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Microeconomics

1-Basic Economic Principles

- 1) Scarcity of resources:
 - A. results in some individuals living in poverty.
 - B. is the product of capitalism.
 - C. requires government.
 - D. produces shortages.
 - E. generates the need to be rational.

- 2) Economic analysis assumes that:
 - A. pillage and plunder help people prosper and economies grow in sustainable ways.

- B. selfish actions of individuals may be predicted, unselfish ones cannot.
 C. people are social beings, and, therefore, their actions cannot be predicted.
 D. government intervention in targeted industries is required for economies to prosper.
 E. changes in benefits and costs associated with choices exert predictable influences.
- 3) A firm built a store two years ago and spent \$1 million doing so. It recently received an offer from another company to buy its store for \$3 million. The owners are considering changing the nature of the business they do in the store. The relevant cost to include in their evaluation is which of the following?
- A. \$1 million
 B. \$2 million
 C. \$3 million
 D. \$4 million
 E. \$5 million
- 4) Which of the following statements is correct?
- A. The fundamental value of the shares in a firm is determined by expected future profits and systematic risk.
 B. If there is no new information regarding the future profitability or systematic risk of a firm, but its share price keeps rising, the fundamental value must be increasing.
 C. Buying a share at a price above its fundamental value in the hope that someone else would buy it from you at an even higher price is guaranteed to lose money.
 D. All investors always agree on the fundamental value of the shares in a firm.
- 5) Refer to the data. The opportunity cost of producing 1 pound of hamburger for Sarah is:

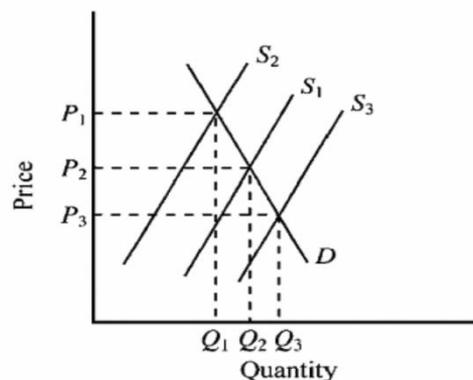
	Number of pounds produced in 40 hours	
	Hamburgers	Salads
Sarah	40	200
Jen	200	40

- A. 1/5 pound of salad.
 B. 5 pounds of salad.
 C. 200 pounds of salad.
 D. 4/5 pound of salad.
 E. 40 pounds of salad.
- 6) The slope of the production possibilities frontier is determined by
- A. the opportunity cost of producing one more unit of the good on the horizontal axis.

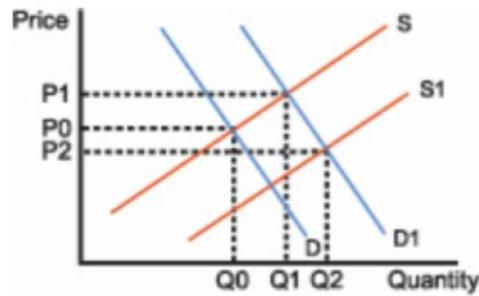
- B. the market prices of the goods that the economy can produce.
- C. the distribution of incomes in the economy.
- D. whether production is performed using efficient or inefficient methods.

2-Supply and Demand

- 7) The statement, "Valentina will buy a more expensive car as her income increases, ceteris paribus," means:
- A. Valentina's income is held constant.
 - B. the price of the car is allowed to change.
 - C. Valentina's income and purchases of cars are held constant.
 - D. Valentina's income is the only influence that is allowed to change.
 - E. Valentina's car purchase is being ignored; other factors are under consideration.
- 8) In the graph for corn- and sugar-based ethanol, the demand and supply curves for ethanol-based fuel in the U.S. are represented by D and S1. Which of the following would result if the U.S. government lifted its import restriction on sugar-based ethanol from Brazil and other countries producing the relatively low-cost and clean fuel substitute to U.S. corn-based ethanol?

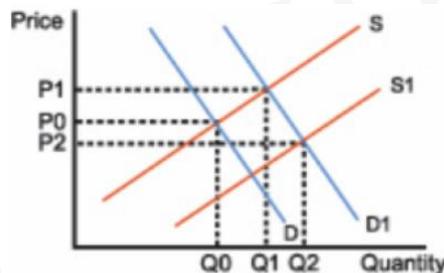


- A. Nothing. Supply and demand would remain at D and S1 with an equilibrium price of P2 and production level Q2.
 - B. The market supply would be expanded to S3, resulting in a lower price and more production.
 - C. The market supply would be expanded to S3, resulting in a higher price and less production.
 - D. The supply would remain at S1, while production expanded and price remained at P2.
 - E. The supply would be restricted to S2, resulting in a higher price and less production.
- 9) Use the diagram below, which shows the supply and demand for avocados, to answer the following question. Assuming that avocados are a normal good, which of the following might explain a shift in the demand curve from D1 to D?



- A. Consumer incomes increase.
- B. The price of tortilla chips, a complementary product, decreases.
- C. A successful advertising campaign for avocados results in more avocado buyers.
- D. Production technology for avocados improves, and sellers flood the market with avocados.
- E. The price of tomatoes, a substitute product, decreases.

10) Use the diagram below, which shows the supply and demand for avocados, to answer the following question. Say that the price of avocados in the United States rose from P_2 to P_1 and the quantity of avocados decreased from Q_2 to Q_1 . Which of the following would best explain this?



- A. Salaries paid to workers on avocado farms fall.
- B. There is a plant disease killing avocado trees in regions where avocados are grown.
- C. There is an increase in demand for guacamole, which is made from avocados.
- D. There is an increase in the amount of avocados imported from Mexico.
- E. There is an increase in the price of tomatoes, a substitute for avocados.

11) If the substitution effect of a lowered price is partly or fully offset by the income effect, we know that the good in question is a(n)

- A. complementary good
- B. inferior good
- C. luxury good
- D. normal good

12) If a good is a Giffen good, then

- A. the supply curve slopes down.

- B. the demand curve slopes up.
- C. the demand curve is horizontal.
- D. there is no optimal level of consumption for the consumer.

13) Suppose that a market is described by the following supply and demand equations:

$$Q^s = 3p - 120 \quad Q^d = 400 - 2p$$

Suppose that the government imposes a tax of \$60 per unit, and the buyers are liable for the tax. How much will buyers and producers burden per unit?

	buyers	producers
A	60	0
B	16	44
C	36	24
D	24	36
E	44	16

14) If the government charges a new tax of \$1 on every pair of blue jeans sold, which would most likely result?

- A. Consumers would pay a higher price for blue jeans and buy fewer pairs of blue jeans.
- B. Consumers would pay a higher price for blue jeans and blue jeans sellers would make larger profits.
- C. Consumers would pay a higher price and blue jeans sellers would limit the number blue jeans consumer could buy.
- D. Blue jeans sellers would increase the quantity sold in order to make up for the taxes paid to the government

15) Carla's Candy Store is maximizing profits by producing 1,000 pounds of candy per day. If Carla's fixed costs unexpectedly increase and the market price remains constant, then the profit-maximizing level of output

- A. is less than 1,000 pounds.
- B. is still 1,000 pounds.
- C. is more than 1,000 pounds.
- D. becomes zero.

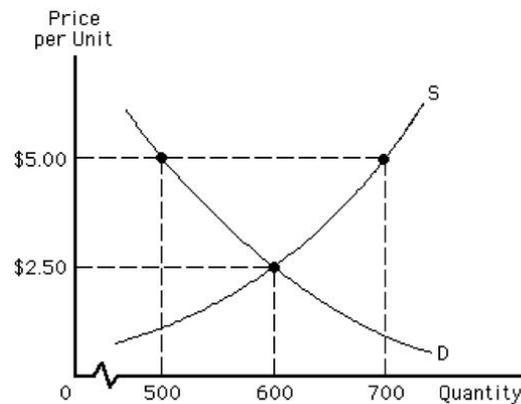
16) Which would most likely increase the quantity of gasoline sold in a competitive market?

- A. An increase in the price of crude oil.
- B. A decrease in the price of automobiles.
- C. A decrease in the income of consumers.

D. An increase in taxes on gasoline products.

3-Market Equilibrium

- 17) You know that the supply of tennis rackets decreased and the demand for tennis rackets increased, but you do not know the magnitude of the changes. Compared to the original equilibrium price and quantity (before the changes), what can you say for certain?
- The equilibrium price of tennis rackets will increase.
 - The equilibrium price of tennis rackets will decrease.
 - The quality of tennis rackets will improve.
 - The equilibrium quantity of tennis rackets will increase.
 - The equilibrium quantity of tennis rackets will decrease.
- 18) Suppose there is an increase in both the supply and demand of smartphones. In this market, we would expect to see the equilibrium quantity to _____ and the equilibrium price to _____.
- increase; increase
 - increase; be undetermined
 - decrease; increase
 - decrease; decrease
 - be undetermined; increase
- 19) For every \$1 decrease in the price of a good, quantity demanded changes by 5 units and quantity supplied changes by 10 units. If the equilibrium price of the good is \$12, then a price of \$10 will yield a:
- shortage of 5 units
 - shortage of 15 units.
 - shortage of 30 units
 - surplus of 15 units.
 - surplus of 30 units
- 20) After 9/11, the price of gasoline increased but so did the quantity sold of gasoline. Which of the following statements explains this situation?
- When the price of a good increases, the quantity demanded also increases.
 - Fear of a shortage caused the demand curve to shift to the right, increasing the price.
 - Gasoline is a necessity, so people will buy more of it when the price increases.
 - Gasoline is a scarce good.
 - When the quantity sold increases, the price is driven up.
- 21) What is the price and number of units that will be exchanged in this market?



- A. 500 units at \$2.50 each because this is equilibrium
- B. 500 units at \$5.00 each if \$5.00 is a price ceiling
- C. 700 units at \$5.00 each if \$5.00 is a price floor
- D. 500 units at \$5.00 each if \$5.00 is a price floor
- E. 700 units at \$5.00 each if \$5.00 is a price ceiling

22) In the supply and demand schedules for socks shown here. If a price floor of \$10 is imposed by the government, there will be a

<u>PRICE</u> <u>PER PAIR</u>	<u>QUANTITY</u> <u>DEMANDED</u>	<u>QUANTITY</u> <u>SUPPLIED</u>
\$2.00	18	3
\$4.00	14	4
\$6.00	10	5
\$8.00	6	6
\$10.00	2	8

- A. surplus of socks equals to 8 pairs.
- B. shortage of socks equals to 16 pairs.
- C. surplus of socks equals to 6 pairs.
- D. market clearing quantity of 6 pairs of socks exchanged.

23) Which of the following best explains the source of consumer surplus for good A?

- A. Many consumers would be willing to pay more than the market price for good A.
- B. Many consumers pay prices that are greater than the equilibrium price of good A.
- C. Many consumers think the market price of good A is greater than its cost.
- D. Many consumers think the price elasticity of demand for good A is unit elastic.
- E. Many consumers think the price elasticity of demand for good A is perfect elastic.

24) Assume a market demand function is given by the equation: $Q = 60 - 0.5P$, where Q is the quantity demanded and P is the price. If P equals 20, the value of the consumer surplus is:

- A. 500.
- B. 1,000.

- C. 2,000.
- D. 2,500.
- E. 5,000.

- 25) In a market where the government imposes a price control, the excess demand or excess supply created will be determined by
- A. the imposed price and the slope of the demand curve.
 - B. the imposed price and the slope of the supply curve.
 - C. the difference between quantity demanded and quantity supplied at the imposed price
 - D. the difference between the imposed price and the equilibrium price.

4-Elasticity

- 26) An indirect tax on the production of a good will have no effect on its market price if demand is
- A. unit elastic.
 - B. perfectly inelastic.
 - C. perfectly elastic.
- 27) Congress places a \$3,000 tax on sports utility vehicles (SUVs). It is to be collected from the sellers of SUVs. As a result of the tax, sellers' increase the price of SUVs on their lots by \$2,000. What can be inferred?
- A. Nothing can be inferred without more data on quantities supplied and purchased.
 - B. Sellers are taking advantage of the buyers.
 - C. Demand is perfectly inelastic.
 - D. Demand is neither perfectly inelastic or perfectly elastic.
 - E. Demand is perfectly elastic.
- 28) Assume that the price elasticity of supply is neither perfectly elastic nor perfectly inelastic. Compare the effects of identical increases in an elastic demand and in an inelastic demand. The increase in the elastic demand will have a _____ effect on equilibrium prices and a _____ effect on the equilibrium quantity when compared to the effects of an identical increase in an inelastic demand
- A. greater; smaller
 - B. greater; greater
 - C. smaller; smaller
 - D. smaller; greater
 - E. One cannot tell without knowing about the elasticity of supply
- 29) If the price elasticity of demand for a loaf of bread is _____, Mike should _____ the price in order to increase total revenue
- A. 0.3; decrease

- B. 0.0; not change
- C. 1.3; decrease
- D. 1.0; decrease
- E. 1.8; increase

- 30) Assume neither the demand nor the supply is perfectly elastic. The greater the elasticities of demand and supply, the
- A. smaller the deadweight loss from a tax.
 - B. less intrusive a tax will be on a market.
 - C. greater the deadweight loss from a tax.
 - D. more equitable the distribution of a tax between buyers and sellers.
- 31) A 5 percent tax is levied on products A and B, both of which had the same demand elasticity. Unit sales of A are nearly the same after the tax, while unit sales of B fall dramatically. Which of the following can we conclude?
- A. Producers of A bear a greater share (relative to consumers) of their market's tax burden than the producers of B.
 - B. Product B has a smaller elasticity of supply than product A.
 - C. Tax revenue is greater from product A.
 - D. Tax revenue is greater from product B.
- 32) Sue's Bagel Shop wants to estimate how responsive bagels are to a change in cream cheese prices. To accomplish this task, the following data would NOT be needed?
- A. Percentage change in bagel price.
 - B. Original price of cream cheese.
 - C. New quantity of bagels sold.
 - D. Original quantity of bagels sold.
- 33) An individual seller of lemonade gets the inputs free from his mother, so his strategy is to maximize his revenue. He has determined that, at the current price, the demand for lemonade is inelastic. To increase revenue, what should he do?
- A. Revenue is currently maximized, so he should not change price.
 - B. He should decrease his price because the percent change in quantity demanded will be less than the percent change in price.
 - C. He should increase his price because the percent change in quantity demanded will be less than the percent change in price.
 - D. He should decrease his price because the percent change in quantity demanded will be greater than the percent change in price.
 - E. He should increase his price because the percent change in quantity demanded will be greater than the percent change in price.

