

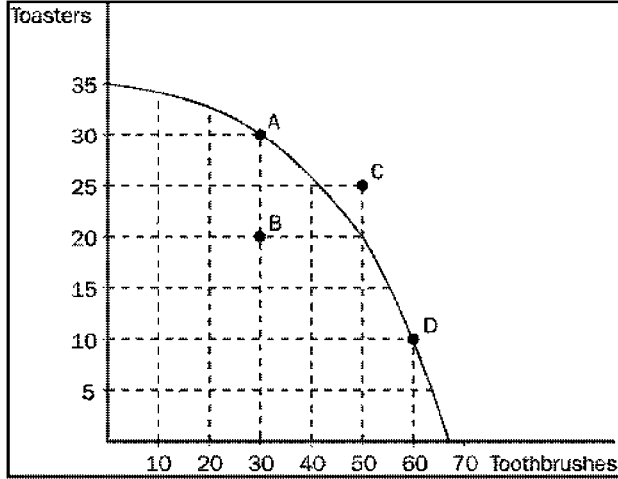
Practice Test 1

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. Economists make assumptions in order to
- mimic the methodologies employed by other scientists.
 - minimize the number of experiments that yield no useful data.
 - minimize the likelihood that some aspect of the problem at hand is being overlooked.
 - focus their thinking on the essence of the problem at hand.
- _____ 2. In a circular-flow diagram,
- taxes flow from households to firms, and transfer payments flow from firms to households.
 - income payments flow from firms to households, and sales revenue flows from households to firms.
 - resources flow from firms to households, and goods and services flow from households to firms.
 - inputs and outputs flow in the same direction as the flow of dollars, from firms to households.
- _____ 3. Factors of production are
- used to produce goods and services.
 - also called *output*.
 - abundant in most economies.
 - assumed to be owned by firms in the circular-flow diagram.
- _____ 4. An economic outcome is said to be *efficient* if the economy is
- using all of the resources it has available.
 - conserving on resources, rather than using all available resources.
 - getting all it can get from the scarce resources it has available.
 - able to produce more than what is currently being produced without additional resources.
- _____ 5. Suppose a nation is currently producing at a point inside its production possibilities frontier. We know that
- the nation is producing beyond its capacity, and inflation will occur.
 - the nation is not using all available resources or is using inferior technology or both.
 - the nation is producing an efficient combination of goods.
 - there will be a large opportunity cost if the nation tries to increase production of any good.

Figure 2-4

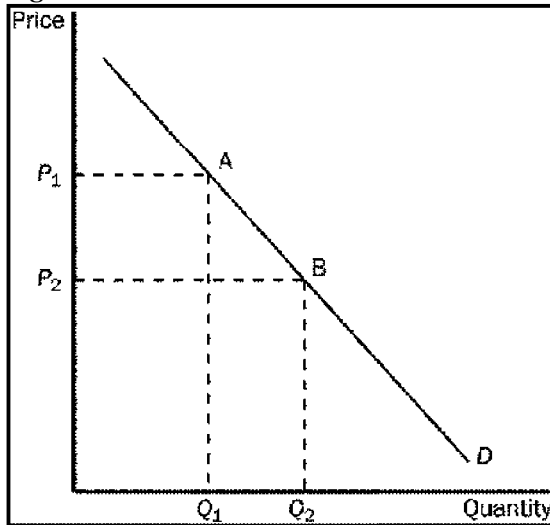


- ___ 6. Refer to Figure 2-4. If the economy moves from point A to point D, the opportunity cost is
- 10 toasters.
 - 20 toasters.
 - 30 toasters.
 - 30 toothbrushes.
- ___ 7. Refer to Figure 2-4. The opportunity cost of obtaining 10 additional toasters by moving from point B to point A is
- 10 toothbrushes.
 - 20 toothbrushes.
 - 30 toothbrushes.
 - zero, since the economy has the additional resources to produce 10 additional toasters.
- ___ 8. Refer to Figure 2-4. Suppose the economy is producing at point B. Which of the following statements would best explain this situation?
- The economy lacks the resources to produce at a more desirable point.
 - The economy's available technology prevents it from producing at a more desirable point.
 - There is widespread unemployment in the economy.
 - Any of the above statements would be a legitimate explanation for this situation.
- ___ 9. In a market economy,
- supply determines demand and, in turn, demand determines prices.
 - demand determines supply and, in turn, supply determines prices.
 - the allocation of scarce resources determines prices and, in turn, prices determine supply and demand.
 - supply and demand determine prices and, in turn, prices allocate scarce resources.
- ___ 10. The demand for a good or service is determined by
- those who buy the good or service.
 - the government.
 - the producers who create the good or service.
 - those who supply the raw materials used in the production of the good or service.

