

1. In every economic system, choices must be made because resources are \_\_\_\_\_ and our wants are \_\_\_\_\_.

- A) unlimited; limited
- B) limited; unlimited
- C) unlimited; unlimited
- D) limited; limited

2. The study of the choices made by individuals is part of the definition of

- A) microeconomics.
- B) positive economics.
- C) macroeconomics.
- D) normative economics.

Production possibilities

Possibility	Pizza (per hour)	Soda (cases per hour)
A	0	100
B	1	95
C	2	80
D	3	60
E	4	35
F	5	0

3. In the above table, the production of 3 pizzas and 80 cases of soda is

- A) impossible unless more resources become available or technology improves.
- B) feasible but would involve unemployed or misallocated resources.
- C) possible only if the economy produces with maximum efficiency.
- D) possible only if there is inflation.

4. In order to achieve the maximum gains from trade, people should specialize according to

- A) property rights.
- B) PPF.
- C) absolute advantage.
- D) comparative advantage.

Item	Billions of dollars
Government expenditure on goods and services	250
Compensation of employees	1,675

Gross private domestic investment	325
Rental income	20
Personal consumption expenditures	1,425
Net interest	40
Net exports of goods and services	100
Indirect business taxes and depreciation	300

5. The above table shows some (but not all) national income accounting data for a hypothetical country.

According to these data, the value of GDP is \_\_\_\_\_ billion.

- A) \$2100
- B) \$1850
- C) \$2000
- D) \$2050

6. The four parts of the business cycle occur in the following order:

- A) recession, trough, peak, expansion.
- B) expansion, trough, peak, recession.
- C) recession, trough, expansion, peak.
- D) expansion, trough, recession, peak.

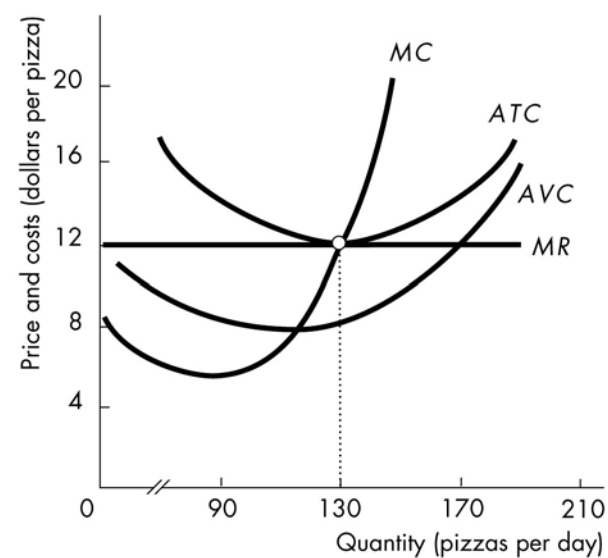
Labor (workers)	Output (bikes)	Total fixed costs (dollars)	Total variable cost (dollars)	Total cost (dollars)
0	0	200		
1	20		100	
2	50			
3	60			
4	64			

7. The table above gives costs at Jan's Bike Shop. Unfortunately, Jan's record keeping has been spotty.

Each worker is paid \$100 a day. Labor costs are the only variable costs of production. What is the total cost of producing 50 bikes?

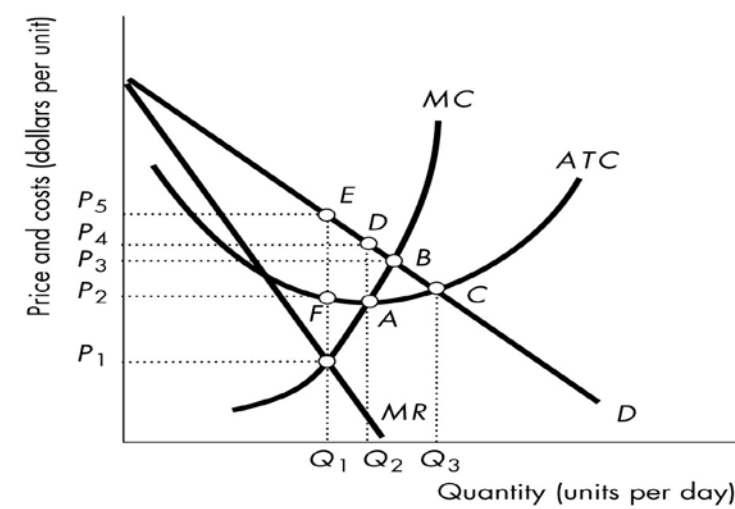
- A) \$100
- B) \$200
- C) \$300
- D) \$400

8. Which of the following is true regarding a perfectly competitive firm?
- A) The firm can charge a lower price than its competitors and thereby sell more output and increase its profits.
  - B) The firm always earns a normal profit.
  - C) The firm's marginal revenue continually decreases.
  - D) The firm's minimum efficient scale is small relative to the market demand.