- 34) The cross-price elasticity of demand for two products which are close substitutes for each other will be
- low and positive.
 - high and negative.
 - high and positive.
- 35) The price of an airline ticket is typically lower if a traveler buys the ticket four weeks before the flight's departure date rather than on the day of departure. This pricing strategy is based on the assumption that:
- travelers are not aware of how airline prices change across time
 - travelers' demand becomes less elastic as the departure date approaches
 - travelers will pay any price to travel as the departure date approaches
 - the marginal cost of the last few seats on an airplane is higher than that for the first few seats
 - travelers do not have alternative modes of transportation
- 36) Which of the following must be true if the revenue of the good X increases when the cost of producing the good X decrease?
- The supply of the good X is price inelastic
 - The supply of the good X is price elastic
 - The supply of the good X is income elastic
 - The demand of the good X is price elastic
 - The demand of the good X is price inelastic
- 37) A tax on fur coats will most likely
- raise large amounts of tax revenue for the government.
 - cause a large decline in the sales of fur coats because demand is elastic.
 - be an effective way to tax the rich.
 - fall mostly on the fur coat buyers rather than the producers.

5-Market Efficiency and Social Welfare

- 38) Which of the following statements best describes the concept of network externality?
- The service is provided on-line.
 - Producer uses multilevel marketing to attract new customers.
 - The individual utility of using a service increases with the total number of users.
 - The marginal tax rate increases with an increase of income
- 39) Public goods are an example of a market failure because
- people are willing to pay for these goods at prices that provide excessive profits to businesses.
 - if left alone, markets would not produce enough of these goods.
 - if left alone, markets would produce too much of these goods.

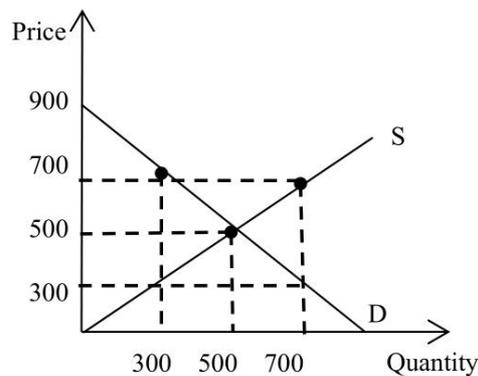
- D. governments cannot provide these goods so they must be provided by the private sector.
E. the price and quantity determined by supply and demand would be efficient.
- 40) If a market has significant external costs, it will produce _____ the efficient amount and result in a price that is _____ the price that would occur in an efficient market.
- A. exactly; equal to
 - B. more than; higher than
 - C. less than; less than
 - D. less than; more than
 - E. more than; less than
- 41) There is an admission fee to enter your local museum. Assume this museum is not crowded, attending the museum is most likely called
- A. a rival good.
 - B. a rival, nonexcludable good.
 - C. a nonrival, common good.
 - D. a nonrival, excludable good.
 - E. a common good
- 42) Under linear supply and demand, when the size of a tax is doubled, the deadweight loss from the tax
- A. increases by the size of the tax.
 - B. doubles.
 - C. remains constant.
 - D. increases by a factor of four.
- 43) Flu shots are associated with a positive externality. (Those who come in contact with people who are inoculated are helped as well.) Given perfect competition with no government intervention in the vaccination market, which of the following holds?
- A. At the current output level, the marginal social benefit exceeds the marginal private benefit.
 - B. The current output level is inefficiently low.
 - C. A per-shot subsidy could turn an inefficient situation into an efficient one.
 - D. All of the above hold.
- 44) A firm is productively efficient when
- A. it is operating at the lowest point on its average cost curve.
 - B. an increase in production will decrease average costs.
 - C. output per worker cannot increase.
- 45) Which one of the following is the most likely reason for government intervention in a market to correct a misallocation of resources?
- A. Immobility of factors of production
 - B. A low price elasticity of supply of a good

C. An excess market demand for a good

46) In a given year, Jennifer earns \$50,000 and spends \$40,000. During the same period, Steve earns \$30,000 and spends \$27,000. If Jennifer and Steve both must pay a 10 percent sales tax on goods purchased, the sales tax is:

- A. a higher percentage of income for Jennifer than for Steve
- B. a higher percentage of spending for Steve than for Jennifer
- C. progressive with respect to income
- D. regressive with respect to income

47) The market for gadget is shown on the following diagram, There is a \$700 price ceiling on the market, what is the value of consumer surplus, producer surplus and deadweight loss? (Credit to Zhongyi Yin from Chongqing Yucai Secondary School)



	Consumer surplus	Producer surplus	Deadweight loss
A	100,000	125,000	0
B	30,000	110,000	40,000
C	110,000	30,000	40,000
D	45,000	50,000	40,000
E	125,000	100,000	0

48) The free-rider problem

- A. forces supply of a public good to exceed demand.
- B. allows more people to pay for the public good than if it were a private good.
- C. encourages overuse of a good that is freely available.
- D. holds the equilibrium quantity of a public good below the economically efficient level.

49) When a tax is imposed on a good we know that the losses to buyers and sellers

- A. are equal to the revenue raised by the government.
- B. are less than the revenue raised by the government.

- C. exceed the revenue raised by the government.
- D. cannot be compared to the tax revenue raised by the government since the amount of the tax will vary from good to good.

50) Complete market failure exists when

- A. the free market fails to provide sufficient merit goods.
- B. there are negative externalities in production.
- C. there is a missing market in the provision of public goods.

6-Firm Behavior and the Organization of industry

51) Using the data provided in the table, answer the following question about the restaurant industry: jobs are fiercely competitive, and people who want to work are competitive price-takers. In this scenario, the price of a meal is \$10 and labor is the only cost. What is the marginal revenue product of the fifth unit of labor?

Number of Employees (per day)	Total Meals (# sold per day)
1	10
2	22
3	36
4	56
5	66
6	70
7	71

- A. 0
- B. 7.25
- C. 72.5
- D. 100
- E. 536.5

52) Using the data provided in the table, answer the following question about the restaurant industry: jobs are fiercely competitive, and people who want to work are competitive price-takers. In this scenario, the price of a meal is \$10 and labor is the only cost. How many full-time workers the firm will hire if it maximizes profits and if the wage for its workers is \$58 per day?

Number of Employees (per day)	Total Meals (# sold per day)
1	10
2	22
3	36
4	56
5	66
6	70
7	71

- A. 3 employees
- B. 4 employees
- C. 5 employees
- D. 6 employees
- E. 7 employees

53) Suppose you open a mud pie store and employ workers who produce according to the table. If you pay \$9 per day to each worker and you can sell each pie for \$1, how many pies should you produce and sell?

Workers and Mud Pie Output	
Number of workers	Output (# of mud pies)
1	10
2	25
3	35
4	43
5	48

- A. 10
- B. 25
- C. 35
- D. 43
- E. 48

54) If Franco's Pizza Parlor knows that the marginal cost of the 500th pizza is \$3.00 and that the average total cost of making 499 pizzas is \$3.30, then

- A. average costs are rising at $Q=500$.
- B. average costs are falling at $Q=500$.
- C. total costs are falling at $Q=500$.
- D. average variable costs must be falling.

55) Assume the market is currently at equilibrium. Joe sells 200 cups of coffee each day in a perfectly competitive market at the market price of \$1.00 per cup. If Joe independently decreased its price per

cup to \$0.75

- A. its sales would rise to 250 cups.
- B. its revenues would decrease.
- C. its revenues would remain constant at \$200.
- D. the market price would fall to \$0.75 as other sellers match Java Joe's price.

56) If all firms have the same costs of production, then in long-run equilibrium,

- A. price exceeds all firms' average cost.
- B. price exceeds all firms' marginal cost.
- C. some firms have positive economic profits.
- D. all firms have zero profits and just cover their opportunity costs.

57) Sarah has been working for a law firm and earning an annual salary of \$90,000. She decides to open her own practice. Her annual expenses will include \$15,000 for office rent, \$3,000 for equipment rental, \$1,200 for utilities, and a \$35,000 salary for a secretary/bookkeeper. Sarah will cover her start-up expenses by cashing in a \$20,000 certificate of deposit on which she was earning annual interest of \$1,000. Assuming that there are no additional expenses, Sarah's annual implicit costs will equal

- A. 55200
- B. 221400
- C. 91000
- D. 146200

58) A dentist shared an office building with a radio station. The electrical current from the dentist's drill causes static in the radio broadcast, causing the radio station to lose \$10,000 in discounted future profits. The radio station could put up a shield at a cost of \$30,000; the dentist could buy a new drill that causes less interference for \$6,000. Either would restore the radio station's lost profits. What is the economically efficient outcome?

- A. The radio station puts up a shield, which it pays for.
- B. The radio station puts up a shield, which the dentist pays for.
- C. The radio station does not put up a shield and the dentist does not buy a new drill.
- D. The dentist gets a new drill and it does not matter who pays for it.

59) In a perfectly competitive increasing-cost industry, when existing firms are earning economic profits, what will happen to the existing firms' production cost curves in this industry in the long run?

- A. Remain unchanged
- B. Shift leftward
- C. Shift downward
- D. Shift upward
- E. Indeterminate

60) Market demand is given as $Q^d=60-P$. Market supply is given as $Q^s=3P$. Each identical firm has $MC=3Q$

and $ATC=1.5Q$. What quantity of output will a typical firm produce?

- A. 5
- B. 15
- C. 30
- D. 45
- E. 50

61) Miller Technologies has average variable costs of \$6 and average total costs of \$10 when it produces 1,000 units of output. The firm's total fixed costs equal

- A. 2000
- B. 3000
- C. 4000
- D. 5000

62) When market conditions in a competitive industry are such that firms cannot cover their production costs, then

- A. the firms will suffer long-run economic losses.
- B. the firms will suffer short-run economic losses that will be exactly offset by long run economic profits.
- C. some firms will go out of business, causing prices to rise until the remaining firms can cover their production costs.
- D. all firms will go out of business, since consumers will not pay prices that enable firms to cover their production costs.

7-Market Structure

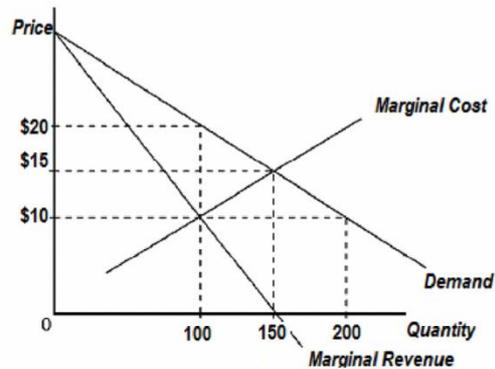
63) Monopolistic competition is considered inefficient because

- A. output exceeds capacity output.
- B. long run profits are positive.
- C. price exceeds marginal cost.

64) A perfectly competitive market has 100 firms, each of which has constant $MC = 10$. The demand function is given by $Q = 100 - P$. How much will the market price increase if all firms create a cartel and maximize joint profit?

- A. By 15
- B. By 35
- C. By 45
- D. By 50

65) Refer to the graph. To maximize profit, a monopolist would choose which of the following price and output level?



- A. \$20 per unit, 100 units
 - B. \$20 per unit, 150 units
 - C. \$15 per unit, 100 units
 - D. \$15 per unit, 150 units
 - E. \$10 per unit, 200 units
- 66) About a monopolist's marginal revenue, which of the following statements is correct?
- A. Its marginal revenue is total revenue divided by quantity sold.
 - B. Its marginal revenue can never be negative.
 - C. Its marginal revenue is profit minus total cost.
 - D. Its marginal revenue may decrease when a firm lowers its price to attract additional customers.
 - E. Its marginal revenue is the change in total profit brought about by selling an additional unit of a good.
- 67) The traditional view of monopolistic competition holds that this type of industrial structure is productively inefficient because
- A. there are too few firms to reach an efficient level of production.
 - B. firms do not operate at the output that minimizes average costs.
 - C. advertising is not used extensively enough to yield an efficient differentiation of the products.
 - D. consumers do not have enough choices among the product varieties available.
- 68) Brian and Matt own the only two bicycle repair shops in town. Each must choose between a low price for repair work and a high price. The yearly economic profits from each strategy are indicated in the table. The upper right side of each rectangle shows Brian's profits; the lower left side shows Matt's profits. Which of the following statements is correct?