Practice Test 1

- ___ 11. The negative relationship between price and quantity demanded
 - a. applies to most goods in the economy.
 - b. is represented by a downward-sloping demand curve.
 - c. is referred to as the *law of demand*.
 - d. All of the above are correct.
- ___ 12. Each of the following is a determinant of demand *except*
 - a. tastes.
 - b. technology.
 - c. expectations.
 - d. the prices of related goods.
- ___ 13. If a good is *normal*, then an increase in income will result in
 - a. an increase in the demand for the good.
 - b. a decrease in the demand for the good.
 - c. a movement down and to the right along the demand curve for the good.
 - d. a movement up and to the left along the demand curve for the good.
- ___ 14. Two goods are substitutes if a decrease in the price of one good
 - a. decreases the demand for the other good.
 - b. decreases the quantity demanded of the other good.
 - c. increases the demand for the other good.
 - d. increases the quantity demanded of the other good.
- ___ 15. A higher price for batteries would result in a(n)
 - a. increase in the demand for flashlights.
 - b. decrease in the demand for flashlights.
 - c. increase in the demand for batteries.
 - d. decrease in the demand for batteries.

Figure 4-1

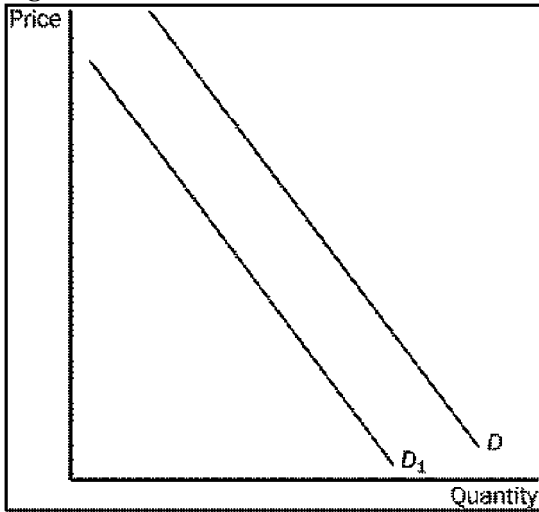


- ___ 16. **Refer to Figure 4-1.** The movement from point A to point B on the graph would be caused by
 - a. an increase in price.
 - b. a decrease in price.
 - c. a decrease in the price of a substitute good.
 - d. an increase in income.

Practice Test 1

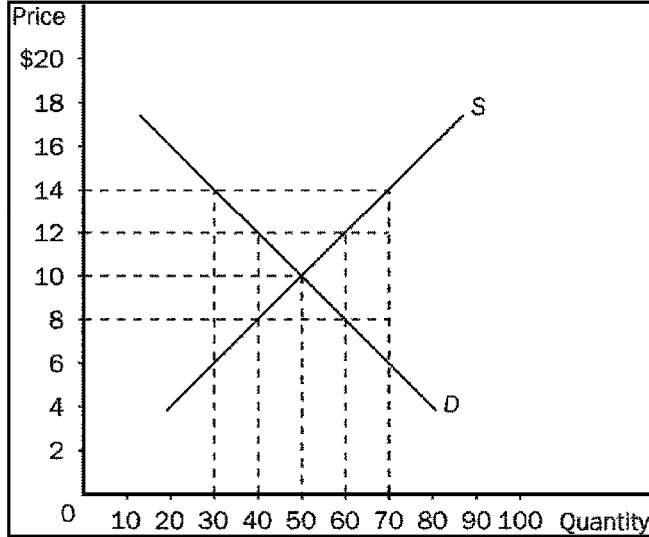
- _____ 17. Which of the following changes would *not* shift the demand curve for a good or service?
- a. a change in income
 - b. a change in the price of the good or service
 - c. a change in expectations about the future price of the good or service
 - d. a change in the price of a related good or service
- _____ 18. To find the market demand for a product, individual demand curves are summed
- a. vertically.
 - b. diagonally.
 - c. horizontally.
 - d. and then averaged.

