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Microeconomics

1-Basic Economic Principles

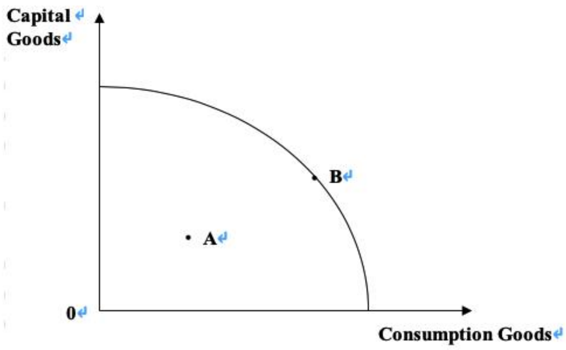
1) Which of the following statements is correct?
   A. In the short-run model, the amount of some factor is fixed, while in the long-run model, the amount of this factor can vary.
   B. Labour-saving technological progress raises unemployment in both the short and long run.
   C. Firms are more likely to enter the market when the markup is low.
   D. The markup is independent of the number of firms.

2) Jane just made a rational choice. According to the economic way of reasoning, this implies that she has:

   A. fallen prey to peer pressure.
   B. followed parental advice without thought.
   C. made a "good" decision, one that society deems desirable.
   D. made a choice after comparing benefits against costs.
   E. ignored her own personal interests and made the choice that is best for others.

3) In an economy with clearly defined and even-handedly enforced property rights and stable laws, individuals are held responsible for their actions and accountable for damages they bring to others' property.
   Consequently,
   A. Homeowners have strong incentive to keep up their homes and yard.
   B. Business owners can lie, steal, and cheat customers.
   C. Renters can damage their apartments.
   D. Volunteers have strong incentive to keep up their share of the work in a community gardens.

4) If the economy shown in the diagram moves from position A to position B, we would know that



   A. the rate of unemployment increased.
   B. consumption goods production increased, but capital goods production decreased.
   C. its unemployment decreased, but at the expense of either capital or consumption good production.
   D. it has achieved full employment of resources.

5) 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

6) 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.

7) Which of the following statements is correct?
   A. A fall in the mortgage interest rate would shift down the demand curve for new houses.
   B. The launch of a new Samsung smartphone would shift up the demand curve for existing iPhones.
   C. A fall in the oil price would shift up the demand curve for oil.
   D. A fall in the oil price would shift down the supply curve for plastics.

8) The demand for widgets is given by $Q = 100 - 2P$, the supply is given by $Q = -20 + P$. The government sets the price ceiling at P^* which results in the deficit 30. Find P^*.
   A. 10
   B. 20
   C. 30
   D. 40

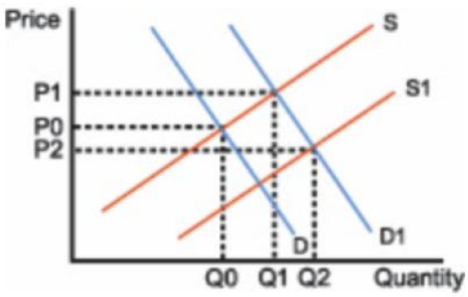
9) You have an acre of land on which you grow artichokes. When you hire a 2nd worker, total output increases by 20 artichokes a day. When you hire an 3rd worker, total output increases by 18 artichokes a day. The paragraph above describes
   A. the law of supply and demand.
   B. increasing returns to scale.
   C. a value added tax.
   D. supply-side economics.
   E. the law of diminishing marginal returns.

10) If the government increased taxes on producers of bicycles, we would expect the ________ bicycles to ___________.

A. demand for; increase
B. equilibrium quantity of; increase
C. supply of; decrease
D. number of bicycle producers for; increase
E. equilibrium price of; decrease

11) Suppose sales of unsweetened apple sauce have increased, at the same time, that unsweetened apple sauce prices have increased. Which of the following might have caused this?
A. A decrease in income, assuming apple sauce is a normal good.
B. An increase in the price of cinnamon, a complementary good.
C. An increase in apple prices
D. A decrease in the price of pudding, a substitute good
E. A change in regulations that require schools to offer healthier foods.

12) Use the diagram below, which shows the supply and demand for avocados, to answer the following question. Say that the original supply curve for avocados is the curve labeled S and the demand curve for avocados is the curve labeled D. If the supply curve moved from S to S 1 and the demand curve did not move, at the new equilibrium, we would conclude that



A. supply decreased and quantity demanded decreased.
B. supply increased and quantity demanded decreased.
C. price decreased and quantity demanded did not change.
D. supply increased and quantity demanded increased.
E. demand increased and quantity supplied increased.

13) Generally, the amount of gasoline consumed in the long run will be:
E. approximately the same as what is consumed over the short run.
F. considerably less sensitive to price changes than in the short run.
G. considerably more sensitive to price changes than in the short run.
H. not affected by price changes because gas is a necessity.
I. determined by government and oil producers.

14) Which of the following is most likely to increase the price of bread in grocery stores?
A. A good growing season for wheat, a resource used in the production of bread.

B. A decision by government authorities to apply a price ceiling to bread sold by grocery stores.
C. A technological advance that increases the efficiency of bread production.
D. An increase in the number of stores selling bread.
E. An increase in the price of rice, a substitute for bread.

15) Suppose that Annette gets an increase in her wage and she decides to work fewer hours. For her, the substitution effect of the wage change is
A. greater than the income effect.
B. less than the income effect.
C. exactly offset by the income effect.
D. zero.

16) If a drought destroyed half of the U.S. garlic crop at a time when the health benefits of garlic were being well-publicized, economists would expect that in the market for garlic
A. quantity exchanged would rise but the change in price is uncertain without further information.
B. price would rise but the change in quantity exchanged is uncertain without further information.
C. both price and quantity exchanged would rise.
D. price would rise and quantity exchanged would fall.

17) A tax on fur coats will most likely
A. raise large amounts of tax revenue for the government.
B. cause a large decline in the sales of fur coats because demand is elastic.
C. be an effective way to tax the rich.
D. fall mostly on the fur coat buyers rather than the producers.

18) 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.

19) If you had been willing to pay $2.19 for the gallon of milk purchased at the supermarket but were required to pay only $1.89, you have gained
A. a refund of $.30 from the clerk.
B. a consumer surplus amounting to $.30.
C. excess marginal benefit of $2.19.
D. producer surplus of $.30.

20) Suppose that the demand for apples increased more than the supply of apples increased. The net effect of these two changes would be a(n)

A. increase in the equilibrium price and a decrease in the equilibrium quantity.
B. increase in the equilibrium price and an increase in the equilibrium quantity.
C. decrease in the equilibrium price and an increase in the equilibrium quantity.
D. decrease in the equilibrium price and a decrease in the equilibrium quantity.

21) Adam Smith argues in The Wealth of Nations that an economy will produce more goods and services if
A. people act in the public interest than if they act selfishly.
B. people act selfishly than if the government directs economic activity.
C. the government controls the use of the nation's scarce resources.
D. people ignore their own interests and contribute to national wealth as a whole.

22) Which of the following statements is correct?
A. There is no innovation in the absence of patents.
B. Longer patent duration will always lead to an increase in the probability of innovation.
C. There is trade-off between greater incentive to innovate from higher innovation rent income and the disincentive for potential innovators from using patented knowledge.
D. The optimal duration of patents is where the probability of innovation is maximized.

3-Market Equilibrium

23) A tax on sales of a good, when compared to the market equilibrium without the tax, will result in a _______ price paid by buyers and a ______ quantity traded.
A. higher; lower
B. lower; lower
C. higher; higher
D. lower; higher

24) 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.

25) When there is a shortage of a product in a competitive market, it is usually the case that the
A. market price of the product will eventually increase
B. market price of the product will eventually decrease.
C. quantity of the product exchanged in the market will eventually decrease.
D. quantity of the product exchanged in the market will not change, but demand will increase.

26) When there is a surplus of a product in a competitive market, it is usually the case that the
A. market price of the product will eventually decrease
B. market price of the product will eventually increase.

C. quantity of the product exchanged in the market will eventually decrease.
D. quantity of the product exchanged in the market will not change, but supply will increase.

27) Suppose the equilibrium price of a product is $10, but the government makes it illegal for the price to rise above $5. This is an example of a ___________ and ___________ will likely exist at the price of $5.

A. price ceiling; surpluses
B. price ceiling; shortages
C. natural monopoly; price floors
D. price floor; surpluses
E. price floor; shortages

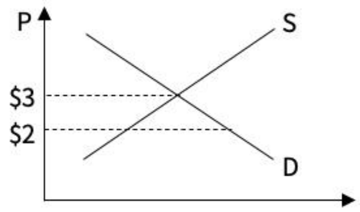
28) Which side of the market benefits from a price floor, assuming the government purchases any surplus production?
A. sellers
B. buyers
C. both sellers and buyers
D. either sellers or buyers, depending on which is more responsive to price
E. neither sellers nor buyers

29) If a legal authority decides to eliminate an effective price floor on a good, then what will we expect to happen to the price and quantity exchanged of the good?
A. Price would decrease, quantity exchanged would decrease.
B. Price would decrease, quantity exchanged would increase
C. Price would increase, quantity exchanged would decrease
D. Price would increase, quantity exchanged would increase
E. Price would decrease, but there would be no change in quantity exchanged.

30) People die while awaiting organ transplants. Which of the following statements describes this economic concept?
A. There is a shortage of organs because the price is below the market-clearing price.
B. There is a shortage of organs because the price is above the market-clearing price.
C. It is not possible to have a market for organs.
D. There is a surplus of organs because the price is below the market-clearing price.
E. There is a surplus of organs because the price is above the market-clearing price.

31) If the equilibrium price of bread is $2 and the government imposes a $1.50 price ceiling on the price of bread,
A. more bread will be produced to meet the increased demand.
B. there will be a shortage of bread.
C. the demand for bread will decrease because suppliers will reduce their supply.
D. a surplus of bread will emerge.

32) Consider this diagram, which shows the market for wheat. A price floor of $2.00 per bushel



A. is binding and will generate a surplus of 100 bushels.
B. is not binding and will generate a shortage of 100 bushels.
C. is binding and will generate an equilibrium in this market.
D. is not binding.

33) 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.