BRIAN'S ACTIONS

		BRIAN'S ACTIONS	
		<i>low price</i>	<i>high price</i>
MATT'S ACTIONS	<i>low price</i>	\$1500 \$1500	\$200 \$5000
	<i>high price</i>	\$3000 \$200	\$4000 \$4000

- A. Matt' s dominant strategy is to charge a low price.
 - B. Brian' s dominant strategy is to charge a high price.
 - C. The dominant strategy for both Brian and Matt is to charge a low price.
 - D. Matt' s dominant strategy is to charge a high price.
- 69) If existing firms in the fast-food market, which is a monopolistically competitive market, realize sizable economic profits in the short run, the demand of existing firms will
- A. decrease and become more elastic.
 - B. decrease and become less elastic.
 - C. increase and become more elastic.
 - D. increase and become less elastic.
- 70) Suppose potatoes were produced in Canada by many, many firms in perfect competition. In Belgium, only one firm produces potatoes for the Belgium market. Suppose further that for the competitive firms and the monopoly minimum ATC is the same. We would expect that in Belgium the price of potatoes is _____ and _____ potatoes are produced and sold than in Canada.
- A. higher; more
 - B. lower; more
 - C. higher; fewer
 - D. lower; fewer
- 71) The application of game theory to economics allows us to understand firm behavior in some forms of oligopoly. Game theory suggests that in a two-firm industry, each firm will
- A. avoid pricing high when the other prices low.
 - B. select high prices and defend that selection because, in the long run, their profits are higher than if they competed by lowering prices.
 - C. end up mistaking the other' s intentions, which results in low prices and low profit for both in the long run.
 - D. end up colluding with the other to form a cartel.
- 72) If a monopolist has zero marginal costs
- A. it will produce the output at which total revenue is maximized.
 - B. it will produce in the range in which marginal revenue is still increasing.
 - C. it will produce at the point at which marginal revenue is at a maximum.

D. it will produce in the range in which marginal revenue is negative.

73) An equilibrium occurs in a game when

- A. price equals marginal cost.
- B. quantity supplied equals quantity demanded.
- C. all independent strategies counterbalance all dominant strategies.
- D. all players follow a strategy that they have no incentive to change.

74) Consider the following demand and cost information for a monopoly. The marginal cost of the fourth unit is _____. The maximum profit this monopolist can earn is _____. To maximize profit, the monopolist sets price at _____.

Quantity	Price	Total Cost
0	\$40	\$10
1	\$30	\$20
2	\$20	\$25
3	\$10	\$40
4	\$0	\$60

- A. \$10; \$20; \$30
- B. \$40; \$15; \$10
- C. \$20; \$15; \$20
- D. \$30; \$10; \$10

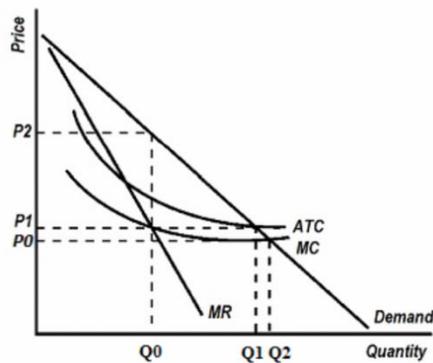
75) “Monopolists do not worry about efficient production and cost saving since they can just pass along any increase in costs to their consumers.” The statement is

- A. false; price increases will mean fewer sales, and lower costs will mean higher profits (or smaller losses).
- B. true; this is the primary reason why economists believe that monopolies result in economic inefficiency.
- C. false; the monopolist is a price taker.
- D. true; consumers in a monopoly market have no substitutes to turn to when the monopolist raises prices.

76) A monopoly firm’s demand function is $Q=20-P$. The marginal cost is 10. Considering different pricing strategies, which of the following statements is true?

- A. Different pricing strategies will lead to the same profit.
- B. Linear pricing’s profit is twice as much as perfect price discrimination’s.
- C. Linear pricing’s profit is the half of perfect price discrimination’s.
- D. Perfect price discrimination will earn more consumer surplus than any other pricing strategies.

77) Using the graph, determine the market price and quantity for a profit-maximizing firm facing the revenues and costs shown.



- A. P0, Q2
- B. P1, Q2
- C. P1, Q1
- D. P1, Q0
- E. P2, Q0

78) Which of the following statements about firms of smartphone operating system in the US is correct?

- A. There is no competition between Apple iOS and Google Android.
- B. The prices of the products or services sold in Apple iOS and Google Android are the same.
- C. Apple iOS is guaranteed to earn profits because it is the most influential seller in the market.
- D. Apple iOS and Google Android affect each other's sales strategy.
- E. Apple iOS and Google Android are the only two companies of smartphone operating systems in the market.

79) When a single-price monopoly reaches profit-maximizing quantity, what can you tell about the price elasticity of demand under this quantity?

- A. It is unit-elastic.
- B. It is in the inelastic region of demand curve.
- C. It is in the elastic region of demand curve.
- D. It is perfectly inelastic.
- E. It is perfectly elastic.

80) Consider a monopoly's decision on how many workers to hire. Assume that the monopoly faces a linear demand curve for its product: $P=40-Q$, where P is the price of the good and Q is the output. Letting L be the number of workers it hires, the monopoly's production function is also linear: $Q=3L$. The wage rate is constant at \$30. Given this information, how many workers will this profit-maximizing monopoly hire?

- A. 5
- B. 10
- C. 15

- D. 20
- E. 25

81) A monopolist's profits with price discrimination

- A. will be the same as if the firm charged a single, profit-maximizing price.
- B. will be lower than if the firm charged a single, profit-maximizing price.
- C. will be higher than if the firm charged just one price because the firm will capture more consumer surplus.

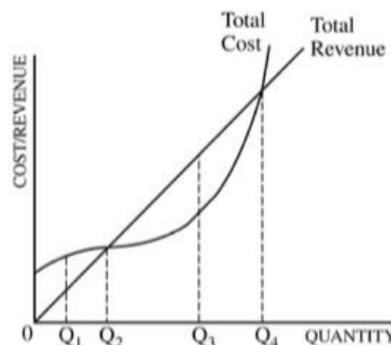
82) In a competitive market, the price of a product is \$5.00. If the government passes a law that sets a minimum price of the product at \$6.00, this change will most likely result in

- A. a surplus of the product.
- B. a shortage of the product.
- C. a decrease in the supply of the product.
- D. an increase in the demand for the product.

83) In a perfectly competitive market,

- A. advertising is widely used to influence demand and price.
- B. firms are price takers rather than price makers.
- C. firms produce a small number of differentiated products.
- D. a small number of firms produce an identical product.

84) The graph below is the total revenue and total cost of a firm. Which type of market structure is it and what is the profit-maximizing quantity?



- A. perfect competition, Q3
- B. perfect competition, Q1
- C. Monopoly, Q3
- D. Monopoly, Q1
- E. Monopolistic competition, Q3

8-Economics of Labor Market

- 85) If a firm is a price taker in the labor market, then the value of the marginal product of labor equals
- labor' s marginal product.
 - labor' s marginal product multiplied by the price of the final product.
 - labor' s marginal product times the wage rate.
 - labor' s marginal product divided by the wage rate.
- 86) The demand for labor by a particular firm is ultimately derived from
- the productivity of labor.
 - the productivity of the firm' s other inputs.
 - demand for the firm' s output.
 - the market supply of labor.
- 87) Suppose the X' s industry sells X in a perfectly competitive market and hires worker from a perfectly competitive labor market. The firm is currently producing at the profit-maximizing output level. If the marginal cost is \$0.5 and the firm pays wage rate of \$16 per hour. The marginal physical product of labor are ___ units per hour.
- 0.5
 - 8
 - 16
 - 32
 - 64
- 88) A firm hires workers and rents robots in perfectly competitive resource markets. The wage for all workers is \$10 and the marginal product of the last worker hired is 40. The marginal product of the last robot that the firm utilizes is equal to 80. The firm is currently minimizing its costs. In this case, what is the price of each robot?
- \$120
 - \$60
 - \$40
 - \$20
 - \$10
- 89) A perfectly competitive labor market, firms are wage takers and the marginal cost of labor equals
- the marginal product of labor.
 - the total cost of labor.
 - the average cost of labor.

9-Theory of Consumer Choice

- 90) Often occurring in insurance markets, the existence of asymmetric information leads to which type of market failure?
- A. Negative externalities
 - B. Public goods
 - C. Positive externalities
 - D. Compulsory insurance
 - E. Adverse selection
- 91) Individuals voluntarily pay a higher price for a diamond than for a bottle of water. Explain why by using the economic way of thinking:
- A. the marginal utility of buying an extra diamond exceeds the marginal utility of an extra bottle of water.
 - B. there is a natural monopoly in the diamond industry but not in the water industry.
 - C. the total revenue generated by the diamond industry is significantly greater than the water industry.
 - D. the water industry is perfectly competitive, and the diamond industry is managed by a cartel.
 - E. water prices are held artificially low by a price ceiling, governments across countries deem water necessary for life.
- 92) A stay-at-home parent is offered a job at a local business. The position generates \$30,000 in annual income plus benefits. The parent decides to continue to stay at home and will continue to do so until:
- A. the marginal benefit of staying home increases significantly.
 - B. the marginal cost of staying home decreases significantly.
 - C. the marginal benefit of the outside job decreases significantly.
 - D. the marginal cost of staying home increases significantly.
 - E. another position comes along and offers \$25,000 but no benefits.
- 93) The price of an airline ticket from Marquette, MI to Washington, D.C. costs \$600. A bus ticket costs \$160. Traveling by plane takes 6 hours compared with 50 hours by bus. Other things constant, an individual would gain by choosing air travel if and only if, his time were valued at more than:
- A. \$3 per hour.
 - B. \$10 per hour.
 - C. \$12 per hour.
 - D. \$15 per hour.
 - E. \$100 per hour.
- 94) An individual consumer shifts to a new equilibrium position as a result of some changes in either prices or her income. She finds that, in her new equilibrium situation, marginal utilities are all lower than they

were in the old situation. This most likely means that

- A. she is worse off in her new situation.
- B. she is better off in her new situation.
- C. she is worse off than in the old situation if her income has changed, but not otherwise.
- D. she is better off than in the old situation if prices have changed, but not otherwise.

95) Assume a consumer's utility function is as follows (assume x_1 represents the units of consumption for good 1 and x_2 represents the units of consumption for good 2). The price for good 1 and good 2 is 2 and 5 respectively. The consumer's current consumption is 4 units of good 1 and 3 units of good 2, which of the following statements is true?

$$U(x_1, x_2) = x_1^{0.5}x_2^{0.5}$$

- A. If the consumer aims to maximize his/her utility, he/she will consume more good 1 and less good 2.
- B. If the consumer aims to maximize his/her utility, he/she will consume less good 1 and more good 2.
- C. At the current consumption bundle, the consumer's utility is maximized.
- D. If the consumer buys more, the utility will decrease.

96) Consider the following data on a consumer's preferences for pizza and soda. If pizza costs \$5 per slice and soda costs \$4 per glass and the consumer has \$25 to spend, how many slices of pizza and glasses of soda will she buy?

Pizza		Soda	
Slices of Pizza	Marginal utility	Glasses of soda	Marginal utility
1	20	1	15
2	15	2	10
3	10	3	5
4	4	4	2
5	1	5	1

- A. 5 slices of pizza and 5 glasses of soda
- B. 4 slices of pizza and 4 glasses of soda
- C. 3 slices of pizza and 3 glasses of soda
- D. 3 slices of pizza and 2 glasses of soda
- E. 2 slices of pizza and 3 glasses of soda

Macroeconomics

1-Basic Concepts

- 1) Which of the following statements about the outcome of an economic interaction is correct?
- If the allocation is Pareto-efficient, then you cannot make anyone better off without making someone else worse off.
 - All participants are happy with what they get if the allocation is Pareto efficient.
 - There cannot be more than one Pareto-efficient outcome.
 - Pareto-efficient outcome is always fair.

2-GDP and Economic Growth

- 2) A closed economy has a government sector that simply taxes income (T) and spends on goods and services (G) with no transfer payments. GDP is \$1,000, investment (I) is \$300 and government spending (G) is \$100. If the government is running a budget deficit of \$100, what is the value of private (household) saving?
- 0
 - 100
 - 200
 - 300
 - 400
- 3) Which of the following is not included in GDP for the US?
- The value of a Honda made in the US.
 - The value of a Honda made in Japan.
 - The value of the insurance policy covering a Honda.
 - The value of the parts used to repair a Honda.
 - The value of the commission on the sale of a Honda.
- 4) If government spending increases by \$1 million, GDP will increase by:
- \$0.5 million
 - \$0.75 million
 - between \$0.5 and \$1 million
 - \$1 million
 - more than \$1 million
- 5) If private investment increased by \$50 billion while GDP remained the same, which of the following could have occurred, all else being the same?
- consumption spending decreased by \$50 billion.
 - exports increased by \$50 billion.

- C. imports decreased by \$50 billion.
- D. net exports increased by \$50 billion.

6) Consider the following table which contains real and nominal GDP values (in billions of units of the local currency) for a nation for the years 2019 and 2020.

Year	Real GDP	Nominal GDP
2019	200	220
2020	205	240

What was the approximate inflation rate between 2019 and 2020?

- A. 6 percent.
- B. 7 percent.
- C. 8 percent.
- D. 10 percent.
- E. 17 percent.