Figure 4-2



- _____ 19. **Refer to Figure 4-2.** The movement from D to D_1 could be caused by
- a. an increase in price.
 - b. a decrease in the price of a complement.
 - c. a technological advance.
 - d. a decrease in the price of a substitute.
- _____ 20. A decrease in input costs to firms in a market will result in
- a. a decrease in equilibrium price and an increase in equilibrium quantity.
 - b. a decrease in equilibrium price and a decrease in equilibrium quantity.
 - c. an increase in equilibrium price and no change in equilibrium quantity.
 - d. an increase in equilibrium price and an increase in equilibrium quantity.

Figure 4-8



21. Refer to Figure 4-8. If price in this market is currently \$14, there would be a
- shortage of 20 units and the law of demand predicts that the price will rise from \$14 to a higher price.
 - excess supply of 20 units and the law of supply and demand predicts that the price will fall from \$14 to a lower price.
 - shortage of 40 units and the law of supply predicts that the price will fall from \$14 to a lower price.
 - surplus of 40 units and the law of supply and demand predicts that the price will fall from \$14 to a lower price.
22. Suppose that demand decreases *and* supply decreases. What would you expect to occur in the market for the good?
- Equilibrium price would increase, but the impact on equilibrium quantity would be ambiguous.
 - Equilibrium price would decrease, but the impact on equilibrium quantity would be ambiguous.
 - Equilibrium quantity would decrease, but the impact on equilibrium price would be ambiguous.
 - Both equilibrium price and equilibrium quantity would increase.

Table 4-3. The demand schedule below pertains to sandwiches demanded per week.

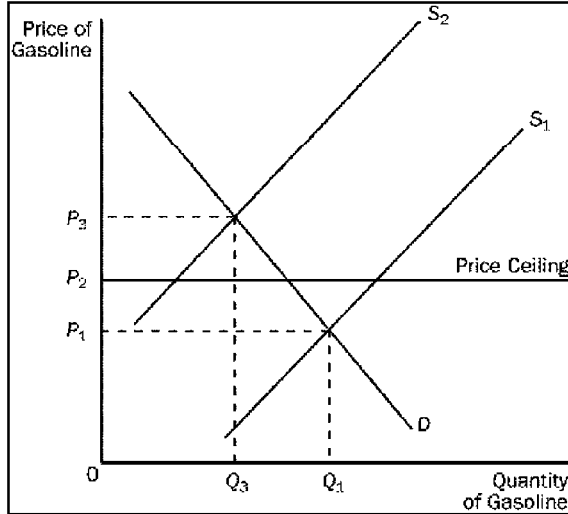
	Price	Quantity Demanded
Alfred	\$3.00	3
	\$5.00	1
Belinda	\$3.00	4
	\$5.00	2
Charissa	\$3.00	3
	\$5.00	x

- ___ 23. **Refer to Table 4-3.** Regarding Alfred and Belinda, for whom are sandwiches a normal good?
- only for Alfred
 - only for Bellinda
 - for Alfred and for Belinda
 - This cannot be determined from the given information.
- ___ 24. The price elasticity of demand measures how much
- quantity demanded responds to a change in price.
 - quantity demanded responds to a change in income.
 - price responds to a change in demand.
 - demand responds to a change in supply.
- ___ 25. If demand is inelastic, then
- buyers do not respond much to a change in price.
 - buyers respond substantially to a change in price, but the response is very slow.
 - buyers do not alter their quantities demanded much in response to advertising, fads, or general changes in tastes.
 - the demand curve is very flat.
- ___ 26. A person who takes a prescription drug to control high cholesterol most likely has a demand for that drug that is
- inelastic.
 - unit elastic.
 - elastic.
 - highly responsive to changes in income.
- ___ 27. If the price elasticity of demand for a good is 4.0, then a 10 percent increase in price results in a
- 0.4 percent decrease in the quantity demanded.
 - 2.5 percent decrease in the quantity demanded.
 - 4 percent decrease in the quantity demanded.
 - 40 percent decrease in the quantity demanded.
- ___ 28. For a particular good, a 2 percent increase in price causes a 12 percent decrease in quantity demanded. Which of the following statements is most likely applicable to this good?
- There are no close substitutes for this good.
 - The good is a luxury.
 - The market for the good is broadly defined.
 - The relevant time horizon is short.