34) Temporary shortages in a market are eliminated by
A. decreases in the price, which cause quantity supplied to fall and quantity demanded to rise.
B. decreases in the price, which cause quantity supplied to rise and quantity demanded to fall.
C. increases in the price, which cause quantity supplied to fall and quantity demanded to rise.
D. increases in the price, which cause quantity supplied to rise and quantity demanded to fall.

35) 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

4-Elasticity

36) 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.

37) The cross-price elasticity of demand for two products which are close substitutes for each other will be

A. low and positive.
B. high and negative.
C. high and positive.

38) For most people, taking a vacation to Hawaii has many substitutes, is a luxury, and represents a relatively large portion of a consumer's income. Therefore, demand for a vacation to Hawaii is likely to be _______ with respect to price.
A. unit elastic
B. elastic
C. inelastic
D. inflexible
E. vertical

39) When the price of cheddar cheese increased by 14 percent, the quantity demanded for cheddar cheese decreased by 22 percent. Therefore, we can conclude that
A. cheddar cheese has no good substitutes.
B. cheddar cheese has many complements.
C. the price elasticity of demand for cheddar cheese is about 0.64.
D. the income elasticity of demand for cheddar cheese is about 1.6.
E. the demand for cheddar cheese is elastic with respect to price.

40) Assuming that the market for potatoes is perfectly competitive. If the market elasticity of demand for potatoes is 0.3, then the individual farmer’s elasticity of demand
A. is also 0.3.
B. depends on how large a crop she produces.
C. will range between 0.3 and 1.0.
D. will be infinite.

41) Elasticity of supply for the long run is
A. always greater than the long-run price elasticity of demand.

B. always zero.
C. perfectly inelastic.
D. always greater than the short-run elasticity of supply.

42) Suppose demand for electricity is perfectly inelastic. A tax on electricity will be
A. split between producers and consumers in equal shares.
B. paid only by producers.
C. paid only by consumers.
D. split between producers and consumers in unequal shares.

5-Market Efficiency and Social Welfare

43) 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.

44) 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.

45) If the government decides to reduce the payroll taxes on the wages and salaries of workers, then there will most likely be:
A. a decrease in saving.
B. a decrease in investment.
C. an increase in consumption.
D. an increase in unemployment.

46) Which of the following statements is correct?
A. Bargaining between affected parties is always effective in reducing the inefficiencies caused by externalities, even in the presence of transaction costs.
B. The market price of pesticides is unlikely to reflect the full social cost of their use.
C. All externalities result in the good producing have the external effect being overused.
D. Reducing air travel is an unfortunate and inefficient by-product of taxing flights.

47) The tax described in the table above is a

STATE TAX TABLE	
Income	Percentage Tax Rate
$0 – $10,000	0
$10,001 – $40,000	10
$40,001 – $90,000	20
$90,001 and above	30

A. flat tax on income.
B. progressive income tax.
C. proportional income tax.
D. regressive income tax.

48) Consider the situation where the noise of a factory's production affects nurses in the dormitory next door. If there are no transaction costs to impede bargaining, which of the following statements is correct?

A. Whether the final output level will be Pareto efficient depends on who has the initial property rights.

B. The nurses would be better off in the bargained allocation if they initially had a right to undisturbed sleep than they would if the factory has the right to make noise.
C. If the factory has the right to make noise, it will prefer not to bargain with the nurses.
D. If the nurses have the initial rights, they will obtain all of the net social gain from factory production.

49) If market failures exist, which of the following is true?
A. Government intervention in economic activities will not improve on market outcomes.
B. Markets fail to produce any goods and services, so communism is necessary.
C. The marginal benefits of production are greater than marginal costs, regardless of price.
D. The equilibrium price and quantity determined by markets are not socially optimal.
E. More public goods are produced than private goods.

50) Which of the following is not a characteristic of pure public goods?
A. In unregulated markets, an inefficient quantity would be produced.
B. Pure public goods are subject to the free rider problem.
C. When you use a pure public good, others can use it at the same time.
D. It is generally difficult to divide pure public goods into parts and charge people based on how much they use.
E. The marginal cost of producing the goods increases as more and more people consume them.

51) An income tax for which the average tax rate rises as income increases is known as a
A. flat tax.
B. poll tax.

C. proportional tax.
D. regressive tax.
E. progressive tax.

52) An economically efficient situation is one in which
A. everyone has everything they need.
B. everyone has above-average income.
C. total surplus is maximized.
D. all producers are operating at the lowest possible marginal cost.

53) The deadweight loss from taxation is the
A. reduction in total surplus that results from a tax.
B. loss of profit to businesses when a tax is imposed.
C. reduction in consumer surplus when a tax is placed on buyers.
D. decline in government revenue when taxes are reduced in a market.

54) Who among the following is a free rider?
A. Barry steals candy from the store where he works.
B. Betty regularly uses the local public library in the town in which she lives.
C. Joe drives 20,000 miles a year on public streets, but he pays no more in taxes than Sam, who only drives 1,000 miles.
D. Fred watches many public television programs, but he has never sent in a contribution to the station.

55) One way of measuring the economic inefficiency in a specific situation is to calculate the
A. difference between the price of the good in the inefficient situation and the price if the situation was efficient.
B. change in revenue reported by firms.
C. loss in consumer and producer surplus relative to an efficient solution.
D. change in economic profits relative to an efficient solution.

56) Market failure in the form of externalities arises when
A. production costs are included in the prices of goods.
B. not all costs and benefits are borne by consumers and producers.
C. the benefits exceed the costs of consuming goods.
D. the market fails to achieve equilibrium.

57) If the government wants to tax a polluter, the economically efficient outcome occurs when
A. the marginal tax equals the marginal cost to other people from the pollution.
B. the average tax equals the average cost to other people from the pollution.
C. the total tax equals the total cost to other people from the pollution.
D. the tax is high enough to stop pollution completely.

58) When a tax is imposed on a good with normal price elasticities, 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.

59) 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 free market equilibrium quantity of a public good below the economically efficient level.

60) The per-unit tax on a good is
   A. the difference between the list price and the actual price paid by the buyer.
   B. the licensing fees and other business taxes paid by sellers, averaged over the total quantity of goods sold.
   C. the difference between the total price paid by the buyer and the price received by the seller.
   D. the difference between wholesale and retail prices.

61) A per-unit tax on a good creates deadweight loss because
   A. it makes demand more inelastic.
   B. it makes supply more elastic.
   C. by increasing the price consumers pay, and reducing the price sellers receive, it prevents some mutually beneficial trades.
   D. the government wastes the tax revenues it receives.

62) Which one of the following is most likely to be a reason for government failure?
   A. Excessive consumption of demerit goods.
   B. The difficulties in determining the true social costs and benefits of merit goods.
   C. Missing markets for public goods and merit goods.

63) Which of the following is not true about pure public goods?
   A. These goods are available to all in equal amounts.
   B. These goods are non-rival in consumption.
   C. These goods cannot easily be sold to individuals.
   D. The marginal cost of providing these goods to an additional consumer is zero.
   E. One person's consumption reduces the amount available for others.

64) One economically efficient way to eliminate the tragedy of the commons is to

A. tax the owners of the resource.
B. prevent anyone from using the resource.
C. reduce the marginal social benefit of the resource.
D. establish private ownership of the resource.

65) To achieve the optimal provision of public goods,

A. the market should be allowed to find its equilibrium without government intervention.
B. the government must limit the provision of the goods.
C. the government must tax producers of these goods.
D. the government must either provide the goods or subsidize their production.

6-Firm Behavior and the Organization of industry

66) A firm is productively efficient when

A. it is operating at the lowest point on its average total cost curve.
B. an increase in production will decrease average total costs.
C. output per worker cannot increase.

67) The table represents market demand Q for a good at different prices P. The firm's unit cost of production is $60. Based on this information, which of the following is correct?

Q	100	200	300	400	500	600	700	800	900	1,000
P	$270	$240	$210	$180	$150	$120	$90	$60	$30	$0

A. At Q = 100, the firm's profit is $20,000.
B. The profit-maximizing output is Q = 400.
C. The maximum profit that can be attained is $50,000.
D. The firm will make a loss at all outputs of 800 and above.

68) A small business would like to hire more workers. Each additional worker hired costs the business $100 a day. The additional revenue the business receives from having more workers is $150 per day for the first worker, $130 per day for the second worker, $110 per day for the third worker, and $90 for the fourth worker. How many workers in total should the business hire to maximize its profits?

A. One worker.
B. Two workers.
C. Three workers.
D. Four workers.

69) Four farmers are deciding whether to contribute to the maintenance of an irrigation project. For each farmer, the cost of contributing to the project is $10. But when any one farmer contributes, all four of them will benefit from an increase in their crop yields, in particular each gains additional $8. Which of the following statements is correct?

A. If all the farmers are selfish, none of them will contribute.
B. There are multiple Nash equilibria in this game.
C. If Kim is altruistic and contributes $10, the others might contribute too, even if they are selfish.

D. If the farmers have to reconsider this decision every year and consider infinite horizon of planning, they will never choose to contribute to the project if they are selfish.

70) Jane spends all her money on the ingredients of her favorite cocktail. To make a portion of the cocktail, she has to mix 200 ml of orange juice with 100 ml of apple juice and with 200 ml of water. Any juice costs 3 USD per liter, water costs 0.5 USD per liter. If she has 20 USD, how many portions of the cocktail can she make?
A. 10
B. 12
C. 20
D. None of the above.

71) Which of the following is true in an industry where economies of scale exist?
A. Larger firms can produce at lower average costs than smaller firms.
B. Long-run average total costs increase as firms gets larger.
C. Large and small firms can compete effectively with each other.
D. To maximize profits, firms have incentives to decrease their size.
E. Economies of scale are illegal throughout the world and the World Trade Organization will shut down the industry.

72) A business will maximize profit if it produces the quantity of output at which
A. total revenue = total cost
B. average revenue = average variable cost
C. marginal revenue = marginal cost
D. total revenue = price
E. average cost = total fixed cost

73) The marginal cost of production is defined as
A. the cost of producing the current level of output.
B. the benefit to society from producing total output.
C. the cost of producing the current level of output divided by the number of units produced.
D. the impact on the environment of producing one more unit.
E. the change in total cost when an additional unit is produced.

74) Use the table, showing a firm's short-run cost information, to answer the following question. The marginal cost of producing the second unit of output

Quantity of Output	Total Cost
0	$6
1	$7
2	$9
3	$12

A. is $0.
B. is $2.
C. is $4.50.
D. is $22.
E. cannot be determined.

75) What are the fixed costs in the cost schedule shown here?