3-Cost of Living

- 7) All other things being equal, an economy is most likely to experience demand-pull inflationary pressure when it has
- A. a high rate of productivity growth.
 - B. a positive output gap.
 - C. an increase in the rate of interest.
- 8) Which price measure is considered a leading indicator of changes in the inflation rate?
- A. Consumer price index
 - B. GDP deflator
 - C. Implicit price deflator
 - D. Producer price index
 - E. Unemployment index
- 9) Substitution bias
- A. is one factor that causes the CPI to underestimate the inflation rate.
 - B. is caused by the poor quality of many imported products.
 - C. is one of the primary causes of inflation.
 - D. involves consumer behavior that helps explain why the CPI overestimates the inflation rate.
- 10) If there is a period of unexpected inflation, which of the following would be harmed?
- A. Savers
 - B. Borrowers
 - C. Owners of real estate

- D. Owners of gold
- E. Workers with cost of living adjustment clauses

4-Income Inequality and Unemployment

- 11) According to economists, which of these statements identifies an important difference between cyclical and structural unemployment?
- A. Structural unemployment is more responsive to fiscal policy than cyclical unemployment.
 - B. Historically, cyclical unemployment tends to last longer than structural unemployment.
 - C. Cyclical unemployment is more responsive to monetary policy than structural unemployment.
 - D. Cyclical unemployment is more difficult for those unemployed than structural unemployment.
 - E. States handle the policy for cyclical unemployment and the national government handles the policy for structural unemployment.
- 12) Maria earns \$12 per hour in her current job and works 35 hours a week. Her disutility of effort is equivalent to a cost of \$2 per hour of work. If she loses her job, she will receive unemployment benefit equivalent to \$6 per hour. Additionally, being unemployed has psychological and social costs equivalent to \$1 per hour. Then:
- A. The employment rent per hour is \$3.
 - B. Maria's reservation wage is \$6 per hour.
 - C. If she is offered a job with the wage \$11 and disutility of \$0,5, she will refuse.
 - D. If she is offered a job with the wage \$14 and disutility of \$3, she will take it.
- 13) Which of the following four statements is correct?
- A. Lump-sum taxes equal for all citizens decrease inequality.
 - B. Providing high-quality education to citizens is a way of raising the endowments of less well-off people.
 - C. An increase in the minimum wage increases unemployment, leading to higher inequality unambiguously.
 - D. Non-complete contracts mean that workers can demand higher wages, leading to reduced inequality.
- 14) Which of these measures will by itself decrease the Gini coefficient of income distribution?
- A. Flat rate income tax
 - B. Regressive income tax
 - C. Progressive income tax
 - D. Income tax at the rate of 80% for the richer half of the population and income tax at the rate of 20% for the poorer half.
- 15) The Bureau of Labor Statistics reports employment by sector. From largest to smallest, which is the correct ordering of sectors by number of employed?

- A. 1 = goods, excluding agriculture; 2 = services; 3 = agriculture
- B. 1 = goods, excluding agriculture; 2 = agriculture; 3 = services
- C. 1 = services; 2 = goods, excluding agriculture; 3 = agriculture
- D. 1 = services; 2 = agriculture; 3 = goods, excluding agriculture
- E. 1 = agriculture; 2 = goods, excluding agriculture; 3 = services

16) Which would likely reduce the natural rate of unemployment?

- I. An increase in government spending on infrastructure creates jobs in construction
 - II. A reduction in the price level stimulates demand for the products the economy produces
 - III. A new technology is introduced that quickly matches people unemployed with jobs in their fields
- A. I only
 - B. II only
 - C. III only
 - D. I and II only
 - E. I, II and III

17) Consider these fictitious figures for the U.S. labor force. Suppose that in February 760,000 working-age adults were employed, 40,000 were not working but seeking work, and 5,000 were classified as discouraged workers. In March, the only change to these values was that 5,000 who were seeking work in February gave up looking for work in March. These values would suggest that the unemployment rate in February was ___ and in the unemployment rate in March was ___.

- A. 5 percent; 4.4 percent
- B. 5 percent; 5 percent
- C. 5.6 percent; 5.6 percent
- D. 5.6 percent; 5 percent
- E. 5.6 percent; 6.3 percent

18) When an economy is operating at full employment domestically, the production possibilities curve for an economy is useful for illustrating:

- A. the infant industry argument.
- B. income inequality.
- C. the deflationary effects of monetary policy.
- D. the tradeoff between inflation and unemployment.
- E. gains from international trade.

19) One explanation that economists offer to explain why a decline in the unemployment rate can raise the rate of inflation is that

- A. firms will be put in a position of competing more intensely for scarce resources.

- B. people will pay higher prices because competition among the suppliers—the firms—intensifies.
- C. workers will focus more directly on protecting their jobs.
- D. firms will refuse to shift higher labor costs along to consumers for fear of losing their markets.

20) According to the theory of rational expectations,

- A. workers' experience tells them that government action to lower unemployment will not affect inflation.
- B. consumers and investors generally behave so that rationally formed government attempts to stimulate aggregate demand and have their desired effects.
- C. policy goals can be achieved more easily in the short run than in the long run.
- D. workers' wage demands include anticipated inflation.

21) If we divide U.S. households into fifths based on their income group (lowest 20%, then the next 20%, etc. by income size), which of the following economic measures will be the least equally distributed among the five groups?

- A. Total net wealth
- B. After-tax income
- C. Total consumption
- D. Food expenditures
- E. All of these are distributed about the same

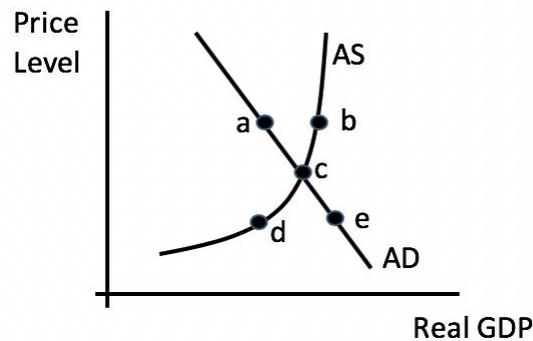
22) Which of the following statement is/are correct?

- a. Low labor force participation rate is worse than high unemployment rate.
- b. High unemployment rate is worse than low labor force participation rate.
- c. Discouraged workers are counted as unemployment
- d. Natural rate of unemployment = cyclical unemployment + frictional unemployment + structural unemployment
- e. Productivity in an economy increases, wage rate will decrease.

- A. a, d, e
- B. b, d
- C. b, d, e
- D. a, b, c, d, e
- E. a

5-Aggregate Demand and Aggregate Supply

- 23) Refer to the following graph. Consider the above aggregate supply and aggregate demand situation. The economy is currently at point “c”. Say that now businesses expect wages to increase. After the appropriate curve shift, which point is the economy expected to move toward in the short run?



- A. a
 - B. b
 - C. c
 - D. d
 - E. e
- 24) Cost-push inflation is associated with ___ and ___.
- A. a decrease in aggregate supply; existed in the United States in the 1970s.
 - B. a decrease in aggregate supply; is associated with the most recent recession.
 - C. an increase in aggregate demand; existed in the United States in the 1970s.
 - D. an increase in aggregate demand; is associated with the most recent recession.
 - E. a decrease in aggregate demand; is the primary cause of the Great Depression.
- 25) In the long run, the aggregate supply curve is
- A. horizontal.
 - B. upward sloping.
 - C. downward sloping.
 - D. vertical.
- 26) Beginning in long-run equilibrium, short-run aggregate supply and short-run aggregate demand both increase, but at the same time long-run aggregate supply increases more. Without government intervention, which of the following is the automatic adjustment in this new situation that would move the economy to a new long-run equilibrium?
- A. Long-run aggregate supply will decrease
 - B. Short-run aggregate demand will increase
 - C. Short-run aggregate demand will decrease
 - D. Short-run aggregate supply will increase
 - E. Short-run aggregate supply will decrease

- 27) If the unemployment rate of the economy is below the natural rate of unemployment, without any fiscal and monetary policy, which of the following is true?
- A. The aggregate demand curve shifts to the right
 - B. The aggregate demand curve shifts to the left
 - C. The short-run aggregate supply curve shifts to the right
 - D. The short-run aggregate supply curve shifts to the left
 - E. There is no change in the aggregate demand and aggregate supply curve.

6-Business Cycle and Phillips Curve

- 28) A change in which of the following is most associated with a movement along a downward-sloping Phillips Curve, holding all else constant?
- A. stock prices
 - B. aggregate demand
 - C. long-run aggregate supply
 - D. short-run aggregate supply
 - E. the natural rate of unemployment
- 29) Which entity determines the generally accepted recession dates for the United States?
- A. The Bureau of Labor Statistics
 - B. The Bureau of Economic Analysis
 - C. The National Bureau of Economic Research
 - D. The Office of Management and Budget
 - E. The Bureau of Business Cycle Analysis
- 30) Which one of the following is most likely to be deflationary?
- A. A reduction in interest rates
 - B. A reduction in income tax
 - C. A reduction in bank lending
- 31) If the country of Econia experiences capital deepening,
- A. the productivity of labor will increase.
 - B. the productivity of capital will increase.
 - C. the aggregate supply will shift left.
 - D. the economy uses additional labor on the same production possibilities curve
 - E. economic growth will slow down.
- 32) If people expect less inflation in the future, then
- A. the long-run Phillips curve will become steeper.
 - B. the long-run Phillips curve will become flatter.

- C. the short-run Phillips curve will become steeper.
- D. the short-run Phillips curve will shift down and to the left.

- 33) We would be most likely to experience a shift from one Phillips curve to another if the government attempts to
- A. reduce the unemployment rate and workers, fearing inflation, react by bargaining for higher wages.
 - B. reduce the unemployment rate and consumers, fearing higher taxes, cut their spending.
 - C. reduce the unemployment rate and firms hire more employees without having to raise wage rates.
 - D. reduce the unemployment rate and the inflation rate simultaneously.
- 34) Which of the following will cause stagflation?
- A. An increase in the money supply.
 - B. An increase in oil prices.
 - C. A decrease in the money supply.
 - D. Technical progress.
- 35) The Phillips curve traces a set of combinations of rates of
- A. interest and unemployment.
 - B. real GDP and inflation.
 - C. real GDP and interest.
 - D. unemployment and inflation.
- 36) If we designate the bottom of the business cycle as phase one, the four phases of the business cycle, in order, are:
- A. recovery, peak, recession, recession.
 - B. recovery, recession, peak, recession.
 - C. peak, upturn, recession, recession.
 - D. trough, recession, peak, recovery.
 - E. trough, recovery, peak, recession.
- 37) An asset price bubble
- A. can be identified early in the process.
 - B. usually ends with a sharp rise in the asset prices.
 - C. is fed by buyers' expectations of further increases in prices.
 - D. reflects sharp increases in the fundamental value of an asset.
 - E. ends in a sharp decline in the number of sellers of the asset.
- 7-Monetary Market**
- 38) All other things being equal, a large rise in interest rates is most likely to lead to an increase in
- A. investment.
 - B. economic growth.

C. unemployment.

39) Which of the following statements is correct?

- A. When interest rates go down, asset prices go up.
- B. The zero lower bound refers to the central bank's inability to set the real interest rate to below zero.
- C. Quantitative easing involves the central bank lowering its official interest rate
- D. Interest rates cannot be set in a currency union.

40) GDP of the country X grows by 1% per year every year. GDP of the country Y grows by 2% per year every year. If in the year 2019 countries have equal GDP, by what year will their GDP differ by two times? (Choose the nearest estimate).

- A. 2050
- B. 2090
- C. 2150
- D. 2180

41) Which of the following instruments is typically the riskiest one?

- A. U.S. Treasury bills
- B. Common stocks of a company from S&P 500
- C. Deposit in a commercial bank
- D. Shares of a startup in Silicon Valley

42) You are going to buy a laptop for 1,000 USD. You can either withdraw this money from your bank account (it pays 10% interest yearly) or do it using one of the following credit schemes. Pick the scheme in which you will spend the most amount of money overall.

- A. Paying directly from your bank account.
- B. Credit at 0.1% compound interest per day, the only payment is at the end of the year.
- C. Credit at 12% interest rate per year, the only payment is at the end of the year.
- D. Credit at 0.5% compound interest per month, the only payment is at the end of the ye

43) Which of the following is NOT true of the Federal Reserve District Banks:

- A. There are 12 of them, one per district.
- B. They hold reserves and records of reserves for member commercial banks.
- C. They make loans to the nation's largest corporations.
- D. The loans they make earn an interest rate called the "discount" rate.
- E. They are named after the city in which they are located.

44) Using the simple expenditure multiplier, how much will GDP increase if investment increases by \$150 if the marginal propensity to save is 0.2?