Practice Test 1

- ___ 29. In the case of perfectly inelastic demand,
- the change in quantity demanded equals the change in price.
 - the percentage change in quantity demanded equals the percentage change in price.
 - infinitely-large changes in quantity demanded result from very small changes in the price.
 - quantity demanded stays the same whenever price changes.
- ___ 30. When demand is inelastic, a decrease in price will cause
- an increase in total revenue.
 - a decrease in total revenue.
 - no change in total revenue, but an increase in quantity demanded.
 - no change in total revenue, but a decrease in quantity demanded.
- ___ 31. When demand is unit elastic, price elasticity of demand
- equals 1 and total revenue and price move in the same direction.
 - equals 1 and total revenue and price move in opposite directions.
 - equals 1 and total revenue does not change when price changes.
 - equals 0 and total revenue does not change when price changes.
- ___ 32. A price ceiling
- is a legal maximum on the price at which a good can be sold.
 - is often imposed in markets in which "cutthroat competition" would prevail without a price ceiling.
 - is often imposed when sellers of a good are successful in their attempts to convince the government that the market outcome is unfair without a price ceiling.
 - All of the above are correct.
- ___ 33. A price ceiling will be *binding* only if it is set
- equal to equilibrium price.
 - above equilibrium price.
 - below equilibrium price.
 - none of the above; a price ceiling is never binding.
- ___ 34. To say that a price ceiling is binding is to say that the price ceiling
- results in a scarcity.
 - is set above the equilibrium price.
 - results in excess demand.
 - All of the above are correct.
- ___ 35. Suppose the equilibrium price of a physical examination ("physical") by a doctor is \$200, and the government imposes a price ceiling of \$150 per physical. As a result of the price ceiling,
- the demand curve for physicals shifts to the right.
 - the supply curve for physicals shifts to the left.
 - the quantity demanded of physicals increases and the quantity supplied of physicals decreases.
 - the number of physicals performed will increase.

Figure 6-6



- ___ 36. **Refer to Figure 6-6.** When the price ceiling applies in this market and the supply curve for gasoline shifts from S_1 to S_2 ,
- the price will increase to P_3 .
 - a surplus will occur at the new market price of P_2 .
 - the market price will stay at P_1 due to the price ceiling.
 - a shortage will occur at the price ceiling of P_2 .
- ___ 37. **Refer to Figure 6-6.** When the price ceiling applies in this market and the supply curve for gasoline shifts from S_1 to S_2 , the resulting quantity of gasoline that is bought and sold is
- less than Q_3 .
 - Q_3
 - between Q_1 and Q_3 .
 - at least Q_1 .
- ___ 38. The minimum wage is an example of
- a price ceiling.
 - a price floor.
 - a wage subsidy.
 - a price control that is not binding.
- ___ 39. Suppose Larry, Moe and Curly are bidding in an auction for a mint-condition video of Charlie Chaplin's first movie. Each has in mind a maximum amount that he will bid. This maximum is called
- a resistance price.
 - willingness to pay.
 - consumer surplus.
 - producer surplus.
- ___ 40. If a consumer places a value of \$15 on a particular good and if the price of the good is \$17, then
- the consumer has consumer surplus of \$2 if he or she buys the good.
 - the consumer does not purchase the good.
 - the market is not a competitive market.
 - there is going to be downward pressure on the price of the good.

Practice Test 1

- _____ 41. Chad is willing to pay \$5.00 to get his first cup of morning latté. He buys a cup from a vendor selling latté for \$3.75 per cup. Chad's consumer surplus is
- a. \$8.75.
 - b. \$5.00.
 - c. \$3.75.
 - d. \$1.25.

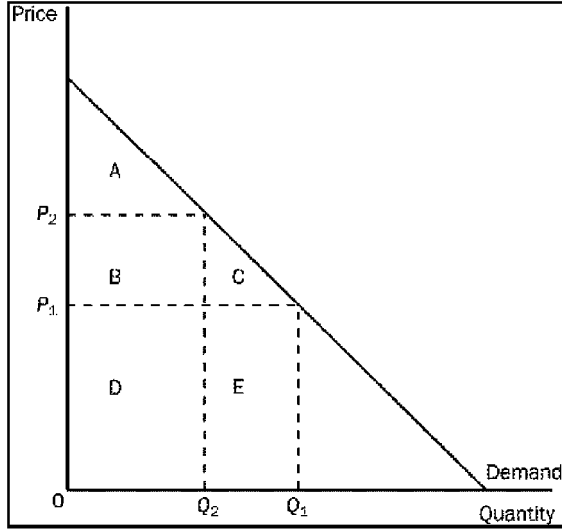
This table refers to five possible buyers' willingness to pay for a case of Vanilla Coke.