Price	Quantity	Total Cost
$50	0	$5.00
$50	1	$25.00
$50	2	$45.00
$50	3	$65.00
$50	4	$85.00
$50	5	$105.00

A. 5
B. 20
C. 50
D. 100
E. fixed costs range from $5.00 to $105.00

76) Which of the following is a variable cost in the short run?
A. wages paid to workers.
B. interest paid on a business loan.
C. lease payments on machinery.
D. rent payments for the factory.
E. contractual payments to suppliers.

77) The following table depicts the level of labor and production for a firm making shirts. If each shirt sells for $20, what is the marginal revenue product of the 5th worker?

Number of Workers	Number of Shirts Produced
0	0
1	4
2	9
3	16
4	22
5	26

A. 10
B. 80
C. 136
D. 150
E. 520

78) 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

79) The minimum points of the average variable cost and average total cost curves occur where
A. the marginal cost curve lies below the average variable cost and average total cost curves.
B. the marginal cost curve intersects those curves.
C. wages are the lowest.
D. the slope of total cost is the smallest.

80) Economies of scale
A. requires a change in the size of operations and therefore is a long-run consideration.
B. requires a more intensive use of existing plant and therefore is a short-run consideration.
C. means that a doubling of plant size will double output.
D. requires a change in the size of plant and therefore is a short-run consideration.

81) 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.

82) The law of diminishing returns applies to a situation in which:

A. all inputs are fixed.
B. all inputs are variable.
C. all inputs are increased in the same proportion.
D. some inputs are fixed and some inputs are variable.
E. all inputs are perfect substitutes.

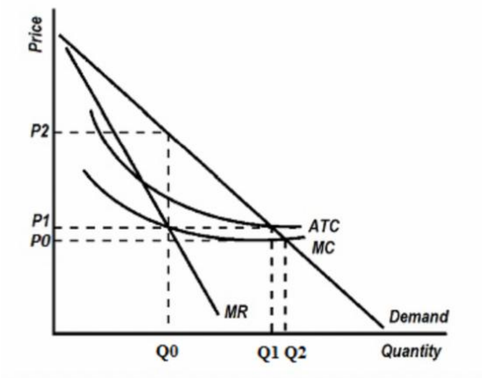
83) Metro North Railway is trying to decide whether or not to run an additional train into New York City from New Haven, Connecticut at 8:15 a.m. The total cost of running trains between 8:00 a.m. and 9:00 a.m. is $45,000 and the expected revenues on any given day are $100,000 during this time period. The cost of running the additional train is $4,000 and it is expected that revenues will rise to $103,500. Metro North should
A. run the train because the total revenues are greater than the total costs.
B. run the train because the firm's revenues will rise.
C. not run the train because the total costs are already too high.
D. not run the train because the marginal cost of $4000 is greater than the marginal revenue of $3,500.

84) If a firm experiences constant returns to scale at all output levels, then its long-run average total cost curve would
A. slope downward.
B. be horizontal.
C. slope upward.
D. slope downward for low output levels and upward for high output levels.

85) Since the 1980s, Walmart stores have appeared in almost every community in America. Walmart buys their goods in large quantities and therefore at cheaper prices. Walmart also locates its stores where land prices are low, usually outside of the community business district. Many customers shop at Walmart because of low prices and free parking. Local retailers, like the neighborhood drug store, often go out of business because they lose customers. This story demonstrates that
A. consumers are boycotting local retailers whose prices are relatively higher.
B. there are diseconomies of scale in retail sales.
C. there are economies of scale in retail sales.
D. there are diminishing returns to producing and selling retail goods.

7-Market Structure

86) 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

87) 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.

88) Consider a perfectly competitive market where all firms have constant and equal average cost (a constant cost industry). How will an increase in demand affect the long-run equilibrium price on such a market?
A. Price will increase
B. The price will remain constant
C. The price will decrease
D. Unclear

89) Which is an clearly example of third-degree price discrimination?
A. charging different prices for next-day delivery and 3-day delivery.
B. charging a lower price per unit for printing 500 business cards as opposed to printing 50.
C. different prices for movie tickets for children and adults.
D. higher prices for premium-grade gasoline compared to regular.
E. higher prices for first-class seats on an airplane compared to coach.

90) Assume legislation lifts the regulations that give this industry monopoly power. What happens to price and production?
A. Price increases and output shrinks.
B. Price and output increase.
C. Price and output remain constant.

D. Price and output decrease.
E. Price decreases and output expands.

91) Price-fixing agreements among firms are a form of:
A. collusion.
B. competition.
C. club pricing.
D. collective bargaining.
E. coordinated monetary policy.

92) Natural monopolies exist because of
A. economies of scale.
B. economies of scope.
C. decreasing returns to scale.
D. a zero percent industry concentration ratio.
E. the lack of enforcement of antitrust laws.

93) How do industries under monopolistic competition resemble those in pure competition?
A. In both market structures, barriers to entry are weak or do not exist.
B. Differentiated products are produced in both market structures.
C. Industries in both market structures consist of only a few firms.
D. Industries in both market structures are price searchers as opposed to price takers.
E. In the long run, industries in both market structures earn high economic profits.

94) A monopolist is able to earn long-run economic profits because:
A. it can charge any price it wants to.
B. it produces where MR=MC
C. there are barriers to entry.
D. antitrust laws allow mergers and acquisitions.
E. competitors are slow to adopt cutting-edge technology.

95) The demand schedule for a product for an individual firm is presented below. What kind of market structure does this represent?

Price	Quantity Demanded
$1.00	1
$1.00	2
$1.00	3
$1.00	4

A. monopoly
B. perfect competition

C. oligopoly
D. monopsony
E. monopolistic competition

96) Monopoly is different from other market structures because
A. consumer demand does not help determine the market price.
B. profit is maximized where marginal price = marginal revenue.
C. marginal cost increases.
D. advertising is ineffective.
E. the individual firm and industry demand curve is identical.

97) When a firm price discriminates, the lower price is charged in the market segment
A. where demand is price elastic.
B. where demand is price inelastic.
C. with the most customers.
D. with less competition.
E. with the least costs.

98) A dominant strategy is one that
A. makes every player better off.
B. makes at least one player better off without hurting the competitiveness of any other player.
C. increases the total payoff for the player.
D. is best for the player, regardless of what strategy other players follow.

99) Many economists criticize monopolists because they produce at output levels that are not productively efficient. That is to say, monopolists
A. charge too high a price.
B. don't innovate.
C. produce a large quantity of waste.
D. have no incentive to produce at their minimum ATC.

100) The first major piece of antitrust legislation in the United States was the
A. Clayton Act.
B. Celler-Kefauver Act.
C. Sherman Act
D. Robinson-Patman Act.

101) The term "strategic interaction" refers to
A. the link between consumer welfare and industry cost curve.
B. tacit agreements between the producers and the consumers of inputs.
C. the fact that each firm's business strategy depends upon its rival's business behavior.
D. the realization by oligopolists that higher selling prices imply lower sales.

102) Which of the following best explains why collusive oligopolies are not stable?

A. Companies are inherently hostile to each other.
B. Companies feel they have a moral responsibility not to collude.
C. Each company in the oligopoly can increase its profits by deviating from the agreed upon price and quantity.
D. Oligopolies are not unstable, rather they are quite stable.

103) An equilibrium in which each firm in an oligopoly industry maximizes profit, given the actions of its rivals, is called

A. a general equilibrium.
B. a dominant equilibrium.
C. a Nash equilibrium.
D. an oligopoly equilibrium.

104) A monopolist that practices perfect price discrimination

A. creates no deadweight loss.
B. charges one group of buyers a higher price than another group, such as offering a student discount.
C. produces the same monopoly level of output as when a single price is charged.
D. charges some customers a price below marginal cost because costs are covered by the high-priced buyers.

105) Product differentiation allows the firm to

A. raise both price and quantity demanded.
B. raise price without suffering a substantial loss of sales.
C. shift the market demand curve to the left.
D. decrease barriers to entry.

106) Which of the following is a characteristic of oligopoly or monopolistic competition, but not perfect competition?

A. Advertising and sales promotion.
B. Profit maximization according to the MR = MC rule.
C. Firms being price takers rather than price makers.
D. Horizontal demand and marginal revenue curves.

107) The U.S. market for locomotives is divided between two producers: General Electric has 70 percent of the market and General Motors has 30 percent. This market is an example of

A. monopolistic competition.
B. a collusive monopoly.
C. a duopoly.
D. a cartel.

108) An equilibrium when there is perfect competition

A. is undesirable.
B. is allocatively efficient.
C. leads to high consumer surplus at the expense of producer surplus.
D. can be economically efficient only if the government steps in with price floors to protect sellers.

109) If a perfectly competitive industry is not forced to take account of a negative externality it creates, it will produce where

A. the marginal cost of production equals the marginal private benefit.
B. the marginal cost of production equals the marginal social benefit.
C. the marginal social cost of production equals the marginal social benefit.
D. price equals marginal social benefit.

110) Which of the following firms is the closest to being a perfectly competitive firm?

A. A hot dog vendor in New York.
B. Microsoft Corporation.
C. Ford Motor Company.
D. The campus bookstore.

111) If there is an increase in market demand in a perfectly competitive market, then in the short run,

A. there will be no change in the demand curves faced by individual firms in the market.
B. the demand curve for firms will shift downward.
C. the demand curve for firms will become more elastic.
D. profits will rise.

112) What economic argument suggests that if transactions costs are sufficiently low, the equilibrium is economically efficient regardless of how property rights are distributed?

A. The Coase Theorem.
B. Say' s Law.
C. The Law of Comparative Advantage.
D. The Law of Supply.

113) 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.

114) 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.

115) Tommy's Tires operates in a perfectly competitive market. If tires sell for $50 each and ATC = $40 per tire at the profit maximizing output level, then in the long run

A. more firms will enter the market.
B. some firms will exit from the market.
C. the equilibrium price per tire will rise.
D. average total costs will fall.

8-Economics of Labor Market

116) Specialization of labor usually results in

A. an increase in inflation.
B. a more equal distribution of income
C. an increase in output per hour worked.
D. a decrease in economic interdependence.

117) A perfectly competitive labor market, firms are wage takers and the marginal cost of labor equals

A. the marginal product of labor.
B. the total cost of labor.
C. the average cost of labor.

118) Which would most likely increase the productivity of labor?