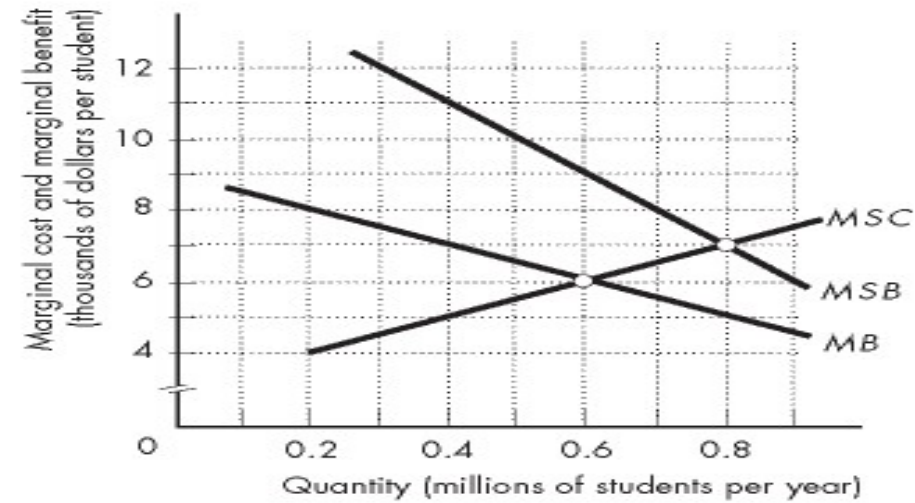


9. If the price is \$12 per pizza, the perfectly competitive firm in the above figure is
- A) making an economic profit.
  - B) making zero economic profit.
  - C) incurring an economic loss.
  - D) More information about the firm's total cost is needed to determine if the firm has a positive economic profit, zero economic profit, or an economic loss.
10. For a perfectly competitive firm, in the long-run equilibrium,
- A)  $P = MC = ATC = MR$ .
  - B)  $MR = MC = AFC$ .
  - C)  $MR = P = ATC = AFC$ .
  - D)  $P = MC > ATC$ .
11. In a perfectly competitive market that is in long-run equilibrium, a permanent leftward shift in the market demand curve
- A) raises the price in the short run.
  - B) raises profits in the short run.
  - C) leads to firms leaving the market in the long run.
  - D) raises the price at first but then returns it to its original level in the long run.

12. If in monopolistic competition in the short run, firms make \_\_\_\_\_ profits, then in the long run, new firms will enter the market. The \_\_\_\_\_ each individual firm's product will \_\_\_\_\_. In the new long-run equilibrium firms will make \_\_\_\_\_ profit.
- A) economic; demand for; decrease; zero economic
  - B) normal; demand for; increase; zero economic
  - C) economic; supply of; decrease; an economic
  - D) economic; supply of; increase; zero economic



13. In the above figure of a monopolistically competitive firm, the area of economic profit is
- A)  $ADB$ .
  - B)  $ABC$ .
  - C)  $P_2AD P_4$ .
  - D)  $P_2FEP_5$ .
14. A market structure in which a small number of producers compete against each other is
- A) monopolistic competition.
  - B) oligopoly.
  - C) monopoly.
  - D) perfect competition.
15. A group of firms that has entered into a collusive agreement to restrict output and increase prices and profits is called
- A) a compliance.
  - B) a cartel.
  - C) an oligopoly.
  - D) a duopoly.
16. Public goods are
- A) under provided by the private market because the marginal cost of production is too high.
  - B) under provided by the private market because the marginal benefits of consumption are too low.
  - C) under provided by the private market because people's willingness to pay for the good is less than the marginal benefit of the good.
  - D) over provided by the private market because the marginal benefits of consumption are too high.



17. The figure above shows the marginal social costs (*MSC*), marginal private benefits (*MB*), and marginal social benefits (*MSB*) of college education in Inland. If Inland's government does not intervene, and the colleges are competitive, \_\_\_\_\_ million students are enrolled, and the tuition is \_\_\_\_\_ per year.

- A) 0.8; \$7,000    B) 0.6; \$6,000    C) 0.6; \$9,000    D) 0.8; \$5,000

18. In the circular flow of income

- A) households demand goods and services that are supplied by firms, and the firms demand factors that are supplied by intermediate firms.  
 B) households demand goods and services that are supplied by firms, while supplying factors that are demanded by firms.  
 C) households sell goods and services while firms sell factors.  
 D) households buy goods and services while firms sell goods and services. Firms obtain labor from households, capital from government, and raw materials from other firms.

19. The circular flow diagram shows that

- A) the flow of payments to the factors used to produce goods and services exceeds the flow of payments for final goods and services.  
 B) goods and factor markets are independent.  
 C) the total amount of income generated by the economy equals the total purchases of final goods and services.  
 D) consumption expenditure equals saving.

20. Depreciation is defined as the

- A) decrease in the stock of capital due to wear and tear.  
 B) increase in the stock of capital due to investment by firms.  
 C) increase in the stock of capital due to wear and tear.  
 D) decrease in the stock of capital due to investment by firms.

21. The labor force is defined as people

- A) who have a job or are looking for a job.  
 B) in the working-age population who have a job.  
 C) in the working-age population who have a full time job.  
 D) who are 16 years of age or older.

22. The unemployment rate measures the percentage of

- A) people who want full-time jobs, but can't find them.  
 B) the working-age population who can't find a job.  
 C) people in the labor force who can't find a job.  
 D) the working age population that can't find a full-time job.

23. If the population is 300 million, with 70 million under the age of 16 and institutionalized, another 70 million not in the labor force, 10 million unemployed and 150 million employed, the labor force participation rate is

- A) 69.6 percent.    B) 23.3 percent.    C) 6.67 percent.    D) 50 percent.

24. The three types of unemployment are

- A) voluntary, involuntary, and structural.    B) voluntary, part-time, and cyclical.  
 C) frictional, part-time, and involuntary.    D) frictional, structural, and cyclical.

25. The CPI basket contains 400 oranges and 800 pens. In the base year, the price of an orange is \$1.00 and the price of a pen is \$0.75. This year, urban consumers each buy 300 oranges at \$2.00 each and 850 pens at \$1.00 each. The CPI this year is \_\_\_\_\_.

- A) 1.60    B) 62.5    C) 160    D) 140