to produce it, and who will get it?
 - given the fact that the economy is inefficient, how much and what type of government intervention should be used to improve the efficiency of the economy?
 - What is the best rate of economic growth for a society?
9. Suppose you have to decide whether to spend you profits from your fantastic stock investment on a new CD player or a present for your economics teacher. You are dealing with the concept of . . .
- diminishing marginal returns.
 - comparative advantage.
 - opportunity costs.
 - the fallacy of composition.

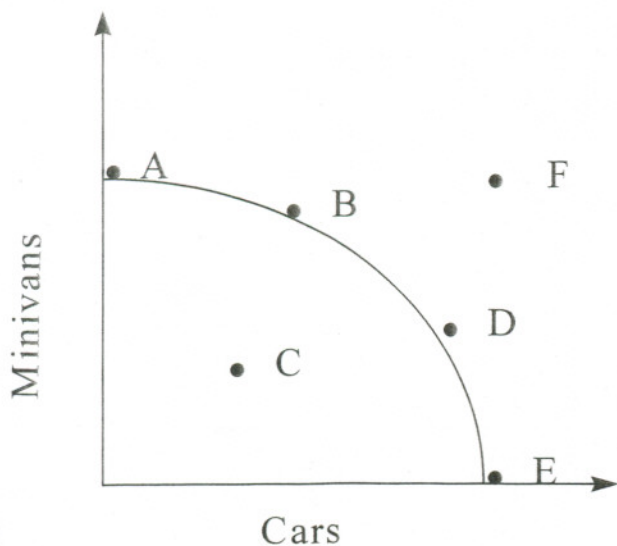
Figure 2.



10. Refer to Figure 2. Economic **growth** is represented by a . . .
- shift from ppf2 to ppf1.
 - shift from ppf1 to ppf²
 - movement from C to B along ppf¹.
 - movement from A to C.
11. What term would describe the type of situation where you have an employee who worked for N.A.S.A. leave her job there to become a second grade teacher's aid at her daughter's elementary school?
- consumer sovereignty
 - unemployment
 - normative economics
 - positive economics
 - underemployment
12. In a market economic system, who makes the major economic decisions?
- consumers
 - bankers
 - businesses
 - government
 - teachers
13. All of the following would probably allow for an increase in economic growth **EXCEPT** which of the following?
- reducing the workweek from forty to thirty-five hours
 - increasing the size of the labor force
 - using more advanced technology
 - improving the allocation of resources

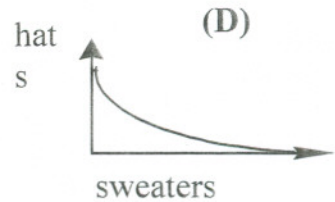
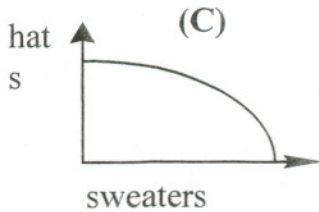
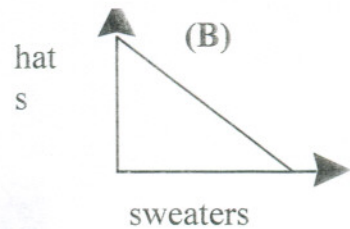
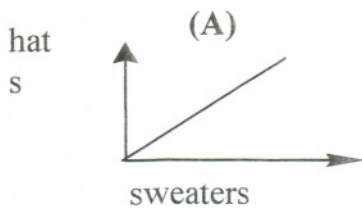
14. In a market economy like ours, why does *scarcity* exist?
- Because government plans for less than we need to be produced.
 - Because of market competition.
 - Quotas are placed on most imported goods.
 - Human wants are greater than limited resources.
 - Consumer sovereignty controls allocative efficiency.

Figure 3



15. Refer to figure 3. The point where only cars are produced is . . .
- A
 - B
 - C
 - D
 - E
16. Refer to figure 3. Which point cannot be obtained with the current state of technology?
- A
 - B
 - C
 - F
17. Refer to figure 3. A decrease in unemployment may be represented by the movement from . . .
- F to A
 - B to D
 - C to D
 - A to C
18. Refer to figure 3. Which point would represent **growth**?
- A
 - B
 - C
 - D
 - F
19. Which of the following do business **NOT** pay out in the money flow model?
- salaries
 - rent
 - interest
 - dividends
 - consumption expenditures
20. In the circular flow model of the market system, what controls the resources?
- business firms
 - expectations
 - voters
 - households
 - government
21. If a stellar student decides to play tennis on the Ridge View tennis team instead of working for \$4 per hour babysitting two wonderful children for an economics teacher who wants to play tennis himself, then what is the opportunity cost for the student to play on the team if the teacher would hire the student for two hours one night every week for four weeks?
- \$10
 - \$20
 - \$32
 - \$40
 - 50

Figure 4



22. Refer to figure 4. Assume that in Chadland the rate of transformation of sweaters for hats is constant and fungible. A graph of this society's production possibility frontier will be represented by ...
 a) A b) B c) C d) D e) none of these.
23. We classify our resources as human resources, natural resources, entrepreneurship, and . . .
 a) land b) labor c) capital d) vegetation e) none of these

PART TWO: Matching (choose the best description available on the left to match the term on the right, and fill in the corresponding bubble on the back of your Scantron form.)

- | | |
|------------------------------|--|
| ___ 25. consumer sovereignty | A. approach as a science - with facts |
| ___ 26. consumer goods | B. what is given up to get something else |
| ___ 27. economics | C. value of everything made in a year |
| ___ 28. entrepreneurship | D. a general increase in prices |
| ___ 29. market | E. maximum product from the resources |
| ___ 30. circular flow | AB. freedom to choose which goods you buy |
| ___ 31. services | AC. intangible products that have value |
| ___ 32. opportunity cost | AD. when everyone has same access to goods |
| ___ 33. equity | AE. the interaction of supply and demand |
| ___ 34. capital goods | BC. stream of funds, goods and services |
| | BD. how societies use resources for scarcity |
| | BE. goods used to make other goods |
| | CD. buyers get exact amount of right product |
| | CE. the skill and drive to run a business |
| | ABC. products bought for personal use |

PART THREE: Reading Passage (Read the accompanying passage, "Beer Rules in Bear Market" and answer the following questions on your Scantron form.)

35. Which of the following is the main idea of this passage?
 a) Anheiser Bush embraces technology, which allows them to keep up with growing sales.
 b) Anheiser Busch mass produces bottles of beer by the millions.
 c) Anheiser Busch is one huge market monolith.
 d) Anheiser Busch has done well throughout times of economic prosperity and economic suffering.