A. An increase in capital investment.
B. A decrease in the pay of corporate executives.
C. An increase in interest rates for business loans.
D. A decrease in the use of laborsaving technology.

9-Theory of Consumer Choice

119) Which of the following statements best describes the concept of commitment device?

A. A student announces through social media that he will contribute to charity every time he gets a grade lower than B– and publish the receipts online.

B. A country leader announces the new policy of fighting corruption through increased fines for corrupt officials.
C. An investor buys treasury bonds.
D. The price of ice-creams increases after a surge in demand.

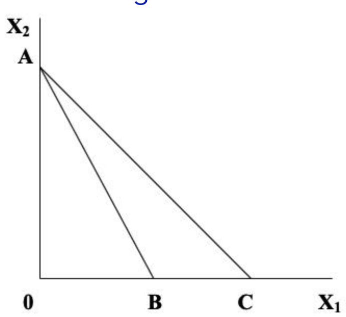
120) Budget constraints exist for consumers because
A. their utility from consuming goods eventually reaches a maximum level.
B. even with unlimited incomes they have to pay for each good they consume.
C. they have to pay for goods and they have limited incomes.
D. prices and incomes are inversely related.

121) Suppose Rich always uses two packets of sugar with his coffee. Rich's indifference curves for sugar and coffee are
A. bowed inward.
B. bowed outward.
C. straight lines.
D. L-shaped.

122) If the price of bread is zero, a budget line between bread (on the vertical axis) and cheese (on the horizontal axis) would
A. be vertical.
B. coincide with the vertical axis.
C. coincide with the horizontal axis.
D. be horizontal.

123) Indifference curves tend to be bowed inward because of diminishing
A. marginal rates of substitution.
B. demand for the good as prices rise.
C. income.
D. supply of the good being consumed.

124) As shown in the figure, a shift in the budget line from AB to AC represents



A. an increase in the price of good 1.
B. an increase in the price of good 2.

C. a decrease in the price of good 1.
D. a decrease in the price of good 2.

125) Mary is maximizing total utility while consuming food and clothing. Her marginal utility from food and clothing are 50 utils and 25 utils respectively. If clothing is priced at $10 per unit, the price of food

A. must be rising.
B. must be falling.
C. must equal $10 as well.
D. must equal $20.

126) Concerning public utilities, the stated reason for resorting to regulation of a monopoly, rather than promoting competition through antitrust, is that the industry in question is believed to be a
A. profit-maximizing monopoly.
B. producer of externalities.
C. revenue-maximizing monopoly.
D. natural monopoly.

Macroeconomics

1-Basic Concepts

1) The reduction of risk achieved by replacing a single risk with a large number of smaller unrelated risks is called
   A. compounding
   B. present value
   C. diversification
   D. future value

2) Which of the following cases represents the concept of a natural experiment?
   A. People play game differently in different experimental setups
   B. The placebo effect of a drug was confirmed in the laboratory
   C. The difference between the economies of South and North Korea
   D. People sometimes cooperate in the Prisoner's dilemma game conducted for writing papers in experimental economics

2-GDP and Economic Growth

3) All other things being equal, which one of the following is most likely to lead to an increase in both saving and investment? An increase in
   A. Unemployment
   B. incomes
   C. the interest rate

4) Choose the government policy that will by itself reduce short-run GDP (use the AD-AS model)
   A. Increase in the sales tax rate
   B. Decrease in the income tax rate
   C. Quantitative easing
   D. Buying assets on the open market

5) Which of the following statements is correct?
   A. GDP can be measured either as the total spending on domestically produced goods and services, or the total value added in domestic production, or the sum of all incomes received from domestic production.
   B. Both exports and imports are included in the measurement of GDP.
   C. Government production is not included in the GDP.
   D. Domestically consumed goods are included in GDP with more weight than exports.

6) Gross private domestic investment is best described as
   A. a measure of the total output of financial capital in the economy.

B. a measure of the change in capital stock of a nation, including replacement purchases but excluding residential investment and inventory changes.
C. a measure of newly produced capital goods, construction, and changes in inventories.
D. investment in production facilities for gross products rather than environmentally sound products.
E. GDP less consumption expenditures, less government expenditures, less net foreign investment, and less capital depreciation.

7) Each of the following describes economic growth, or some feature of economic growth, except:
   A. Outward shifts of the production possibilities curve
   B. Improvements in labor productivity
   C. Increases in the quality of capital stock per person
   D. Leftward shifts of aggregate supply
   E. Steady percentage increases in real GDP

8) 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 2012 and 2013. What was the approximate inflation rate between 2012 and 2013?

Year	Real GDP	Nominal GDP
2012	300	330
2013	309	360

   A. 3 percent
   B. 6 percent
   C. 9 percent
   D. 10 percent
   E. 16 percent

9) Consider the following hypothetical table for the United States in 2015 (values are in billions). What is the value of net private domestic investment?

Business Fixed Nonresidential Investment:	$1,700
Depreciation:	$1,500
Residential Construction:	$400
Change in Business Inventories:	$50

   A. $200 billion
   B. $250 billion
   C. $650 billion
   D. $1,750 billion
   E. $2,150 billion

10) Which of the following occurs as economies grow and individuals achieve higher standards of living?
   A. Consumption becomes a larger portion of GDP.

B. Geo-political risks increase.
C. Some jobs are created, and others are destroyed.
D. The rich get rich at the expense of the poor.
E. Trade with other countries dwindles.

11) The table shows national income account measures from Country A from last year. What was the Gross Domestic Product of Country A?

Personal Consumption Expenditures	$7,900
Gross Private Domestic Investment	$1,850
Exports	$1,350
Imports	$1,190
Government Goods and Services Expenditures	$1,000
Federal Tax Revenues	$900

A. 10910
B. 12390
C. 13290
D. 14190
E. 11910

12) Goods and services purchased by one business from another and treated as inputs are called what by economists?
A. Consumer goods and services
B. Inventory
C. Taxes
D. Intermediate goods
E. Final goods and services

13) When jobs are relatively abundant, which of the following can be healthy for a growing economy?
A. Rise in the number of individuals in transfer payment programs
B. Underutilization of the employed
C. Frictional unemployment
D. Cyclical unemployment
E. Discouraged workers

14) Which of the following is not included in GDP for the US?
A. The value of a Honda made in the US.
B. The value of a Honda made in Japan.
C. The value of the insurance policy covering a Honda in the US.
D. The value of the parts used to repair a Honda in the US.
E. The value of the commission on the sale of a Honda in the US.

15) If private investment increased by $50 billion while GDP remained the same, which of the following could have occurred, all else being the same?

A. Consumption spending decreased by $50 billion.
B. Exports increased by $50 billion.
C. Imports decreased by $50 billion.
D. Net exports increased by $50 billion.

16) Inward oriented policies stall economic growth because

A. international trade leads to lower domestic employment.
B. they encourage the brain-drain.
C. infant industries are unable to compete with the rest of the world.
D. they do not allow a country to take advantage of the gains from trade.

17) Economists say that investment occurs when

A. someone buys stock on the New York Stock Exchange.
B. someone buys a U.S. government bond.
C. a firm increases its capital stock.
D. a government buys goods from another country.

18) A singular important link between politics and economics in countries that are attempting to increase their economic growth rates is that

A. democracies are more productive than non-democracies.
B. democracies must constantly make difficult budgetary choices.
C. political instability is incompatible with long-term private investment.
D. conservative governments tend to focus development on military industries.

19) An increase in the capital stock causes labor productivity to

A. decrease and the standard of living to increase.
B. increase and the standard of living to increase.
C. decrease and the standard of living to decrease.
D. increase while the standard of living remains constant.

20) An economy produces only two goods, oranges and VCRs. The quantities and prices for the years 2005 and 2006 are shown in the table. The base year is 2005. Real GDP in 2006 is

	2005		*2006*	
	price	*quantity*	*price*	*quantity*
oranges	$2	5,000	$3	4,000
VCRs	$400	1,000	$300	2,000

A. 6000
B. 410000
C. 612000

D. 808000

21) The investment demand curve
A. is upward sloping.
B. is downward sloping.
C. is horizontal.
D. begins sloping upward, then becomes horizontal.

22) If technical progress raises productivity permanently, then
A. the equilibrium interest rate will increase.
B. equilibrium saving will increase.
C. real GDP will increase.
D. all of the above will happen.

23) The quantity of loanable funds supplied is
A. positively related to the level of income.
B. negatively related to the price level.
C. positively related to the price level.
D. positively related to the interest rate.

24) The supply of loanable funds curve is upward-sloping because a rise in the interest rate
A. decreases the opportunity cost of firms' investment spending.
B. increases the opportunity cost of firms' investment spending.
C. decreases the opportunity cost to households of consuming.
D. increases the opportunity cost to households of consuming.

25) If taxes are reduced with no change in government spending, and people save all the money from the tax cut,
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 remain constant.
C. the supply of loanable funds will increase and the interest rate will decrease.
D. neither the demand nor the supply of loanable funds will change.

26) If a series of major technological breakthroughs occur in the economy at the same time, then the most likely outcome would be that the economy's
A. investment demand curve will shift downward.
B. investment demand curve will shift upward.
C. consumption curve will shift downward.
D. position along the existing investment curve will move upward.

27) Which of the following would be counted as an investment expenditure in the national income accounts?

A. The Navy builds a new battleship.
B. Microsoft expands plant capacity to produce new software.
C. A public high school builds a new football stadium.
D. All of the above would be counted as investment expenditure.

3-Cost of Living

28) Unexpected inflation is most likely to benefit people
A. saving money in accounts at financial institutions.
B. owing money on loans at fixed interest rates.
C. living on fixed incomes and pensions.
D. holding life insurance policies.

29) Which would likely increase the average level of interest rates for auto loans?
A. An increase in inflation.
B. An increase in the unemployment rate.
C. A decrease in the level of business investment.
D. A decrease in the amount of consumer spending.