Table 7-2

BUYER	WILLINGNESS TO PAY
DAVID	\$8.50
LAURA	\$7.00
MEGAN	\$5.50
MALLORY	\$4.00
AUDREY	\$3.50

- _____ 42. **Refer to Table 7-2.** If the price of Vanilla Coke is \$6.90, who will purchase the good?
- a. all five individuals
 - b. Megan, Mallory and Audrey
 - c. David, Laura and Megan
 - d. David and Laura
- _____ 43. **Refer to Table 7-2.** If the market price is \$5.50, the consumer surplus in the market will be
- a. \$3.00.
 - b. \$4.50.
 - c. \$15.50.
 - d. \$21.00.

Figure 7-1



- ___ 44. Refer to Figure 7-1. When the price is P_2 , consumer surplus is
- A.
 - B.
 - $A + B$.
 - $A + B + C$.
- ___ 45. Refer to Figure 7-1. When the price rises from P_1 to P_2 , consumer surplus
- increases by an amount equal to A.
 - decreases by an amount equal to $B + C$.
 - increases by an amount equal to $B + C$.
 - decreases by an amount equal to C.
- ___ 46. A seller's willingness to sell is
- measured by the seller's cost of production.
 - to her supply curve as a buyer's willingness to buy is to his demand curve.
 - less than the price received if producer surplus is a positive number.
 - All of the above are correct.
- ___ 47. Producer surplus equals
- Value to buyers - Amount paid by buyers.
 - Amount received by sellers - Costs of sellers.
 - Value to buyers - Costs of sellers.
 - Value to buyers - Amount paid by buyers + Amount received by sellers - Costs of sellers.
- ___ 48. Total surplus
- can be used to measure society's well-being.
 - is the sum of consumer and producer surplus.
 - amounts to value to buyers minus cost to sellers.
 - All of the above are correct.

Practice Test 1

- _____ 49. Total surplus in a market is equal to
- a. Consumer surplus + Producer surplus.
 - b. Value to buyers - Amount paid by buyers.
 - c. Amount received by sellers - Costs of sellers.
 - d. Producer surplus - Consumer surplus.
- _____ 50. Efficiency is attained when
- a. total surplus is maximized.
 - b. producer surplus is maximized.
 - c. all resources are being used.
 - d. consumer surplus is maximized and producer surplus is minimized.

Practice Test 1 Answer Section

MULTIPLE CHOICE

- | | | | | |
|-----|--|--------|----------|--|
| 1. | ANS: D
MSC: Interpretive | DIF: 2 | REF: 2-1 | TOP: Assumptions |
| 2. | ANS: B
MSC: Applicative | DIF: 3 | REF: 2-1 | TOP: Circular-flow diagram |
| 3. | ANS: A
MSC: Interpretive | DIF: 2 | REF: 2-1 | TOP: Factors of production |
| 4. | ANS: C
MSC: Definitional | DIF: 2 | REF: 2-1 | TOP: Efficiency |
| 5. | ANS: B
MSC: Interpretive | DIF: 2 | REF: 2-1 | TOP: Production possibilities frontier |
| 6. | ANS: B
TOP: Production possibilities frontier, Opportunity cost | DIF: 2 | REF: 2-1 | MSC: Interpretive |
| 7. | ANS: D
TOP: Production possibilities frontier, Opportunity cost | DIF: 2 | REF: 2-1 | MSC: Interpretive |
| 8. | ANS: C
MSC: Analytical | DIF: 3 | REF: 2-1 | TOP: Production possibilities frontier |
| 9. | ANS: D
MSC: Interpretive | DIF: 2 | REF: 4-0 | TOP: Market economy |
| 10. | ANS: A
MSC: Interpretive | DIF: 2 | REF: 4-1 | TOP: Demand |
| 11. | ANS: D
TOP: Negative relationships, Law of demand | DIF: 1 | REF: 4-2 | MSC: Interpretive |
| 12. | ANS: B
MSC: Interpretive | DIF: 2 | REF: 4-2 | TOP: Demand |
| 13. | ANS: A
MSC: Interpretive | DIF: 2 | REF: 4-2 | TOP: Normal goods |
| 14. | ANS: A
MSC: Definitional | DIF: 2 | REF: 4-2 | TOP: Substitutes |
| 15. | ANS: B
MSC: Applicative | DIF: 2 | REF: 4-2 | TOP: Complements |
| 16. | ANS: B
MSC: Interpretive | DIF: 1 | REF: 4-2 | TOP: Demand curve |
| 17. | ANS: B
MSC: Interpretive | DIF: 2 | REF: 4-2 | TOP: Demand curve, Shifts of curves |
| 18. | ANS: C
MSC: Interpretive | DIF: 2 | REF: 4-2 | TOP: Market demand, Individual demand |
| 19. | ANS: D
MSC: Applicative | DIF: 2 | REF: 4-2 | TOP: Demand, Substitutes |
| 20. | ANS: A
MSC: Applicative | DIF: 2 | REF: 4-4 | TOP: Equilibrium, Inputs |