- A. 30
- B. 150
- C. 188
- D. 500
- E. 750

- 45) Suppose Congress passes an investment tax credit that encourages firms to increase their investment activity. Holding all else constant, this would increase the ___ loanable funds, which in turn will ___ interest rates and ___ private saving.
- A. demand for; decrease; eliminate
 - B. demand for; decrease; decrease
 - C. demand for; increase; increase
 - D. supply of; decrease; decrease
 - E. supply of; increase; increase
- 46) Suppose a commercial bank has checkable deposits of \$100,000 and the legal reserve ratio is 10 percent. If the bank's required and excess reserves are equal, then its actual reserves must be
- A. 0
 - B. 100000
 - C. 30000
 - D. 10000
 - E. 20000
- 47) Those who believe in the school of thought known as "monetarism" believe that the money supply should
- A. remain constant.
 - B. grow at a fixed rate related to the rate of growth of GDP.
 - C. be conducted at the discretion of central bankers rather than by rules.
 - D. be adjusted to maintain as close to zero inflation as possible.
 - E. be maintained by the elected Congress instead of appointed Federal Reserve officials.
- 48) Suppose the velocity of money is constant. According to the equation of exchange, what would be the effect of an increase in the money supply?
- I. an increase in the price level
 - II. an increase in nominal GDP
 - III. an increase in real GDP
- A. I only
 - B. II only
 - C. III only
 - D. I and II only
 - E. all three could result

- 49) Which of the following changes would most likely decrease the size of the money multiplier?
- A. A decrease in required reserves
 - B. A boost in consumer and business confidence
 - C. An increase in the rates paid on bank deposits held at the Fed
 - D. A steady decrease in default rates and a rise in early payments
 - E. An increase in federal deposit insurance
- 50) The money used by the United States is referred to as fiat money. This means that it is
- A. commodity money.
 - B. generally accepted because it can be exchanged for a metal such as gold or silver.
 - C. backed by gold at Fort Knox.
 - D. money because the government declares it is.
 - E. mostly checking accounts.
- 51) When the potential money multiplier is 7, a \$3,000 increase in demand deposits could support the creation of _____ additional new demand deposits
- A. 3000
 - B. 9000
 - C. 15000
 - D. 18000
- 52) Junk bonds are issues by firms with
- A. high degrees of financial security.
 - B. business ties to the trash hauling industry.
 - C. high degrees of financial insecurity.
 - D. the ability to offer lower interest rates to lenders.
- 53) Market clearing in the loanable funds market
- A. guarantees that total spending will be just sufficient to purchase whatever output is produced.
 - B. means that the interest rate never changes.
 - C. guarantees that total spending will equal the quantity of loanable funds demanded.
 - D. requires that the government run a budget deficit.
- 54) Suppose that you are to receive \$100 several years in the future. A higher interest rate means that the present value of the future amount will
- A. be higher.
 - B. be lower.
 - C. stay the same
 - D. not enough information to answer the question

- 55) As the interest rate increases without limit, the present value of \$200 to be paid to you in 10 years
- A. gets larger without limit.
 - B. stays unchanged.
 - C. approaches zero.
 - D. is negative.
- 56) Which of the following statements is false?
- A. If the interest rate is positive, the future value of a payment will always exceed the present value of an equivalent payment received in the future.
 - B. To increase current consumption beyond current income normally requires a payment of interest.
 - C. Ignoring risk, if money has time value, it is impossible for the present value of \$300 received in the future to be greater than its future value.
 - D. All of the above statements are true.
- 57) Bond markets allow firms to pursue
- A. equity financing.
 - B. debt financing.
 - C. limited growth policies.
 - D. government loans and subsidy programs.
- 58) Since classical economists believe that both velocity and real output are constants, the quantity equation becomes a theory in which
- A. the quantity of money explains prices.
 - B. the quantity of money explains real GDP.
 - C. changes in the money supply cause changes in velocity.
 - D. prices are fixed.
- 59) If a society chooses fiat money as its money form, it
- A. must guarantee its convertibility into gold.
 - B. must worry about its liquidity.
 - C. cannot make use of a banking system.
 - D. must worry about controlling its quantity.
- 60) An advantage of mutual funds is that they:
- A. have earnings that are listed in the tax code as exempt from federal income taxation
 - B. allow small investors to diversify.
 - C. are available exclusively to high net worth investors.
 - D. are generally acceptable as payment for goods and services
 - E. cannot sustain capital losses.
- 61) Barter exchange tend to be inefficient because

- A. gold is difficult to transport.
- B. it limits the time and effort required for trade.
- C. it can be a very time-consuming process to find a double coincidence of wants.
- D. a standardized unit of value can be difficult to find in a primitive economy.

62) If there is a recession, the Fed would most likely

- A. encourage banks to provide loans by lowering the discount rate.
- B. encourage banks to provide loans by raising the discount rate.
- C. restrict bank lending by lowering the discount rate.
- D. restrict bank lending by raising the discount rate.

63) If real output in an economy is 1000 goods per year, the money supply is \$300, and each dollar is spent 3 times per year, then the average price of goods is

- A. \$0.90.
- B. \$1.11.
- C. \$1.50.
- D. \$1.33.

64) When the interest rate falls,

- A. the opportunity cost of holding money rises.
- B. people shift out of holding interest-yielding assets and into holding more liquid forms of money.
- C. the quantity of money people will hold decreases.
- D. investment spending decreases.

65) If the money supply is decreased, interest rates will

- A. increase, lowering investment, and decreasing GDP.
- B. increase, lowering investment, and increasing GDP.
- C. increase, increasing investment, and increasing GDP.
- D. decrease, increasing investment, and increasing GDP.
- E. decrease, increasing investment, and decreasing GDP.

66) The discount rate is the interest rate:

- A. charged by one bank for lending money to another bank.
- B. on loans that are of short duration.
- C. the Federal Reserve charges for lending to member banks.
- D. that banks charge their best customers.
- E. charged by banks when they loan reserves to the Fed.

67) A firm's stock price will likely be higher when interest rates are ____ and the value of the firm's expected future profits are ____.

- A. unchanged; high
- B. low; high

- C. low; low
- D. high; high
- E. high; low

- 68) The classical equation of exchange says that a 3 percent increase in the money supply is most likely to lead to a 3 percent increase in:
- A. nominal GDP.
 - B. tax rate.
 - C. the interest rate.
 - D. the unemployment rate.
 - E. the demand for money.

- 69) Assume a National Bank is a commercial bank, and has the following balance sheet. The reserve requirement for National Bank is 10%. Suppose the Central Bank is conducting an Open Market Purchase, and buying \$50 value of bonds from the National Bank. What will be maximum additional loans the National Bank can now make? (Credit to Mingming Qian from Xiang Jiang International High School)

NATIONAL BANK

Assets		Liabilities	
Reserves	\$ 200	Deposits	\$ 800
Loans	\$ 700	Debt	\$ 150
Securities	\$ 100	Capital	\$ 50

- A. \$170
- B. \$130
- C. \$120
- D. \$100
- E. \$50

- 70) Bill has a decision to make about what he will do in the next 2 years. He can go to school or go straight into the work force. If he goes to school, he must pay \$10,000 now, but he would earn \$100,000 after 2 years. If the interest rate is 10%, what is the net present value for Bill if he goes to school?
- A. \$90,000
 - B. \$100,000
 - C. \$72,645
 - D. \$80,909
 - E. \$110,000

8-Macroeconomics Policies

- 71) Which one of the following is most likely to be regarded as a supply-side cause of higher economic growth?
- Lower tax rates on income
 - Cheaper consumer credit
 - Increased exports of goods and services
- 72) Which of the following statements is correct?
- Maintaining fiscal balance in a recession helps to stabilize the economy.
 - Automatic stabilizers refer to the fact that economic shocks are partly offset by households
 - The multiplier on a fiscal stimulus is higher when the economy is functioning at full capacity.
 - A fiscal stimulus can be implemented by raising spending to directly increase demand, or by cutting taxes to increase private sector demand.
- 73) Suppose that the U.S. Congress sets up a program to provide financial assistance to banks to prevent them from failing. This action will likely create a moral hazard problem because it may:
- restrict bank investments in real estate.
 - encourage bank officials to make riskier loans.
 - reduce the amount of deposits made by bank customers.
 - increase the screening by banks of deposits from bank customers.
- 74) The liquidity trap occurs when the demand for money
- is perfectly interest elastic
 - is perfectly interest inelastic
 - is zero
- 75) Suppose the money supply expands more rapidly than overall production and resources in the nation. The likely outcome is that
- aggregate demand will shift to the right and generate demand-pull inflation.
 - aggregate demand will shift to the left and generate demand-pull inflation.
 - aggregate demand will shift to the right and generate cost - push inflation.
 - aggregate demand will shift to the left and generate cost-push inflation.
 - aggregate supply will shift to the left and generate cost-push inflation.
- 76) Suppose aggregate demand falls and a recession ensues. The central bank develops a monetary policy to offset the recession. The central bank will increase aggregate demand by conducting
- open market sales to increase the money supply and increase interest rates.
 - open market sales to increase the money supply and reduce interest rates.
 - open market operations to reduce bank reserves.
 - open market operations to reduce taxes.

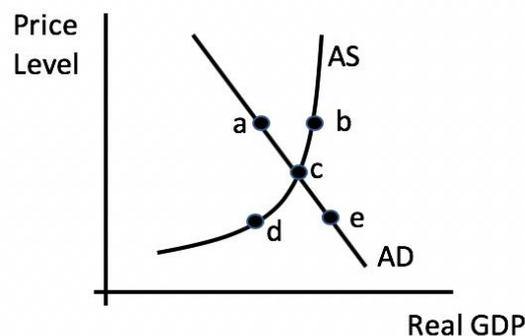
E. open market purchases to increase the money supply and reduce interest rates.

- 77) The country of Econia has a balanced government budget and low inflation but is slipping into a recession because of an international financial crisis. The use of traditional tools of fiscal and monetary policy would be that
- A. fiscal policy should increase government spending and cut taxes, and monetary policy should increase the money supply and increase interest rates.
 - B. fiscal policy should increase the money supply and government spending, and monetary policy should cut taxes and interest rates.
 - C. fiscal policy should increase government spending and taxes, and monetary policy should cut the money supply and interest rates.
 - D. do nothing yet except monitor the situation because it is always better to wait until the recession is well understood.
 - E. fiscal policy should increase government spending and cut taxes, and monetary policy should increase the money supply and cut interest rates.

- 78) A(n) _____ allows a firm to decrease its tax liability by a fraction of the investment it initiates during a particular period.
- A. tax on corporate profits
 - B. tax on retained earnings
 - C. investment tax credit
 - D. personal income tax

- 79) If government spending decreases by \$500 billion and if $MPC = 0.6$,
- A. equilibrium GDP will rise by \$1,250 billion.
 - B. equilibrium GDP will fall by \$500 billion.
 - C. equilibrium GDP will fall by \$1,250 billion.
 - D. nothing will happen in the short run, but real output will rise by \$500 billion in the long run.

80) Refer to the following graph. Consider the above aggregate supply and aggregate demand situation. The economy is currently at point "c". Say that now the Federal Reserve substantially increases its selling of securities on the open market. After the appropriate curve shift, which point is the economy expected to move toward in the short run?



- A. a
- B. b
- C. c
- D. d
- E. e

- 81) If taxes are reduced with no change in government spending, and people spend all the money from the tax cut on consumption
- A. the demand for loanable funds will increase and the interest rate will increase.
 - B. the demand for loanable funds will increase and the interest rate will decrease.
 - C. the supply of loanable funds will decrease and the interest rate will increase.
 - D. neither the demand nor the supply of loanable funds will change.
- 82) Suppose the federal government decreases tax rates dramatically in order to decrease the level of unemployment. We would expect to see
- A. aggregate demand shift to the left and a move up the Phillips curve.
 - B. aggregate demand shift to the left and a move down the Phillips curve.
 - C. aggregate demand shift to the right and a move up the Phillips curve.
 - D. aggregate demand shift to the right and a move down the Phillips curve.
- 83) Which of the following is not true for the crowding-out effect?
- A. Federal budget deficits increase interest rates, which reduces investment spending.
 - B. Crowding out reduces the ability of fiscal policy to combat a recession.
 - C. If the government spends more on education, ceteris paribus, households may be forced to spend less on new homes.
 - D. Crowding out occurs especially when the economy is in a deep recession and people are not spending all the available money.
- 84) If the federal government announces a tax cut, which of the following is most likely in the short run?
- A. A decrease in output, an increase in money demand, and an increase in the interest rate.
 - B. An increase in output, a decrease in money demand, and a decrease in the interest rate.
 - C. A decrease in output, a decrease in money demand, and a decrease in the interest rate.
 - D. An increase in output, an increase in money demand, and an increase in the interest rate.
- 85) Government spending on infrastructure
- A. increases aggregate demand but not aggregate supply.
 - B. increases productivity of private business firms and hence aggregate supply.
 - C. cannot affect aggregate demand because the money does not go to households.

D. shifts the long run aggregate supply curve to the left.

86) Unlike discretionary fiscal policy, automatic stabilizers consist of

- A. deliberate changes in government spending to counteract recession and inflation.
- B. deliberate changes in household taxes to counteract recession and inflation.
- C. deliberate changes in corporation income taxes to counteract recession and inflation.
- D. changes in government spending and tax revenues that occur automatically as the economy fluctuates.

87) The crowding-out effect occurs when increased government expenditures and the subsequent budget deficits cause

- A. the money supply to increase, which curtails loans to consumers.
- B. interest rates to increase, which reduces investment spending.
- C. inflation, which erodes the purchasing power of the dollar.
- D. the imports of goods and services to rise, and exports to decline.

88) When George W. Bush was elected, he promised sweeping decreases in income tax rates for households. His idea with this plan was that

- A. the tax cuts would lead to increased savings.
- B. the tax cuts would stimulate household spending, even though they might cause minimal increases in interest rates.
- C. the tax cuts would stimulate household spending and at the same time lower interest rates.
- D. the long-run aggregate supply curve would remain fixed while the aggregate demand curve and interest rates increased.

89) Loose monetary policy, low inflation, and easy bank credit are associated with:

- A. high rates of interest.
- B. asset bubbles.
- C. high rates of unemployment.
- D. reduced investment and stock market activity.
- E. housing slumps.

90) The Federal Reserve raised the target federal funds rate only once between 2009 and 2016 because:

- A. the economy's growth exceeded expectations.
- B. average wage rates grew more than expected.
- C. the inflation rate exceeded 2%.
- D. the unemployment rate remained too high.
- E. the economy's growth remained sluggish.

91) Which of the following actions by the Federal Reserve would decrease the money supply?

- A. Open market purchases of government securities
- B. Open market sales of government securities
- C. Decreases in the discount rate
- D. Lowering the reserve requirement
- E. Printing less money

92) The post-recession actions by the Federal Reserve to stimulate the economy were

- A. reductions in the prime rate.
- B. reductions in the reserve requirements.
- C. called quantitative easing
- D. fiscal stimulus.
- E. sale of government securities

93) The Federal Reserve took steps to lower the Federal Funds rate by one-half point. This means that the

- A. opportunity cost of current consumption has fallen.
- B. opportunity cost of future consumption has fallen.
- C. cost of borrowing has risen.
- D. households will save more money to make up for lost interest earnings.

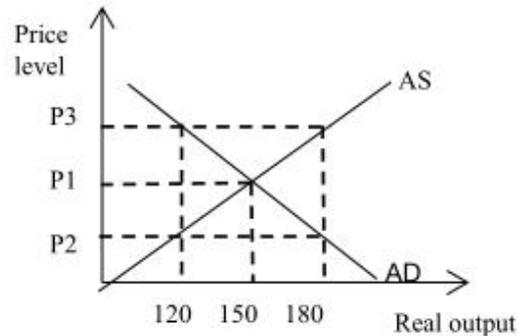
94) Which two policies would have opposite effects on short-run economic activity?