30) The GDP of a country A was $2000M in 2010 and $2100M in 2011. The GDP price index was 100.0 in 2010 and 104.0 in 2011. The GDP annual rate of change and GDP price index annual rate of change are____% and ____% respectively.
A. 100 and 4.0
B. 5.0 and 4.0
C. 4.7 and 2.0
D. 1.7 and 5.0
E. 4.0 and 5.0

31) The GDP of a country A was $2000M in 2010 and $2100M in 2011. The GDP price index was 100.0 in 2010 and 104.0 in 2011. The real GDP for 2011, using the year 2010 as a base year, is $______ (rounded to nearest $) and the country is______ off this year.
A. $1,981; worse
B. $2,019; better
C. $2,100; better
D. $2,096; better
E. $1,040; worse

32) Unanticipated inflation in the U.S. negatively impacts:
A. the purchasing power of real wages and incomes.
B. the purchasing power of fixed wages and incomes.
C. amounts imported from other countries with relatively low inflation.
D. borrowers of moderate to high amounts of funds.

E. borrowers of low to moderate amounts of funds.

33) Which of the following is a reason why the Consumer Price Index (CPI) is not calculated as a simple average of all prices?
   A. Some goods experience large price changes and the CPI would be too variable if computed by a simple average.
   B. Goods differ in their importance in the average consumer's budget.
   C. Some goods never experience price changes and the CPI would not be variable enough if computed as a simple average.
   D. It would be difficult to compute a price index using a simple average of all prices.

34) 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

35) In general, a higher-than-anticipated inflation rate
   A. helps everyone.
   B. hurts everyone.
   C. helps creditors and harms debtors.
   D. helps debtors and harms creditors.

36) If you borrow money at a nominal interest rate of 5 percent and the inflation rate is 10 percent, what real interest rate will you pay?
   A. - 5 percent
   B. 5 percent
   C. 2 percent
   D. 10 percent

37) Assume net exports are -$220, consumption is $5,000, tax revenues are $1,000, government purchases are $1,500, and 1997 GDP, calculated by the expenditures approach, is $8,000. We can conclude that
   A. private investment was $1,940.
   B. public investment was $310.
   C. private investment was $320.
   D. private investment was $1,720.

38) Which of the following would most likely cause GDP to overstate the actual output produced in a year?
   A. Increased production in the underground economy.
   B. A decline in the quality of goods and services produced.

C. Increased production for home use (non-market production).
D. A decline in population.

39) Investors criticize the federal income tax system because they must pay taxes
A. on gains that merely reflect the effects of inflation.
B. only on gains that exceed the effects of inflation.
C. on losses as well as gains.
D. on losses but not on gains.

40) Some economists feel inflation is bad
A. because it reduces real GDP so much.
B. only if it is steady.
C. because it redistributes income arbitrarily.
D. only if it is anticipated.

41) In general, a higher-than-anticipated inflation rate
A. helps everyone.
B. hurts everyone.
C. helps creditors and harms debtors.
D. helps debtors and harms creditors.

4-Income Inequality and Unemployment

42) Efficiency wages are
A. lower than market wages paid by employers to increase profitability.
B. higher than market wages paid by employers to increase productivity.
C. negotiated by unions when officials are interested in trimming work forces.

43) If the minimum wage is set above the equilibrium wage rate, then other things being equal
A. there will be excess supply in the labor market.
B. there will excess demand in the labor market.
C. more people will be employed.

44) Over time the economic condition that would most likely lead to an increase in worker wages is an increase in
A. the payroll taxes of the workers who make the product.
B. the demand for the product that is made by the workers.
C. the cost of the materials for the product the workers make
D. government regulation of the product the workers make.

45) A recession in the country of Econia caused a sharp increase in unemployment. As Econia recovered from the recession, unemployment remained high because of jobs/skills mismatches. What types of

unemployment did Econia experience?

A. Econia experienced frictional unemployment followed by seasonal unemployment.
B. Econia experienced cyclical unemployment followed by structural unemployment.
C. Econia experienced seasonal unemployment followed by structural unemployment.
D. Econia experienced frictional unemployment followed by cyclical unemployment.
E. Econia experienced structural unemployment followed by cyclical unemployment.

46) Currently you work for 40 hours per week at the wage rate of $20 an hour. Your free hours are defined as the number of hours not spent in work per week, which in this case is 24 hours × 7 days – 40 hours = 128 hours per week. Suppose now that your wage rate has increased by 25%. If you are happy to keep your total weekly income constant, then:

A. your total number of working hours per week will fall by 25%.
B. your total number of working hours per week will be 30 hours.
C. your total number of free hours per week will increase by 25%.
D. your total number of free hours per week will increase by 6.25%.

47) In a normal labor market, where capital and labor are substitutes, an increase in the productivity of workers in that market will cause a(n) ____________ in average wages in the market and a(n) __________ in the number of workers hired.

A. increase; decrease
B. decrease; increase
C. increase; increase
D. decrease; decrease
E. no change; no change

48) The amount of ______increases when the economy goes into a recession and decreases when the economy goes into an expansion.

A. structural unemployment
B. seasonal unemployment
C. cyclical unemployment
D. frictional unemployment

49) Providing training for unemployed individuals will help to alleviate

A. structural unemployment.
B. seasonal unemployment.
C. national unemployment.
D. cyclical unemployment.

50) A potential problem with efficiency wages is that if all firms try to do it

A. no one will have a job.
B. unemployment will occur.
C. workers will have higher salaries than managers.

D. unions will go on strike against them.

51) When the minimum wage is set above the equilibrium market wage,
   A. there will be an excess demand for labor at the minimum wage.
   B. it will have no effect on the quantity of labor employed.
   C. the unemployment rate will rise in a competitive labor market.
   D. the quality of the labor force will rise.

52) Fred is a low-skilled worker who washes dishes in a local restaurant. He is worried about a proposed increase in the minimum wage because
   A. price floors tend to create shortages.
   B. price ceilings tend to create shortages.
   C. price floors tend to reduce quantity demanded.
   D. price ceilings tend to reduce quantity demanded.

53) If the capital stock increases faster than employment, then we would expect
   A. both output and labor productivity to rise.
   B. output to rise but labor productivity to fall.
   C. both output and labor productivity to fall.
   D. output to fall but labor productivity to rise.

54) Efficiency wages are
   A. lower than market wages paid by employers to increase profitability.
   B. higher than market wages paid by employers to increase productivity.
   C. government determined minimum wages set to protect workers from unfair employers.
   D. negotiated by unions when officials are interested in trimming work forces.

5-Aggregate Demand and Aggregate Supply

55) All other things being equal, an increase in aggregate demand would result from an increase in the
   A. household saving ratio.
   B. government’s budget surplus.
   C. ratio of household consumption to national income.

56) Along the short run Aggregate Supply Curve, all of the following are assumed to be held constant, except for:
   A. resource prices
   B. technology
   C. wage rates
   D. price level
   E. the total capital stock

57) Suppose U.S. consumers suddenly revise upwards their income expectations. The immediate result is that U.S. aggregate demand will

A. increase, because higher income expectations increase consumption
B. decrease, because consumers will save more of their income
C. increase, because firms will invest more
D. decrease, because consumers will stop buying until income actually rises.
E. not change, because expectations of consumers are not relevant in the present.

58) A change in which of the following factors will change aggregate demand?

A. The price of substitute goods and services
B. Taxes
C. The number of retail producers
D. The price of complementary goods and services
E. Technology used to produce goods and services

59) In the long run, the aggregate supply curve is

A. horizontal.
B. upward sloping.
C. downward sloping.
D. vertical.

60) To bring inflation down, an economy most likely sacrifice

A. real GDP.
B. exports.
C. employment for some people.
D. both a and c.

61) Due to expectations of a future recession, companies do not think that they can sell all of their output and therefore purchase less equipment and machinery. As an immediate result, the

A. aggregate supply curve becomes vertical.
B. aggregate supply curve shifts right.
C. aggregate demand curve shifts right.
D. aggregate demand curve shifts left.

62) The wealth effect, interest rate effect, and foreign trade effect all explain why the

A. aggregate supply curve is horizontal.
B. aggregate supply curve is vertical.
C. aggregate supply curve is upward-sloping.
D. aggregate demand curve is downward-sloping.

63) Movements along the aggregate supply curve are caused by changes in

A. technology.
B. government regulations.
C. wages and salaries.
D. the price level.

64) Which of the following will cause the aggregate supply curve to shift to the right?
A. Increases in wages and salaries paid to employees.
B. Increases in the prices of oil and natural gas.
C. Increases in taxes for business.
D. New work rules that increase the productivity of labor.

6-Business Cycle and Phillips Curve

65) 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.

66) Which of the following has not been described as a major factor in the Great Recession (2007-2009) in the United States?
A. Bubble in housing prices
B. Mortgages being "underwater" as housing prices fall
C. Financial market subprime lending
D. Oil price cost push
E. The recession spread from the U.S. around the world

67) The economy is producing at full capacity when it
A. has neither a positive nor a negative output gap.
B. grows more rapidly than its long-run trend rate of growth.
C. is also in equilibrium on its balance of trade.

68) 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.

69) During one period in the 1970s, it appears that aggregate demand in the United States was relatively stable and aggregate supply was shifting leftwards. Which of these best describes what the economy

was experiencing?

A. Deflation
B. Hyperinflation
C. Demand-pull inflation
D. Stagflation
E. Expansion

70) If speculation is that a recession is around the corner, which means that our future incomes will most likely fall, then the effect of all this on the economy now will be

A. the AS curve will shift to the left.
B. the AD curve will shift to the right.
C. the price level will rise and real output will rise.
D. the price level will fall and real output will fall.

71) If the economy were left on its own without the interference of government or the Fed, it would move toward an equilibrium rate of growth that would produce, with only minor interruptions, the natural rate of unemployment without changes in the inflation rate. What economists would support this view?

A. Friedman and Phelps.
B. Phillips.
C. Samuelson and Solow.
D. Greenspan.

72) 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.

73) The short-run Phillips Curve is drawn on the assumption that

A. technology does not affect output in the short run.
B. the skill level of the workforce does not affect output in the short run.
C. prices and wages are sticky in the short run.
D. all of the above.

74) The long-run Phillips curve is vertical at

A. zero unemployment.
B. zero frictional unemployment.
C. the natural rate of unemployment.
D. the natural rate of inflation.

75) Many economists believe that the severity of the Great Depression was due to

A. a flood of imported goods brought about by tariff reductions.

B. the failure of the Federal Reserve to prevent a large drop in the money supply.
C. the huge budget deficits of the federal government.
D. hyperinflation that occurred following World War I.