21. ANS: D DIF: 3 REF: 4-4
TOP: Surpluses, Law of supply and demand MSC: Applicative
22. ANS: C DIF: 2 REF: 4-4
MSC: Interpretive TOP: Equilibrium, Demand, Supply
23. ANS: D DIF: 2 REF: 4-4
MSC: Applicative TOP: Normal goods
24. ANS: A DIF: 1 REF: 5-1
MSC: Definitional TOP: Price elasticity of demand
25. ANS: A DIF: 2 REF: 5-1
MSC: Definitional TOP: Inelastic demand
26. ANS: A DIF: 2 REF: 5-1
MSC: Interpretive TOP: Price elasticity of demand
27. ANS: D DIF: 2 REF: 5-1
MSC: Applicative TOP: Price elasticity of demand
28. ANS: B DIF: 3 REF: 5-1
MSC: Analytical TOP: Price elasticity of demand
29. ANS: D DIF: 2 REF: 5-1
MSC: Interpretive TOP: Perfectly inelastic demand
30. ANS: B DIF: 2 REF: 5-1
MSC: Applicative TOP: Inelastic demand, Total revenue
31. ANS: C DIF: 2 REF: 5-1
TOP: Price elasticity of demand, Total revenue MSC: Interpretive
32. ANS: A DIF: 2 REF: 6-1
MSC: Interpretive TOP: Price ceilings
33. ANS: C DIF: 2 REF: 6-1
MSC: Interpretive TOP: Price ceilings
34. ANS: C DIF: 2 REF: 6-1
MSC: Interpretive TOP: Price ceilings, Shortages
35. ANS: C DIF: 2 REF: 6-1
MSC: Applicative TOP: Price ceilings
36. ANS: D DIF: 2 REF: 6-1
MSC: Applicative TOP: Price ceilings, Shortages
37. ANS: A DIF: 2 REF: 6-1
MSC: Applicative TOP: Price ceilings
38. ANS: B DIF: 1 REF: 6-1
MSC: Interpretive TOP: Minimum wage
39. ANS: B DIF: 1 REF: 7-1
MSC: Definitional TOP: Price, Value
40. ANS: B DIF: 2 REF: 7-1
MSC: Interpretive TOP: Price, Value
41. ANS: D DIF: 1 REF: 7--1
MSC: Interpretive TOP: Consumer surplus
42. ANS: D DIF: 1 REF: 7-1
MSC: Interpretive TOP: Price, Value
43. ANS: B DIF: 2 REF: 7-1
MSC: Applicative TOP: Consumer surplus

- | | | | | |
|-----|-----------------------------|--------|----------|------------------------------|
| 44. | ANS: A
MSC: Interpretive | DIF: 2 | REF: 7-1 | TOP: Consumer surplus |
| 45. | ANS: B
MSC: Interpretive | DIF: 2 | REF: 7-1 | TOP: Consumer surplus |
| 46. | ANS: D
MSC: Interpretive | DIF: 2 | REF: 7-2 | TOP: Price, Producer surplus |
| 47. | ANS: B
MSC: Definitional | DIF: 2 | REF: 7-2 | TOP: Producer surplus |
| 48. | ANS: D
MSC: Interpretive | DIF: 2 | REF: 7-3 | TOP: Total surplus |
| 49. | ANS: A
MSC: Definitional | DIF: 1 | REF: 7-3 | TOP: Total surplus |
| 50. | ANS: A
MSC: Definitional | DIF: 2 | REF: 7-3 | TOP: Efficiency |