- A. An increase in income tax rates and an increase in the discount rate.
- B. A decrease in income tax rates and an increase government spending.
- C. An increase in government spending and a decrease in reserve requirements.
- D. A decrease in income tax rates and an increase in sales of government securities by the Fed.
- E. An increase in government spending and an increase in purchases of government securities by the Fed.

95) When US economy is in long-run equilibrium and the federal reserve decides to engage in open market purchase. In what ways are interest rates, investment expenditures change in response in short run? In what ways are output, price level, and short run Phillips Curve change in the long run?

	interest rate	investment	output	price level	SR Phillips curve
A	decrease	increase	unchange	increase	shift right
B	decrease	increase	unchange	increase	unchange
C	decrease	increase	increase	increase	unchange
D	increase	decrease	decrease	decrease	shift left
E	increase	decrease	increase	decrease	shift right

96) Given an MPS of 0.4, what should federal government do to move the economy to a real GDP of \$180 billion.



	government spending(billion)	tax(billion)
A	increase 12	decrease 20
B	increase 24	decrease 40
C	increase 60	decrease 60
D	increase 20	decrease 12
E	increase 12	decrease 12

97) When the central bank increases bank reserves through an open-market operation:

- A. The federal fund rate increases and the monetary base remains the same.
- B. The monetary base and the money multiplier increase.
- C. The federal fund rate and the discount rate decrease.
- D. The monetary base decreases and the money multiplier remains the same.
- E. The monetary base increases and the discount rate remains the same.

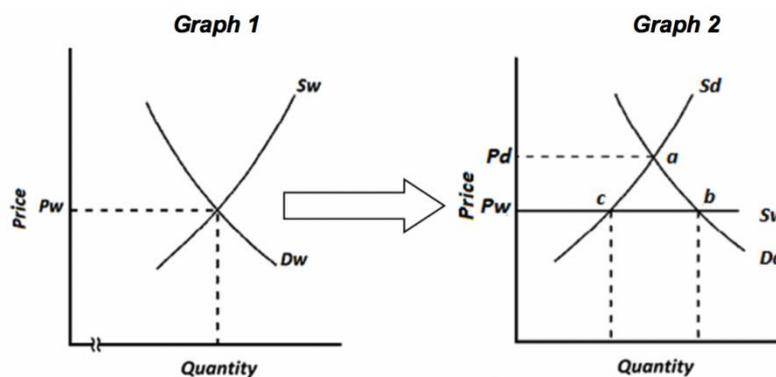
98) If the economy is operating above the full employment output level and the government also wants to have a balanced budget. The government should

- A. decrease \$100 million in government spending
- B. increase \$100 million in government spending
- C. decrease \$100 million in taxes
- D. increase \$100 million in government spending and increase \$100 million taxes
- E. decrease \$100 million in government spending and decrease \$100 million taxes

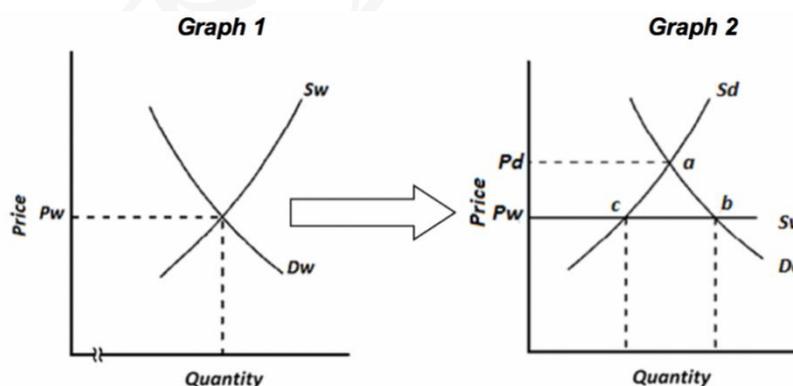
International Economics and Current Events

1-International Trade

- 1) Assume Graph 1 and Graph 2 illustrate the conditions for (1) worldwide market for microwaves and (2) North Korea's domestic demand for and supply of microwaves. What can you infer from a comparison of the two?



- A. Residents of North Korea would benefit from closing its doors to international trade.
 B. North Koreans would benefit from importing microwaves.
 C. North Koreans would benefit from exporting microwaves.
 D. The world price of microwaves is higher than the domestic price.
 E. North Korea possesses a comparative advantage in the production of microwaves.
- 2) Assume Graph 1 and Graph 2 illustrate the conditions for (1) worldwide market for microwaves and (2) North Korea's domestic demand for and supply of microwaves. By closing its doors to international trade, the North Korean government

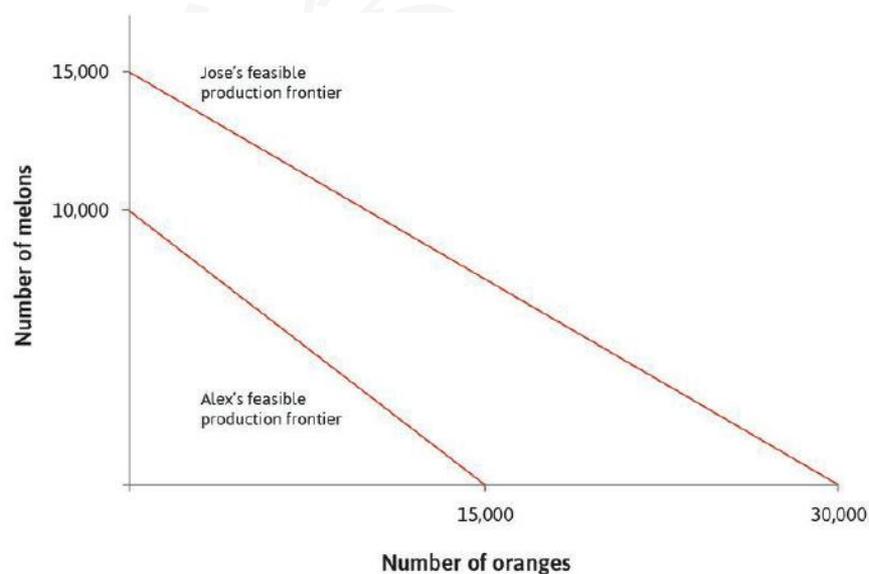


- A. experiences a loss in economic efficiency.
 B. increases employment across industries.
 C. boosts income across workers.
 D. pushes the price of microwaves down.
 E. expands the variety of products available to N. Korean consumers.

- 3) Refer to the table presenting the supply and demand equations for ear buds. Country A and Country B will find it mutually advantageous to engage in voluntary trade if the two countries agree to a trading price that:

Country A		Country B	
$Q_d = 900 - 30P$	$Q_s = -700 + 50P$	$Q_d = 100 - 5P$	$Q_s = -350 + 85P$

- A. is higher than Country A' s domestic equilibrium price of \$20 per unit of output.
 B. is lower than Country A' s domestic equilibrium price of \$20 per unit of output.
 C. is higher than Country B' s domestic equilibrium price of \$5 per unit of output.
 D. is lower than Country B' s domestic equilibrium price of \$5 per unit of output.
 E. meets the conditions of both options b and c.
- 4) Countries A, B and C produce only watermelons (X) and grapefruits (Y). The production possibility frontiers are given by: $X_A + Y_A = 100$, $2X_B + 3Y_B = 300$, $X_C + 2Y_C = 600$. What is the maximum amount of watermelons that they can produce together if they want to produce at least 200 grapefruits?
 A. 200
 B. 500
 C. 600
 D. None of the above
- 5) The following diagram shows Alex' s and Jose' s feasible production frontiers for oranges and melons. (Resource allocation is equal between them.)



- A. Jose has an absolute advantage in the production of melons but not oranges.
 B. Jose has a comparative advantage in the production of melons.
 C. With trade and specialization, Jose will specialize in the production of oranges while Alex will

specialize in the production of melons.

D. The relative price of melons after trade will be 1.75

- 6) If Britain has a comparative advantage over France in the production of cars, then
- A. the opportunity cost of producing cars in Britain is lower than in France.
 - B. the opportunity cost of producing cars in Britain is higher than in France.
 - C. there are no gains from specialization and trade in cars between Britain and France.
 - D. only Britain will gain from specialization and trade in cars between Britain and France.
- 7) Table 1 shows combinations of cheese and computers that the countries of Alpha and Omega could each produce in isolation using their resources efficiently. Costs are constant in each country. Assume that Alpha currently produces 5 pounds of cheese and 10 computers, and Omega currently produces 20 pounds of cheese and 20 computers. If Alpha and Omega both wanted to consume both more computers and more cheese, what should happen?

Table 1: Production Possibilities for Countries Alpha and Omega

Alpha		Omega	
Pounds of Cheese	Computers	Pounds of Cheese	Computers
10	0	40	0
0	20	0	40

- A. Alpha should specialize in producing cheese and Omega should specialize in producing computers, and they should trade with each other.
- B. Alpha should specialize in producing computers and Omega should specialize in producing cheese, and they should trade with each other.
- C. Each country should specialize in producing the goods where they have the absolute advantage and not trade with each other.
- D. Because Omega can produce more cheese and more computers than Alpha, Omega should produce both goods and not trade with Alpha.
- E. Alpha should produce 6 pounds of cheese (and 8 computers) and Omega should produce 30 computers (and 10 pounds of cheese), and they should trade with each other.

- 8) According to the data in the following table, which of the following terms of trade would be most likely to occur with mutually advantageous trade?

U.S. Production Possibilities			Brazil Production Possibilities		
	Fuel	Food		Fuel	Food
A.	2000	0	A.	1600	0
B.	1500	250	B.	1200	100
C.	1000	500	C.	800	200
D.	500	750	D.	400	300
E.	0	1000	E.	0	400

- A. 1 unit of fuel for 2 units of food
 B. 1 unit of fuel for 3 units of food
 C. 1 unit of food for 2 units of fuel
 D. 1 unit of food for 3 units of fuel
 E. 1 unit of food for 4 units of fuel
- 9) When individuals specialize and produce only those goods and services in which they are relatively low-cost producers, the following occurs
- A. a surplus of goods and services will be generated and this surplus will go to waste.
 B. being self-sufficient is at risk and must never be lost in case of a catastrophe, natural disaster or political uprising.
 C. obtaining other goods and services through any other means is prevented.
 D. the goods and services they produce can be traded, but they will lose value.
 E. the goods will be traded for income and used to purchase those products that can only be produced at a relatively high cost.
- 10) According to the table below, mutually advantageous trade will make the residents of each country

U.S. Production Possibilities			Brazil Production Possibilities		
	Fuel	Food		Fuel	Food
A.	2000	0	A.	1600	0
B.	1500	250	B.	1200	100
C.	1000	500	C.	800	200
D.	500	750	D.	400	300
E.	0	1000	E.	0	400

better off if:

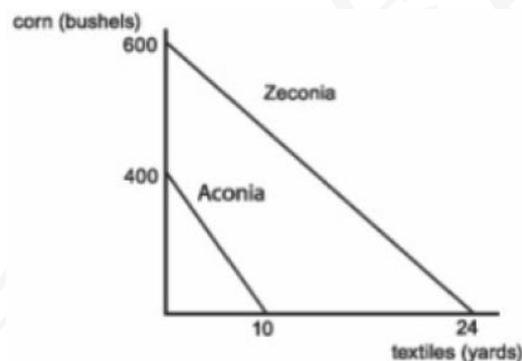
- A. Brazil imports both fuel and food from the U.S.
 B. U.S. imports both fuel and food from Brazil.
 C. U.S. exports both fuel and food to Brazil.
 D. U.S. imports fuel from Brazil, and Brazil imports food from the U.S.
 E. U.S. exports fuel to Brazil, and Brazil exports food to the U.S.
- 11) Who gains in a voluntary international trade?
- A. the exporter gains at the expense of the importer.

- B. the importer gains at the expense of the exporter.
- C. both the exporter and importer.
- D. both the exporter and importer, but the exporter usually gains more.
- E. neither, both suffer losses.

12) Which of the following is true of voluntary exchange in international trades on the basis of comparative advantage?

- A. In the international arena, if one country gains, the other country must lose an equal amount.
- B. The exchange value of a good is determined by the country with the absolute advantage.
- C. The total output that trading partners are willing to produce is not influenced by whether they trade with each other.
- D. International trade permits countries to expand their total output of goods and services.
- E. International trade reduces income, consumption possibilities, employment and output in each country.

13) Use the diagram to answer the following question. Assume that without specialization and trade Zeconia produces and consumes 16 yards of textiles, and Aconia produces and consumes 6 yards of textiles. If they specialize completely and produce according to comparative advantage, then



- A. the production of corn will rise by 80 bushels.
- B. the production of corn will fall by 80 bushels.
- C. the production and consumption of corn and textiles rise by 40 and 2, respectively.
- D. the production of textiles will decrease by 2.
- E. not enough information is provided to know if the countries could be better off after trade.

14) Jill can sew a child's dress in 3 hours and can knit a baby's blanket in 2 hours. Sarah can sew a child's dress in 6 hours and can knit a baby's blanket in 3 hours. Jill would trade her dresses for Sarah's blankets if the price of a dress in terms of blankets was

- A. less than $\frac{2}{3}$ blankets for 1 dress.

- B. more than 2 blankets for 1 dress.
- C. at least 3/2 blankets for 1 dress.
- D. Jill would never trade with Sarah.

- 15) Which best describes what the law of comparative advantage means for trading nations? Each trading nation can benefit by exporting goods that
- A. it produces goods at low opportunity costs and importing goods it produces at high opportunity costs.
 - B. it produces goods at high opportunity costs and importing goods it produces at low opportunity costs.
 - C. people enjoy least and importing goods that they enjoy most.
 - D. people enjoy most and importing goods that they enjoy least.