76) A severe and prolonged recessionary phase of a business cycle is sometimes described as
A. an inverted peak.
B. a trough.
C. a recession.
D. a depression

77) During recessions, GDP falls and unemployment increases. Why might the actual output produced not fall as much as officially measured GDP during a recession?
A. There is an increase in involuntary part-time employment, the output from which is not accounted for in GDP.
B. Workers who became unemployed during the recession may produce goods in the underground economy.
C. Unemployment benefits to laid off workers will allow them to purchase nearly as much output as before.
D. Laid off workers may start their own businesses, but profit income from self-employment is not accounted for in GDP.

7-Monetary Market

78) If an asset functions as a medium of exchange, it
A. holds its value over a long period of time.
B. can be used by people to cover transactions.
C. can be used by firms for debt financing.
D. can be used by firms for equity financing.

79) The "Rule of 72" can be used to:
A. compare fixed and flexible exchange rate regimes.
B. express the degree to which industries are concentrated
C. construct income inequality coefficients
D. benchmark energy prices for the effects of the 1972 increase in world oil prices.
E. calculate the effects of compound interest on wealth accumulations

80) How long will it take $5,000 to become $10,000 if the interest rate is 2.5 percent per year?
A. about 7.2 years
B. about 8.5 years
C. about 14.4 years
D. about 29 years
E. about 48 years

81) 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.

82) The legal reserve requirement is
  A. the minimum amount of reserves the Fed requires a bank to hold.
  B. the interest rate that the Fed charges banks who borrow from it.
  C. the interest rate on loans made by banks to other banks.
  D. an appeal by the Fed to banks, asking for voluntary compliance with the Fed's 100% reserves policy.

83) A reduction in the money supply is likely to
  A. reduce the interest rate
  B. increase the interest rate
  C. increase inflation

84) When commercial banks increase their loans to businesses and consumers, this usually results in
  A. a decrease in the spending power of consumers and businesses.
  B. an increase in government control over the economy.
  C. an increase in the banks' excess reserves.
  D. an increase in the nation's money supply.

85) The market where existing securities are bought and sold is called the
  A. money market.
  B. capital market.
  C. secondary market.
  D. primary market.
  E. pre-existing market.

86) Which of the following permits banks to create money?
  A. Aunt Bee takes $10,000 out of her shoe box and deposits it in her bank.
  B. The government increases taxes.
  C. The Federal Reserve sells bonds.
  D. Congress erects trade barriers.

87) Suppose the economy is in equilibrium at the natural rate of unemployment. When the supply of money increases, ceteris paribus, we expect the initial impact on the economy to be that
  A. real output will rise.
  B. interest rates will fall.
  C. aggregate demand will decrease.

D. the prices of bonds will fall.
E. aggregate supply will increase.

88) Suppose the Federal Open Market Committee (FOMC) buys $1,000 worth of bonds from the Hometown Bank, which is not short of required reserves.
A. This describes an open market process that will reduce the money supply.
B. The direct and immediate result of this transaction is that the money supply has increased by some fraction of $1,000.
C. The Hometown Bank will now have to call in loans, with fewer bonds in its possession.
D. The Hometown Bank has more reserves and can now offer additional loans.
E. The Hometown Bank now has fewer overall reserves.

89) 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.

90) 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 the they loan reserves to the Fed.

91) The major advantage of mutual funds is that
A. they allow people with limited funds to diversify.
B. they encourage households to spend their money on current consumption.
C. fund managers are replaced by household administrators.
D. always use index funds to limit investor risk.

92) What is the price of funds in the loanable funds market?
A. The real interest rate.
B. The Consumer Price Index.
C. The nominal interest rate.
D. The average firm profit rate.

93) If the legal reserve requirement decreases, the
A. money multiplier increases.
B. money multiplier decreases.
C. amount of excess reserves the bank has decreases.

D. money multiplier is unaffected.

94) The multiplier effect

A. tells us that a change in government spending changes equilibrium GDP by more than the change in government spending.
B. works only for increases in investment.
C. is relevant only in situations where the MPC cannot be determined.
D. tells us whether a change in government policy has been effective.

95) If the marginal propensity to consume is 0.5, what is the value of the multiplier?

A. 1
B. 1.5
C. 2
D. 0.5

96) 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 will never change.
C. guarantees that total spending will equal the quantity of loanable funds demanded.
D. requires that the government run a budget deficit.

97) 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.

98) 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.

99) Assuming the economy is in equilibrium, use the following information to determine the amount of funds supplied to the loanable funds market.

Consumption Spending	$3.5 trillion
Net Taxes	$2.7 trillion
Household Saving	$2.5 trillion
Investment Spending	$2.2 trillion
Government Purchases	$3.0 trillion

A. $2.2 trillion
B. $2.5 trillion
C. $2.7 trillion
D. $3.0 trillion

100) As the price level increases, the money demand curve will
A. shift to the left.
B. become steeper.
C. stay in the same position.
D. shift to the right.

101) If the nominal interest rate is 10%, the expected rate of inflation is 7%, and the growth rate of the money supply is 6%, then the real interest rate is
A. -0.04
B. -0.03
C. 0.03
D. 0.04

102) Which of the following can banks count as reserves?
A. Coins in the bank vaults.
B. Paper currency in bank vaults.
C. Deposits at the Federal Reserve Banks.
D. All of the above.

103) The equilibrium interest rate occurs in the money market where the
A. quantity of money available is zero.
B. the maximum quantity of funds has been borrowed and loaned.
C. the money supply is equal to the money demand.
D. the quantity of money demanded is zero.

104) If the supply of money is greater than the amount of money people want to hold, then
A. spending will increase and the price level will fall.
B. spending will increase and the price level will rise.
C. spending will increase and the rate of interest will rise.
D. none of the above; the amount of money supplied is never greater than the amount people want to hold.

105) Which of the following is the most liquid category of assets?
A. Large time deposits.
B. Money market mutual fund balances.
C. Small time deposits.

D. Demand deposits.

106) At an annual interest rate of 20 percent, about how many years will it take $100 to triple in value?

A. 5
B. 6
C. 8
D. 9

107) The amount of money today that would be needed to produce, using prevailing interest rates, a given future amount of money is called

A. future value
B. present value
C. compounding
D. diversification

108) The money supply curve is vertical because

A. real income does not influence the quantity of money supplied.
B. the price level does not influence the level of spending.
C. only the interest rate influences the quantity of money supplied.
D. the Federal Reserve sets the money supply.

109) When the Fed increases the money supply, the interest rate

A. rises and spending increases.
B. rises and spending decreases.
C. falls and spending increases
D. falls and spending decreases.

110) Given an initial deposit of $5,000 and a legal reserve requirement of 25%, the amount of money potentially created by the banking system is

A. 15000
B. 20000
C. 25000
D. 10000

111) The most effective and frequently used tool the Fed has at its disposal to change the economy's money supply is

A. open market operations.
B. the discount rate.
C. the reserve requirement.
D. the federal funds rate.

112) Suppose that instead of buying a $2,000 motorcycle, you invest the money in a financial instrument that pays an annual interest rate of 20 percent. In 6 years, what is the value of your investment.? (Round to the nearest dollar.)

A. 2252
B. 5972
C. 7166
D. 12000

113) When the interest rate rises, the quantity of loanable funds demanded by

A. firms decreases.
B. government decreases.
C. firms increases.
D. government increases.

114) The stock market is an institution that promotes

A. buying and selling of debt financing.
B. the purchase and sale of firm equities.
C. the purchase and sale of mutual funds.
D. bank borrowing and lending.

8-Macroeconomics Policies

115) Which one of the following is a CORRECT statement?

A. Fiscal policy can be used to affect the pattern of economic activity.
B. The Bank of England is responsible for fiscal policy.
C. The government uses fiscal policy to control the exchange rate.

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

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

117) One reason the federal government might reduce taxes is to

A. slow the rate of inflation.
B. slow a rapid rise in interest rates.
C. decrease business spending on plant and equipment.
D. increase consumer spending and stimulate the economy.

118) Which monetary policy would the Federal Reserve most likely adopt as the economy moves into recession during a period of low inflation?

A. Lower the federal funds rate.
B. Increase federal income tax rates.
C. Decrease purchases of government bonds.

D. Raise the reserve requirements for banks.

119) Which monetary policy would the Federal Reserve most likely adopt to fight high inflation during a period of low unemployment?
A. Raise the federal funds rate.
B. Increase the supply of money.
C. Increase federal government spending.
D. Lower the reserve requirements for banks.

120) Which of the following best describes the concept of liquidity trap?
A. A person cannot withdraw money from his bank account because of the bank’s bankruptcy.
B. A firm wants to invest money earned but cannot find projects worth investing in.
C. A government has so much debt that it has to default.
D. The interest rate is so low that people prefer holding cash.

121) Which best describes the general relationship between the risk that a business will default on a loan and the interest rate charged for the loan?
A. A lower interest rate is charged on loans with more risk of default.
B. A higher interest rate is charged on loans with less risk of default.
C. A lower interest rate is charged on loans with less risk of default.
D. The interest rate charged on loans is the same regardless of the risk of default.

122) Suppose aggregate demand rises sharply and inflation ensues. A traditional fiscal policy to reduce inflation would
A. increase government expenditures and reduce taxes.
B. increase government expenditures and increase taxes.
C. conduct open market operations to increase the money supply.
D. decrease government expenditures and increase taxes.
E. decrease government expenditures and decrease the money supply.

123) In 1977, the U.S. Congress amended The Federal Reserve Act, stating that one of its monetary policy objectives of the Federal Reserve should include:
A. balancing its budget.
B. targeting a zero percent rate of inflation.
C. acting to reduce prices for low- to moderate-income households.
D. redistributing income from high-income to low- and moderate-income households.
E. promoting maximum employment.

124) In a developed economy that is growing at about 3 percent per year, with little inflation and is at what most think is full employment, the Federal Reserve should:
A. increase the money supply at a relatively high rate.
B. increase the money supply gradually.

C. hold the money supply steady.
D. decrease the money supply gradually.
E. decrease the money supply at a relatively high rate.

125) Assume the U.S. economy is healthy and expanding at a steady pace. Which of the following policy moves is consistent with Federal Open Market Committee’s statutory mandate?
A. The Federal Reserve sells bonds.
B. The Federal Reserve increases the discount rate.
C. The federal government increases its purchase of goods and services.
D. The federal government increases taxes.
E. The Federal Reserve maintains its current monetary policy.

126) 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.

127) If government spending increases by $1 million, GDP will increase by:
A. $0.5 million
B. $0.75 million
C. between $0.5 and $1 million
D. $1 million
E. more than $1 million

128) 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.

129) 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

130) The interest rate that the Fed charges banks that borrow reserves from it is the

A. federal funds rate
B. discount rate
C. reserve requirement
D. prime rate

131) Given the information in the table, if the legal reserve requirement is 20 percent, this bank has excess reserves of

ASSETS		*LIABILITIES*	
Reserves	$80,000	Demand deposits	$100,000
Loans	$20,000		

A. 80000
B. 60000
C. 40000
D. 20000

132) If a bank keeps some of its excess reserves, the actual money multiplier
A. increases.
B. stays the same.
C. goes to zero.
D. decreases.

133) In the short-run macro model, an open-market purchase of bonds by the Fed will
A. raise the interest rate, reduce spending, and increase output.
B. raise the interest rate, reduce spending, and decrease output.
C. lower the interest rate, reduce spending, and decrease output.
D. lower the interest rate, increase spending, and increase output.

134) Open market sales of bonds by the Federal Reserve reduce the money supply and
A. reduce aggregate expenditures.
B. increase real aggregate expenditures.
C. are helpful in monetizing the federal debt.
D. stimulate purchases of consumer durables.

135) 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.

136) 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.

137) Hyperinflation occurs because governments want to _______ spending but they ignore the fact that increasing the money supply will _______

A. decrease, require greater government spending.
B. increase, also increase the price level.
C. increase, put upward pressure on interest rates.
D. decrease, put downward pressure on interest rates.

138) The long run effect of an increase in government spending is to

A. raise both real output and the price level.
B. raise real output and lower the price level.
C. raise real output and leave the price level unchanged.
D. raise the price level and leave real output unchanged.

International Economics and Current Events

1- International Trade

1) International trade in financial assets
   A. reduces risk by allowing for increased diversification.
   B. increases risk because default risk is greater in foreign countries.
   C. reduces risk because of currency fluctuations.

2) 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.

3) Specialization and division of labor by nations followed by increasing international trade probably would

   A. increase the level of worldwide unemployment.
   B. increase total world production of goods and services.
   C. lower living standards in the poor nations of the world.
   D. eliminate differences in standards of living among nations.

4) 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 at low opportunity costs and importing goods it produces at high opportunity costs.
   B. it produces 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.

5) If a country has a comparative advantage in producing coffee, this means that
   A. it can produce more coffee than its trading partners.
   B. it is advantageous to produce less coffee compared to its trading partners.
   C. it can produce coffee at a lower opportunity cost than its trading partners.
   D. when compared to the advantages of producing other goods, demand for coffee is higher.
   E. the country should not produce coffee for export, but only for domestic consumption.

6) 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.

7) 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.

8) 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.

9) 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. Alpha's opportunity cost of producing one pound of cheese is ____________, while Omega's opportunity cost of producing one pound of cheese is _______________.

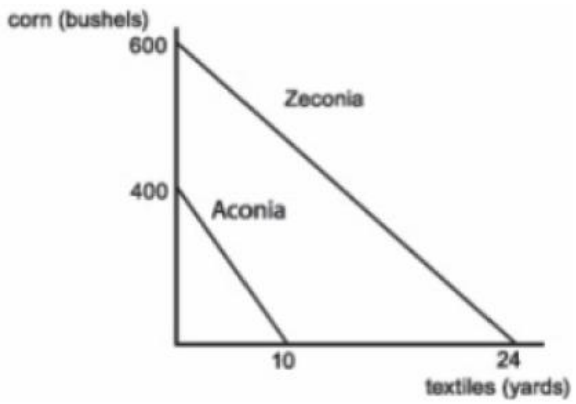
Table 1: Production Possibilities for Countries Alpha and Omega

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

A. $20; $40
B. 1 computer; 2 computers
C. 4 pounds of cheese; 2 pounds of cheese
D. 2 computers; 1 computer
E. 10 computers; 40 computers

10) When people in different countries trade freely with one another,
A. people in one country benefit and people in the other country are hurt, on average.
B. each person in both countries benefits from the trade.
C. each person in both countries is hurt from the trade.
D. the losses from trading outweigh the benefits worldwide, on average.
E. people in both countries gain, on average.

11) Use the diagram to answer the following question. In the production possibilities of the only two countries of the world (Aconia and Zeconia), assuming efficient production, which of the following statements is true?



A. Zeconia has a comparative advantage in both goods.
B. Zeconia has a comparative advantage in corn.
C. Aconia should specialize in producing corn.
D. Specialization and trade cannot increase output in this case.
E. Zeconia gives up 2.5 yards of textiles for each 100 bushels of corn.

12) All of the following are arguments for free trade and against protectionism except
A. protectionism reduces the benefits to consumers.
B. free trade increases the world output.
C. under free trade, the amount of world output will be higher.
D. under protectionism, new industries can be sheltered.
E. free trade increases living standards in the trading countries.

13) When a country opens its markets for trading with the world and begins to specialize, then, within the country, we can say that
A. everyone is better off, including all consumers and producers.
B. domestic producers win and consumers lose.
C. overall benefits exceed overall costs for the country as a whole.
D. everyone is worse off, both the producers and the consumers.
E. domestic consumers win and producers lose.

14) The world has two countries, A and Z, which each produce two products: gadgets and whizbangs. Without world trade, the domestic price of gadgets in A is lower than the price of gadgets in Z. We can say that
A. Country A has a comparative advantage in gadgets and should be exporting them.
B. Country Z should specialize in producing gadgets.
C. Country A has a comparative advantage in whizbangs and should be importing them.
D. Country A has a comparative disadvantage in gadgets and should be exporting them.
E. Country A has an absolute disadvantage in gadgets and should be exporting them.

15) 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. What is the opportunity cost of producing 1 unit of wool for England?

Wheat and Wool Production Possibilities

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

A. 2 bushels of wheat
B. ¼ bushel of wheat
C. 1 bushel of wheat
D. ½ bushel of wheat
E. 10 bushels of wheat

16) Trade that is beneficial to both countries is not possible when
A. one country has an absolute advantage.
B. each country has a comparative advantage.
C. each country has the same opportunity cost of producing a good.
D. world production is equal to world consumption.
E. one country has erected trade barriers.

17) Free trade between countries:
A. should be based on absolute advantage.
B. will allow less developed nations to produce as much as more developed nations.
C. will allow more developed nations to exploit less developed nations.
D. will shift the production possibilities frontier to the right.
E. will allow each country to have a greater amount of consumption than without trade.

18) In the presence of free trade, when a nation imports a good, the domestic consumption of the good __________, and the domestic price of the good ___________.
A. does not change; does not change
B. increases; increases
C. increases; decreases
D. decreases; increases
E. does not change; increases

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) 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

21) 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.

22) 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.

23) 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.

24) 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.

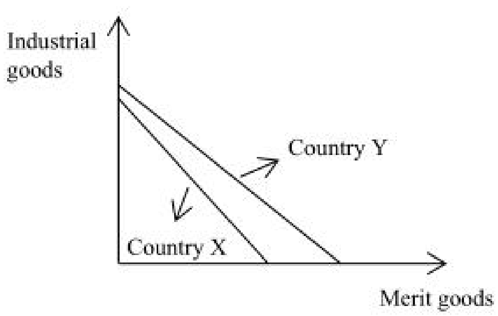
25) An important element of the market process is that

A. although people trade voluntarily, one party "wins" and the other party "loses".
B. the government determines the extent of market activity in order for all parties to benefit.
C. people are better off if they are self-sufficient than if they trade with others in the market
D. people trade voluntarily and all parties expect to benefit.

26) Export and specialization mainly depend on:

A. Absolute advantage
B. Comparative advantage
C. Regulation from the government
D. None of above

27) Economy A's and Economy B's PPF are given below. Country ___ has absolute advantage in producing industrial goods. Country ___ has comparative advantage in producing merit goods. Country ___ has comparative advantage in producing industrial goods. (Credit to Zhongyi Yin from Chongqing Yucai Secondary School)



X, Y, X
Y, X, Y
X, Y, Y
Y, Y, X
X, X, Y

28) Alpha could print one book in 2 hours and make a table in 3 hours. Beta could print one book in 3 hours and make a table in 5 hours. Which of the following statement is true?

A. Beta should import book from Alpha since Alpha has an absolute advantage in book production.
B. Beta should import table from Alpha since Alpha has an absolute advantage in table production.
C. Beta should import table from Alpha since Alpha has a comparative advantage in table production.
D. Beta should import book from Alpha since Alpha has a comparative advantage in book production.
E. There will no trade between Alpha and Beta since Alpha has absolute advantages in both book and table production.

29) 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

2-Restrictions on Free Trade

30) An import quota is a

A. tax on exported goods.
B. tax on imported goods.
C. limit placed on the quantity of goods that a country can import.

31) A tariff is a

A. tax on imported goods.
B. tax on exported goods.
C. tax on goods produced domestically.

32) Some members of Congress want to increase the general level of tariffs. If this increase occurs, then we should expect

A. a decrease in U.S. inflation.
B. a decrease in U.S. import quotas.
C. a decrease in imports into the U.S.
D. an increase in U.S. exports to other nations.

33) Which statement about tariffs is true?

A. Tariffs increase the market for exports.
B. Tariffs decrease employment in protected industries.
C. Tariffs benefit some groups at the expense of others

D. Tariffs encourage the growth of a nation's most efficient industries.

34) 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.

35) The United States has import tariffs on small trucks. Who benefits from these tariffs?
   A. US consumers, because they have more trucks to choose from and at lower prices
   B. US workers who work selling foreign trucks
   C. US dock workers who work unloading foreign trucks
   D. Workers in the US truck industry, because the tariff results in less foreign competition
   E. Workers in truck industries in developing countries because demand for their trucks increases

36) An ad valorem tariff on imports is
   A. an upper limit on the amount of a good that can be imported.
   B. an upper limit on the amount of a good that can be exported.
   C. a tax placed on the value of an exported good.
   D. a tax placed on the value of an imported good.
   E. a tax placed on the price of a good if the domestic price is lower than the world price.

37) An effective import quota:
   A. reduces the price and increases the quantity of imported goods.
   B. reduces the price and reduces the quantity of imported goods.
   C. sets the price of the imported good higher than the price of exported goods.
   D. reduces imports to less than what would be imported with free trade.
   E. increases imports to more than what would be imported with free trade.