- 16) Assume we have two countries - Farm Land and Techno Island. Each country produces food and smart phones as exhibited in the table. Would each country benefit from a rate of exchange of 2 units of food for 3 smart phones?

Farm Land		Techno Island	
Food (100,000 pounds)	Smart Phones (100,000 phones)	Food (100,000 pounds)	Smart Phones (100,000 phones)
50	0	0	500
40	10	50	400
30	20	100	300
20	30	150	200
10	40	200	100
0	50	250	0

- A. No, neither country would gain.
- B. Yes, both countries will benefit.
- C. No, Farm Land will benefit at the expense of Techno Land.
- D. No, Techno Land will benefit at the expense of Farm Land.
- E. No, Farm Land will benefit while Techno Land gains nothing.

- 17) Assume we have two countries - Farm Land and Techno Island. Each country can produce food and smart phones as exhibited in the table. Which statement is correct?

Farm Land		Techno Island	
Food (100,000 pounds)	Smart Phones (100,000 phones)	Food (100,000 pounds)	Smart Phones (100,000 phones)
50	0	0	500
40	10	50	400
30	20	100	300
20	30	150	200
10	40	200	100
0	50	250	0

- A. Farm Land produces both food and smart phones at the lowest opportunity cost.
- B. Farm Land produces smart phones at the lowest opportunity cost while Techno Island produces food at the lowest opportunity cost.
- C. Farm Land produces food at the lowest opportunity cost while Techno Island produces smart phones at the lowest opportunity cost.
- D. Food Land possesses an absolute advantage in producing food and smart phones.
- E. Techno Island possesses a comparative advantage in producing food and smart phones.

18) The main economic argument for free trade across countries is:

- A. low- and high-income economies move up the world' s development ladder.
- B. the governments in high-income economies transfer income to low-income economies to equalize income across economies.
- C. countries become increasingly more self-sufficient.
- D. high-income economies advance at the expense of low-income economies.
- E. low-income economies advance at the expense of high-income economies.

19) The table shows the maximum amount of wheat and wool the U.S. and England can produce if they only produce one good. Both countries have the same amount of resources. Which of the following statements is true?

Wheat and Wool Production Possibilities

	Wheat (in bushels)	Wool (in tons)
U.S.	40	20
England	10	10

- A. The U.S. has an absolute advantage in the production of wheat and a comparative advantage in the production of wool.
- B. The U.S. has an absolute advantage in the production of wheat and England has an absolute advantage in the production of wool.

- C. The U.S. has an absolute and a comparative advantage in the production of wheat.
- D. England has an absolute advantage in the production of wheat and a comparative advantage in the production of wool.
- E. Both countries have an absolute advantage in wheat and wool, but neither has an absolute advantage.

20) In international trade, the rate at which one good is traded for another is called

- A. the exchange rate.
- B. competitive advantage.
- C. terms of trade.
- D. production possibilities.
- E. specialization.

21) If a country has a comparative advantage in the production of oil, then its price would be _____ the world price, and the country would _____ oil.

- A. the same as; export
- B. less than; export
- C. greater than; export
- D. greater than; import
- E. the same as; import

22) The table shows the number of hours of the country Alpha and Beta need to produce one unit of wheat(W) and clothing(C). Which of the following terms of trade would both Alpha and Beta find it mutually benefit from the specialization and trade?

Country	Wheat	Cloth
Alpha	10	20
Beta	30	30

- A. $1C=1W$
- B. $1C=1.5W$
- C. $1C=2W$
- D. $1C=0.5W$
- E. There is no real exchange ratio that would enable both countries to benefit, since Beta has an absolute advantage in both goods.

2-Restrictions on Free Trade

- 23) Say that the European Monetary Union (EMU) placed effective import quotas on bananas from Latin America. According to economic theory, an expected result should have been:
- A. higher prices of bananas and a lower total quantity consumed in the EMU.
 - B. expanded production of bananas in Latin America.
 - C. cheaper bananas in the EMU.
 - D. more banana exports from Latin America.
 - E. lower prices of bananas and higher domestic production in the EMU.
- 24) In response to an import quota
- A. imports increase by more than exports.
 - B. imports and exports are both reduced but net exports are unchanged.
 - C. exports increase by more than imports.
- 25) A country is experiencing a balance of payments surplus but growing inflationary pressures. Which one of the following measures is most likely to reduce both a balance of payments surplus on the current account and the inflation rate?
- A. An appreciation of the exchange rate
 - B. A cut in interest rates
 - C. A rise in the budget deficit
- 26) Trade restrictions, tariffs, and quotas that benefit targeted industries such as the steel and sugar industries:
- A. do not result in unintended consequences or secondary effects on the domestic industries using what is produced by the targeted industries.
 - B. will improve the economy as a whole if the proposals help the targeted industries regardless of the negative consequences on other industries.
 - C. are usually structured to positively impact both those industries targeted and not targeted.
 - D. often have unintended consequences that negatively impact the industries using the products produced by the targeted industries.
 - E. are easy to design so that there are no unintended consequences or secondary effect
- 27) Restrictions that limit sugar, steel and other imports provide examples of government programs that:
- A. reflect the political incentives created by special-interest issues.
 - B. are intended to redistribute income from the rich to the poor.
 - C. generate a net gain in jobs and output.
 - D. are based on rational decision-making and include careful analysis of secondary benefits and costs.
 - E. consider only matters related to economic efficiency and overall growth on the national level.

- 28) If Nation A adopts public policies that restrict imports from another nation that is a major trading partner, then in Nation A
- A. the cost of producing products will decrease.
 - B. job opportunities in export industries will increase.
 - C. consumers will pay higher prices for products.
 - D. saving and investment will increase.
- 29) Goods and services sold abroad are called _____, while goods and services purchased from abroad are called _____
- A. quotas; tariffs
 - B. tariffs; exports
 - C. imports; exports
 - D. exports; imports
 - E. imports; tariffs
- 30) Which of the following is a reason to erect trade barriers?
- A. to protect foreign producers
 - B. to protect domestic producers
 - C. to lower the price of a good for domestic consumers
 - D. to increase competition
 - E. to lower taxes
- 31) If the United States government wants to eliminate a trade deficit, it could
- A. reduce tariffs.
 - B. encourage imports.
 - C. reduce quotas on imports.
 - D. depreciate the dollar.
- 32) Suppose Russia has an absolute advantage in the production of all goods. In this instance, Russia
- A. will have no incentive to engage in international trade.
 - B. should specialize in producing the goods for which it has a lower opportunity cost than other countries.
 - C. also has a comparative advantage in the production of those goods.
 - D. is producing at a point on its production possibilities frontier.
- 33) With permission, Jami does the research and Dale summarizes the research findings. Now, they are able to complete the research needed for their mid-term papers in half of the time that it took each to do both. This most clearly reflects:
- A. cheating.

- B. irrational behavior.
- C. the fallacy of composition.
- D. the law of comparative advantage.
- E. the importance of secondary effects.

34) Which of the following will change a nation's comparative advantage?

- A. A technological advance in producing manufactured goods.
- B. A doubling of all wages.
- C. Quotas on imports.
- D. A change in consumers' preferences for imported goods.

35) International trade tends to occur whenever

- A. labor is cheaper in one country than in another.
- B. one of the trading nations is self-sufficient and producing surplus goods.
- C. one nation can profit from trade at the expense of the other.
- D. both nations can benefit from trade.

36) If Japan can produce each unit of steel using fewer resources than Canada does

- A. Canada has an absolute advantage in steel production.
- B. Japan has an absolute advantage in steel production.
- C. Japan has a comparative advantage in steel production.
- D. Canada has a comparative advantage in steel production.

37) The imposition of tariffs and quotas on imported goods tends to cause the

- A. demand curve for domestic labor to shift to the right.
- B. demand curve for domestic labor to shift to the left.
- C. supply curve of domestic labor to shift to the right.
- D. supply curve of domestic labor to shift to the left.

38) If an import tariff is imposed on good X which country Beta imported, which of the following is true for country Beta, keeping other things unchanged?

- I. Domestic demand for good X will decrease.
- II. Domestic quantity demanded for good X will decrease.
- III. Domestic quantity supplied for good X will increase.
- IV. There will be no deadweight loss in the market for good X.
- V. Domestic producer surplus will be maximized.

- A. III only
- B. I and III only

- C. II, III, and V only
- D. IV and V only
- E. II and III only

39) Implementing a uniform tariff on imported movies implies that:

- A. people will watch local movies less often.
- B. the sales quantity of imported movies will increase.
- C. less vigorous competition between local movie producers.
- D. a larger proportion of potential consumers will watch more movies.
- E. import suppliers' sales revenue will raise.

3-Balance of Payment

40) Which of the following statements is correct, ceteris paribus?

- A. An increase in the trade surplus would lead to a decrease in a country's current account.
- B. A country with zero trade balance but historically high foreign direct investment would always have a current account deficit.
- C. An increase in remittances by a country's nationals abroad would lead to a lower current account.
- D. An increase in the official aid payment sent to other countries means a lower current account.

41) Which one of the following is most likely to lead to an increase in spending on imports?

- A. A cut in income tax rates
- B. A fall in the exchange rate
- C. A rise in the rate of Value Added Tax (VAT)

42) Which of the following increases net exports in the U.S.?

- A. A U.S. auto manufacturer purchases car parts from a Canadian firm.
- B. A Japanese investor purchases Google stock.
- C. The government in Uganda purchases construction and mining equipment from a U.S. plant.
- D. A U.S. consumer buys a Samsung media system and it is shipped out of Japan.
- E. A non-profit sends U.S. dollars to Ecuador to purchase food for the malnourished.

43) If savings in Germany is \$300 billion and investment in Germany is \$550 billion, then

- A. there must be net capital outflow of -\$550 billion.
- B. there must be net capital outflow of -\$250 billion.
- C. the German government must be running a \$250 billion surplus.
- D. the German financial market must be experiencing a net capital outflow.

- 44) Japan has historically had a high savings rate relative to other countries. This means that
- the supply of loanable funds is larger interest rates are lower, and net capital outflow is higher.
 - the supply of loanable funds is smaller, interest rates are lower, and net capital outflow is higher.
 - the demand for loanable funds is larger, interest rates are lower, and net capital outflow is higher.
 - the government must subsidize production in order to encourage international trade.
- 45) It must always be true that
- net capital outflow > net exports.
 - net capital outflow < net exports.
 - net capital outflow = net exports.
 - net capital outflow = 0.
- 46) China had a trade surplus in 2019. Which of the following statement could you deduce according to this information?
- There is a surplus in current account of China in 2019.
 - There is a deficit in current account of China in 2019.
 - There is a surplus in financial account of China in 2019.
 - There is a deficit in financial account of China in 2019.
 - None of the above.
- 47) Which of the following measures can help balance the US' s current account deficit the most?
- Appreciate the dollar.
 - Sign more free trade agreements.
 - Increase government spending on R&D and infrastructure.
 - Implement expansionary fiscal and monetary policies.
- 48) An increase in a country' s current account surplus will result in which of the following in the short run?
- A decrease in the country' s government budget surplus
 - A decrease in the country' s national savings
 - A decrease in the country' s financial account deficit
 - An increase in the country' s net financial capital outflows
 - An increase in the country' s national debt

4-Foreign Exchange Market

- 49) All other things being equal, a fall in the exchange rate is likely to
- increase domestic employment.
 - reduce import prices.

C. reduce domestic demand.

50) Crowding out caused by government budget deficits will lead to

- A. a decrease in the real exchange rate.
- B. an increase in the real exchange rate.
- C. no change in the real exchange rate.

51) Assume that inflation is higher in the United States compared to its trading partners. As a result, we would expect the demand for dollars in foreign exchange markets to _____, the supply of dollars in foreign exchange markets to _____, and the value of the dollar to _____ relative to currencies of United States trading partners.

- A. decrease; increase; decrease
- B. decrease; decrease; decrease
- C. increase; decrease; increase
- D. increase; increase; increase
- E. decrease, increase; increase

52) Assume a floating exchange rate in South Africa. What would happen if inflationary expectations in the U.S. incentivize U.S. investors to hold more gold in their investment portfolios? Gold is exported from South Africa.

- A. The value of each currency would remain constant.
- B. Both the South African rand and U.S. dollar would appreciate.
- C. Both the South African rand and U.S. dollar would depreciate.
- D. The South African rand would appreciate while the U.S. dollar would depreciate.
- E. The South African rand would depreciate while the U.S. dollar would appreciate.

53) What happens to a country's exchange rate and overall investment rate when a country's government creates money during periods of hyperinflation in order to cover a persistent budget deficit without borrowing?

- A. Both the country's exchange rate and overall investment rate remain constant.
- B. The exchange rate appreciates, and domestic investment decreases.
- C. The exchange rate depreciates, and domestic investment increases.
- D. The exchange rate appreciates, and domestic investment increases.
- E. The exchange rate depreciates, and domestic investment decreases.

54) If the rest of the world becomes increasingly unsettled politically and economically, the international value of the U.S. dollar will _____ and U.S. imports will _____.

- A. increase; decrease
- B. decrease; increase
- C. not change; not change
- D. increase; increase

E. decrease; decrease

55) If interest rates in Canada rise above those in the rest of the world, then

- A. the demand for Canadian dollars decreases.
- B. exports from Canada to other countries increases.
- C. imports into Canada from other countries decreases.
- D. it raises Canada's exchange rate and this may result in a deficit on Canada's trade balance.

56) Which of the following is a reason why exchange rates may deviate from their purchasing power parity values for many years?

- A. Some goods are not tradable.
- B. In some cases, a foreign-produced good is not a perfect substitute for a domestically-produced version of the same thing.
- C. In some markets, import quotas limit the ability of firms to agree on exchange prices.
- D. Both a and b are correct.