38) The difference between an import tariff and an import quota is
   A. a tariff increases the price of a good while a quota does not.
   B. a quota increases the price of a good while a tariff does not.
   C. the government benefits from a tariff but not a quota.
   D. the government benefits from a quota but not a tariff.
   E. a quota restricts quantity available to consumers but tariffs do not.

39) A tariff is a tax on

A. luxury goods.
B. imports.
C. exports.
D. either imports or exports.
E. domestically-produced goods.

40) Assume a company has excess product that it does not want to sell in its own country because it would drive down the domestic price. If this company sells the product in another country at a price that is less than the price of production, this is called
A. comparative advantage.
B. absolute advantage.
C. dumping.
D. exchange of trade.
E. international trade.

41) 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

42) Which of the following are the arguments for trade restrictions?
I. Promote domestic employment
II. Infant industry argument
III. Prevent dumping

A. I only
B. II only
C. III only
D. I and II only
E. all of three.

3-Balance of Payment

43) The current account of the balance of payments comprises
A. money that may be withdrawn from the economy at any time.
B. all government income and expenditure in a financial year.

C. trade in goods and services, investment income, and transfers.

44) A country’s balance of international trade is positive when

A. exports exceed imports.
B. exports plus investment exceed imports plus domestic saving.
C. imports exceed exports.

45) If the United States government wants to eliminate a trade deficit, it could

A. appreciate the dollar.
B. encourage imports.
C. reduce quotas on imports.
D. depreciate the dollar.

46) A nation has an international trade deficit when

A. its imports are greater than its exports.
B. its exports are greater than its imports.
C. its government expenditures are greater than its tax revenues.
D. its gold reserves are greater than the gold reserves of its trading partners.

47) A nation has an international trade surplus when

A. its exports are greater than its imports.
B. its imports are greater than its exports.
C. its tax revenues are greater than its government expenditures.
D. its gold reserves are greater than gold reserves of its trading partners.

48) 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.

49) 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.

50) Japan has historically had a high savings rate relative to other countries. This means that

A. the supply of loanable funds is larger, interest rates are lower, and net capital outflow is higher.

B. the supply of loanable funds is smaller, interest rates are lower, and net capital outflow is higher.

C. the demand for loanable funds is larger, interest rates are lower, and net capital outflow is higher.

D. the government must subsidize production in order to encourage international trade.

51) Net capital outflow measures
   A. the flow of goods and services between countries.
   B. the flow of assets between countries.
   C. government budget surpluses and deficits relative to those experienced in other countries.
   D. the amount of physical capital built in foreign countries.

52) It must always be true that
   A. net capital outflow > net exports.
   B. net capital outflow < net exports.
   C. net capital outflow = net exports.
   D. net capital outflow = 0.

53) China had a trade surplus in 2019. Which of the following statement could you deduce according to this information?
   A. There is a surplus in current account of China in 2019.
   B. There is a deficit in current account of China in 2019.
   C. There is a surplus in financial account of China in 2019.
   D. There is a deficit in financial account of China in 2019.
   E. None of the above.

4-Foreign Exchange Market

54) When fewer U.S. dollars are needed to buy a unit of Japanese yen, the dollar
   A. is inflated.
   B. appreciates.
   C. depreciates.

55) When Italy devalues its currency
   A. the price of imported Italian olive oil in the U.S. will fall.
   B. the drain of U.S. reserves on Euro will fall.
   C. U.S. exports to Italy will increase.

56) 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.

57) Susan is planning a trip to Mexico for next month and will be buying some pesos. Before she does that, she prefers that:
A. there be no change in the exchange rate.
B. the dollar appreciates relative to the peso.
C. the dollar depreciates relative to the peso.
D. the Federal Reserve increases the money supply.
E. the Mexican Government devalues the dollar.

58) The exchange rate between the U.S. dollar and the euro changes from \$1=1.50 euros to \$1=1.25 euros. Germany uses the euro as its currency. This change means that
A. U.S. goods will be more expensive for Germans.
B. German goods will be more expensive for Americans.
C. there will be an increase in U.S. imports from Germany.
D. there will be a decrease in German imports from the U.S.

59) The exchange rate between the U.S. dollar and the Japanese yen changes from \$1=100 yen to \$1=125 yen. This change means that
A. there will be an increase in U.S. exports to Japan.
B. there will be a decrease in U.S. exports to Japan.
C. Japanese goods will be more expensive for Americans.
D. U.S. goods will be less expensive for Japanese.

60) 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

61) An increase in Canadian demand for U.S. manufactured automobiles is likely to cause the international value of the U.S. dollar to ________. The effect of the change in the value of the dollar will be to ________ U.S. net exports

A. increase; decrease
B. increase; increase
C. decrease; decrease
D. decrease; increase
E. Either the international value of the dollar will not change or U.S. net exports will not change

62) The exchange rate is

A. how much of a particular currency can be purchased with 1 ounce of gold.
B. the price of one currency in terms of another currency.
C. the balance of trade between two countries.
D. the comparative advantage of one country compared to another.
E. the absolute advantage of one country compared to another.

63) 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.

64) If you were told that the exchange rate was 1.5 Canadian dollars (CDN) per 1 U.S. dollar, that would mean that Canadians would have to spend _______ to buy a $12 watch in New York City.

A. $18 CDN
B. $15 CDN
C. $1.5 CDN
D. $12 CDN

65) Currencies depreciate and appreciate all the time. Who gains and who loses when the Mexican peso depreciates?

A. Americans holding Mexican pesos gain, U.S. tourists to Mexico lose.
B. U.S. exporters to Mexico gain, Americans holding pesos lose.
C. Mexican exporters gain, Mexican importers lose.
D. Mexican importers gain, Mexican exporters lose.

66) Which of the following changes would cause a movement along the U.S. demand curve for a foreign currency?

A. An increase in U.S. real GDP.
B. A decrease in U.S. real GDP.
C. An increase in the U.S. interest rate.
D. A change in the real exchange rate.

67) 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.

68) Arbitrage refers to
A. simultaneously buying and selling a currency in order to profit from a difference in exchange rates.

B. simultaneously buying and selling a currency in order to change the exchange rate.
C. buying a currency when its price is high and selling it when its price is low.
D. exchanging the domestic currency for a foreign currency.

69) Capital flight is often caused by
A. political stability.
B. shifts away from the industrial sector and towards the service sector.
C. political instability.
D. policies of the International Monetary Fund.

70) Fixed exchange rate need:
A. large amount of foreign currency reserve
B. regulation from the government
C. all of above
D. none of above

71) If U.S. is in the recession, the Federal Reserve use the appropriate monetary policy to fight for it, the value of the dollar is _____
A. appreciates.
B. depreciates.
C. remain the same.
D. indeterminate.

72) 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

5-Foreign Investment

73) Which of the following would be classified as a direct foreign investment?

A. Building a new Pizza Hut in Russia.
B. A loan of $1 million to a Brazilian firm.
C. Purchase of 100 shares of a British stock.

74) Foreign direct investment differs from foreign portfolio investment in that

A. direct investments can only be made by the International Monetary Fund.
B. direct investments involve physical capital; portfolio investments involve financial capital.
C. direct investments involve stocks and bonds.

75) 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.

76) Which of the following would be classified as a foreign direct investment?

A. Purchase of 100 shares of British Petroleum stock.
B. A loan of $1 million to a Brazilian utilities firm.
C. A loan of $1 million from the World Bank to Surinam.
D. Building a new Pizza Hut in St. Petersburg, Russia.

6-Economic Common Sense and International Events

77) In 2022, from which country did the United States import the most barrels of crude oil?

A. Canada
B. Mexico
C. Iraq
D. Saudi Arabia

E. Venezuela

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

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

79) Over the past 20 years (2003 - 2023), which year had the highest official monthly unemployment rate in the United States?

A. 2003
B. 2010
C. 2015
D. 2020
E. 2023

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

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

81) 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

82) 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.

83) 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

84) If the American dollar becomes stronger against the Japanese yen, which of the following will occur as a result?
A. Japanese producers will be hurt because their exports would decrease.
B. American products will be less expensive for the Japanese to purchase.
C. Japanese products will be less expensive for Americans to purchase.
D. United States producers will benefit because their exports will increase.
E. The dollar will buy fewer yen than before.

85) Which of the following is NOT considered to be a barrier to economic development?
A. Inadequate infrastructure
B. Institutions protecting property rights
C. Low worker productivity
D. High population density
E. Political instability

86) The General Agreement on Tariffs and Trade (GATT) has been replaced by the
A. International Monetary Fund
B. Most Favored Nation Clause
C. World Bank
D. World Trade Organization
E. United Nations

87) According to the IMF, which of the following areas had the highest growth rate of real GDP in 2017?
A. Russia
B. China (mainland)
C. Japan
D. Korea (Republic of)
E. United States

88) 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

89) Rank the 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.

90) The top three oil-producing countries in 2023 (measured in average barrels per day) were
A. Saudi Arabia, Canada and the United States
B. Saudi Arabia, Venezuela and China
C. Saudi Arabia, Russia and Iran
D. the United States, Saudi Arabia and Russia
E. Saudi Arabia, Iraq and Venezuela

91) Financial crises
A. are a relatively new phenomenon of the last half of the 1900s.
B. happen in emerging economies but not in developed economies.
C. are contained within a particular national economy.
D. are possible in all countries.
E. are now of short duration because of economic policy.

92) The General Agreement on Tariffs and Trade (GATT)
A. was created in 1934 to open a new era of free trade.
B. was started after World War II to encourage countries to reduce trade barriers.
C. is the set of U.S. laws on trade restrictions agreed upon by Congress.
D. was violated when NAFTA was created
E. is enforced by the World Bank

93) Over the last two decades, the exchange rate for the U.S. dollar relative to the Euro
A. has shown a steady increase.
B. reached a low point in the recession of 2008.

C. was controlled by the European governments.
D. was controlled by the U.S. government.
E. was unrelated to interest rates in the countries.

94) Which country has withdrawn its membership from OPEC (Organization of the Petroleum Exporting Countries) in 2020?
A. Syria
B. Ecuador
C. Iman
D. Iran
E. Saudi Arabia

95) 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.

96) The “twin deficits” refer to
A. the U.S. and Canadian trade deficits.
B. the U.S. trade deficit and the U.S. federal government budget deficit.
C. the current account and capital account deficits.
D. trade deficits that match one another when two countries trade.