57) Which of the following is an unintended consequence of a government devaluing its currency in order to stimulate its domestic economy?

- A. higher taxes abroad
- B. more domestic unemployment
- C. increased imports
- D. cheaper exports to the rest of the world
- E. higher unemployment abroad

58) Under ideal conditions, in the long-run, exchange rates

- A. are determined by business cycle fluctuations.
- B. are determined by movements of Eurodollars.
- C. will adjust until the price of a bundle of goods is the same in both countries.
- D. will reflect economic fluctuations in both countries.

59) Which of the following is a statement of the purchasing power parity theory of exchange rate determination? The exchange rate will adjust in the

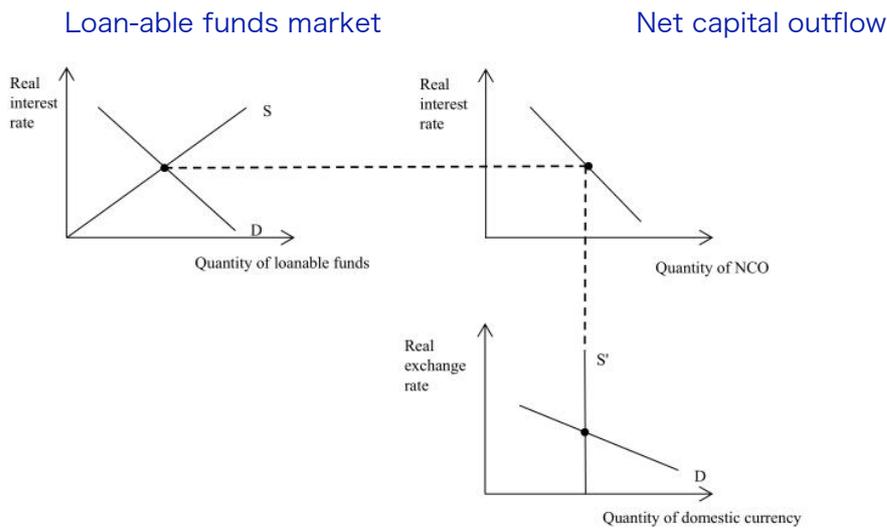
- A. long run until the interest rate is roughly the same in both countries.
- B. long run until real GDP is roughly the same in both countries.
- C. long run until the average price of goods is roughly the same in both countries.
- D. short run until the average price of goods is roughly the same in both countries.

60) If U.S. currency speculators expect the Japanese yen to appreciate against the South Korean won, they would consider:

- A. buying Japanese yen.
- B. selling Japanese yen.

- C. buying South Korean won.
- D. buying U.S. dollars.
- E. holding their current position.

61) In country X



According to the graphs above, citizens in country X decides to save more. What will happen to real interest rate? Net capital out flow, and real exchange rate?

	Real Interest rate	NCO	Real exchange rate
A	Increase	Increase	Increase
B	Decrease	Decrease	Decrease
C	Increase	Decrease	Decrease
D	Decrease	Increase	Decrease
E	Decrease	Increase	Increase

62) US and China are trading partners. As Covid-19 situation is getting worse in US, US imported more medical equipment and medicines from China than before. Please determine effect of this.

- A. US dollars will appreciate, and Chinese Renminbi will depreciate.
- B. US dollars will appreciate, and Chinese Renminbi will appreciate.
- C. US dollars will depreciate, and Chinese Renminbi will appreciate.
- D. US dollars will depreciate, and Chinese Renminbi will depreciate.
- E. US dollars will stay the same, but Chinese Renminbi will appreciate.

63) When the price level in Country A increases higher than that in Country B, how will the real exchange rate of Country A' s currency change, holding other things constant?

- A. Increases
- B. Decreases

- C. Remain unchanged
 D. Indeterminate
 E. You have to know the specific change in the price level to decide.
- 64) With a system of freely floating exchange rates, if European Central Bank raises the discount rate, we could expect the demand for euro in the foreign exchange market to ___ and the euro to ____.
- A. Increase; appreciate
 B. Increase; depreciate
 C. Decrease; appreciate
 D. Decrease; depreciate
 E. Remain unchanged; Remain unchanged
- 65) If U.S is in the recession, the Federal Reserve use the appropriate monetary policy to fight for it, the value of the dollar ____
- A. appreciates.
 B. depreciates.
 C. remain the same
 D. indeterminate
- 66) The Federal Reserve in the United States decides to increase the money supply and use expansionary monetary policy in order to impact major macroeconomic factors. What will be the result of this policy on the interest rate, exchange rate, and exports in the United States?
- A. Interest rate decreases, exchange rate depreciates, exports increase
 B. Interest rate decreases, exchange rate appreciates, exports decrease
 C. Interest rate decreases, exchange rate depreciates, exports decrease
 D. Interest rate increases, exchange rate appreciates, exports decrease
 E. Interest rate increases, exchange rate depreciates, exports increase
- 67) Assume that Country X and Country Y are trading partners. If the average income in Country X increases, which of the following will occur in the foreign exchange market?
- A. The demand for Country X's currency will increase, and Country X's currency will appreciate.
 B. The demand for Country Y's currency will increase, and Country X's currency will depreciate.
 C. The demand for Country Y's currency will increase, and Country X's currency will appreciate.
 D. The supply of Country X's currency will decrease, and Country X's currency will appreciate.
 E. The supply of Country Y's currency will increase, and Country Y's currency will depreciate.
- 68) If one country has a lower inflation rate than other countries,
- A. its currency tends to appreciate.
 B. its currency tends to depreciate.
 C. its real interest rate will be higher than in other countries.

- 69) Assume Japan adopts a fixed exchange rate system with the U.S., and Japan and other Asian countries are competitors of exporting goods to the US. If US dollar depreciates against currencies of Asian countries, in the short run, Japan's export value to the US will:
- A. increase.
 - B. decrease.
 - C. remain constant.
 - D. be indeterminate.

5-Foreign Investment

- 70) Foreign direct investment differs from foreign portfolio investment in that
- A. direct investments involve stocks and bonds.
 - B. direct investments can only be made by the International Monetary Fund.
 - C. direct investments involve physical capital; portfolio investments involve financial capital.
 - D. a government must be involved in direct investment, but portfolio investment can involve private firms.

6-Economic Common Sense and Current Events

- 71) According to the United States Office of Management and Budget, in 2022 U.S. total federal spending was about what percent of GDP?
- A. about 25%
 - B. about 33%
 - C. about 44%
 - D. about 52%
 - E. about 67%
- 72) Coinciding with World War II, the U.S. federal debt as a percent of GDP reached a height that was in which of the following ranges?
- A. less than 25 percent
 - B. 26 - 50 percent
 - C. 51 - 75 percent
 - D. 76 - 100 percent
 - E. over 100 percent
- 73) Which is true about minimum wage laws in the United States?
- A. The minimum wage is set at the state level only.
 - B. The minimum wage is set by the federal government only.
 - C. States are required to set their own minimum wage equal to the federal minimum wage.

- D. Some states have a minimum wage that is lower than the federal minimum wage, and employers are bound by the lower of the two.
- E. Some states have a minimum wage that is higher than the federal minimum wage, and employees are entitled to the higher of the two.

74) Which of the following scholars represents the modern institutional theory of economic growth?

- A. Daron Acemoglu
- B. Jared Diamond
- C. Thomas Malthus
- D. Adam Smith

75) The local grocery store offers a discount of 20% if a customer pays the 10 USD monthly fee. How much should a customer's monthly spending in this store be so that paying this fee makes sense for her?

- A. At least 10 USD
- B. At least 30 USD
- C. At least 50 USD
- D. At least 60 USD

76) As of 2018, which statement best relates to the United States balance of payments?

- A. There is a large current account surplus and a large deficit in the financial account.
- B. There is a large balance of payments deficit.
- C. There is a large balance of payments surplus.
- D. The balance of payments is not balanced because of the trade deficit.
- E. There is a large current account deficit and a large surplus in the financial account

77) The top three oil-producing countries in 2023 (measured in average barrels per day) were

- A. Saudi Arabia, Iran, and Iraq
- B. China, Russia, and the U.S.
- C. Saudi Arabia, Russia, and Canada
- D. the United Arab Emirates, Kuwait, and Saudi Arabia
- E. the U.S., Saudi Arabia, and Russia

78) In 2021, which of the following options represents U.S. tariffs and other import duties as a percentage of tax revenues?

- A. 0.15
- B. 0.23
- C. 0.27
- D. 0.34

E. 0.46

- 79) Eugene F. Fama of the University of Chicago was one of three winners of the 2013 Nobel Prize in Economics for his work leading to the “efficient market hypothesis.” Which is widely regarded as an example of a real-world consequence of his work?
- bitcoins
 - index funds
 - micro loans
 - vital organ exchange markets
 - private rules governing common property
- 80) Toward the end of 2013, the Federal Reserve announced that it would begin a process to taper off and eventually end quantitative easing. Economic theory would suggest that an end to quantitative easing would tend to decrease which of the following?
- exports
 - bond prices
 - interest rates
 - personal saving
 - housing surplus
- 81) Which of the following options represents U.S. government debt as a percentage of GDP in 2022?
- 116%
 - 129%
 - 133%
 - 110%
- 82) According to a 2021 study by OECD, what is the correct ranking of the following three countries from highest total net household wealth to lowest total net household wealth?
- Chile, Korea, Luxemburg
 - Luxemburg, Korea, Chile
 - Korea, Luxemburg, Chile
 - Korea, Chile, Luxemburg
 - Luxemburg, Chile, Korea
- 83) Which two media giants announced plans to merge in 2016?
- ATT & Direct TV
 - ATT & Time Warner

- C. Time Warner & Verizon
- D. Verizon and Direct TV
- E. Direct TV and Sprint

84) The proposed trade agreement among 12 Pacific Rim countries, including the U.S. is called:

- A. NAFTA.
- B. NATO
- C. MOFA
- D. WTO
- E. TPPA

85) In January of 2016, Japan joined Denmark, Sweden, and Switzerland when:

- A. it joined the EU.
- B. its central bank started charging negative interest rates for member banks.
- C. they implemented nationalized health care
- D. a national family leave policy was established.
- E. they established a national living wage.

86) In which of these years was the ratio of the US federal debt to GDP highest?

- A. 2019
- B. 2020
- C. 2021
- D. 2022

87) GDP growth (Annual percent change) of China in 2022 is approximately

- A. 3%
- B. 5%
- C. 7%
- D. 8%

88) According to the Fortune Global 500 tally, which company had the largest revenue as of 2022?

- A. Walmart
- B. Google

- C. China National Petroleum
- D. Exxon Mobil
- E. Volkswagen

89) The following are accurate statements about David Ricardo except

- A. Ricardo is known for arguing that nations should specialize.
- B. Ricardo wrote a famous book about corn laws.
- C. Ricardo spoke out against protectionism.
- D. Ricardo argued that landlords should take wealth from labor for the good of society.
- E. Ricardo worked in the London Stock Exchange as a young man.

90) Which country uses the rand for its currency?

- A. Brazil
- B. South Africa
- C. Nigeria
- D. Kazakhstan
- E. Indonesia

91) In which part of the balance of payments has the U.S. often recorded a surplus since the mid-1970s?

- A. net exports
- B. the current account
- C. the financial account
- D. net exports and the current and financial accounts
- E. None of the above has experienced a surplus.

92) What happened to the "Second Bank of the United States," created in 1816?

- A. Its demise began when President John Quincy Adams, who hated the idea of a central bank, refused to support it.
- B. It was broken and went out of business in the Civil War.
- C. Its demise began when President Andrew Jackson vetoed renewal and had government deposits placed in state banks.
- D. It was superseded by the "Third Bank of the United States."
- E. It ended in 1913 with the creation of the Federal Reserve System.

93) The War on Poverty programs were launched in the late 1960s. What has happened to the poverty rate since transfer payments and entitlement programs have expanded?

- A. Poverty has been largely eliminated.
- B. After rising for several decades, the official poverty rate has been declining since 1968.
- C. The poverty rate declined prior to the War on Poverty period, and it has continued to decline.
- D. The official poverty rate leveled off in the 1970s, and it has been relatively stable since that time.
- E. The poverty rate rose prior to the War on Poverty period and has continued to rise.
- 94) Which company did not receive bailout funds from the U.S. federal government during the 2007-2009 recession?
- A. General Motors
- B. Wells Fargo & Co.
- C. Citigroup
- D. Shell Oil
- E. AIG
- 95) Rank the April 2023 Real GDP growth rates (from highest to lowest) for the following regions.
- A. India, China Mainland, U.S.
- B. U.S., China Mainland, India
- C. China Mainland, U.S. India
- D. U.S., India, China Mainland
- E. China Mainland, India, U.S.
- 96) Brexit is the term given to Britain' s
- A. immigration policy.
- B. transportation system.
- C. withdrawal from the EU.
- D. discontinuation of using the euro as their currency.
- E. withdrawal from NATO.
- 97) As of 2022, who were the three major trading partners (by import value) of the United States?
- A. China, Japan, and South Korea
- B. China, Japan, and Germany
- C. Canada, Mexico, and Brazil
- D. China, Japan, and the United Kingdom
- E. China, Canada, and Mexico
- 98) On April 14th 2020, the IMF' s "World Economic Outlook, April 2020" stated that, "the global economy is projected to contract sharply by -3 percent in 2020, much worse than during the 2008-09

financial crisis.” Which of the following group of countries will achieve a positive economic growth in 2020?

- A. China and Russia
- B. China and India
- C. U.S. and Canada
- D. Euro area and Canada
- E. Japan and India

99) Which of the following Economic Partnership was not including China?

- A. RCEP
- B. CEFTA
- C. ASEAN