1. Which of the following is not a resource?
   a. A professional accountant
   b. A commercial aircraft
   c. An office building
   d. Tax payments

2. In a market system, which of the following determines who gets what is produced?
   a. The amount of resources that individuals own.
   b. The prices attached to the resources that individuals own
   c. A central planning board
   d. Both a and b

3. In order to achieve production efficiency:
   a. resources must be used to produce the mix of goods and services which are valued most highly by members of society
   b. whatever output is produced must be produced at the lowest possible cost
   c. government must allocate resources according to a central plan
   d. minimum physical output must be produced with a given amount of resources

4. You pay $10 for a ticket to go to a basketball game. In order to drive to the game, you use up $1 of gas. If you had not attended the basketball game you could have spent your time fixing your car thereby saving $25 of labor costs, or used the time to help someone move and earned $20. What was the opportunity cost of attending the game?
   a. $56
   b. $25
   c. $36
   d. $35

5. The concept of scarcity as used by economists refers to which of the following?
   a. A shortage of a good
   b. A situation in which there are not enough available resources to satisfy all the wants and desires of the people
   c. A situation in which resources exist is extremely small quantities
   d. A situation in which a small amount of goods exist

6. In an experiment in welfare administration, residents of a poor neighborhood are given certain number of clothing stamps each month in addition to their regular food stamps. Soon we observe people trading clothing stamps for food stamps and vice versa. After observing this, the economist would say that:
   a. there has been a decrease in allocation efficiency in the community
   b. there has been an increase in allocation efficiency in the community
   c. these people are behaving irrationally
   d. allocation efficiency has neither increased nor decreased
7. In a market system, how goods and services will be produced is determined by which of the following?
   a. Consumers
   b. Producers
   c. Resource owners
   d. Government

8. Which of the following is the primary identifying characteristic of capitalism?
   a. Private ownership of the means of production (resources)
   b. Big business
   c. Economic activity is organized by a system of markets and prices
   d. Business firms of various sizes that attempt to maximize profit

9. An economic system:
   a. is a social mechanism that organizes and coordinates economic activity
   b. is always based on a government plan or central planning
   c. is the same as a capitalistic system
   d. All of the above

10. An example of the term *double coincidence of wants* is:
    a. when a child would like to have his or her brother’s toy, but has nothing that would interest the brother
    b. a gardener who would like legal services, and a lawyer who likes to do her own gardening in order to relax
    c. a gardener who would like legal services and a lawyer who hates to get his hands dirty, but enjoys having flowers in his garden
    d. having two people who are each completely uninterested in what the other has to offer

Questions 11 and 12 refer to the following production possibilities curve graph.
11. PPC1 is the initial production possibilities curve. We can conclude that if the economy is at point D then:
   a. there is unemployed resources and the economy could produce more of both civilian goods and military goods if these resources were put to work
   b. it would be possible to produce more military goods, but only if we produce less civilian goods
   c. it would be possible to produce more civilian goods, but only if we produce less military goods
   d. None of the above

12. If the production possibilities curve moves outward from PPC1 to PPC2, we can conclude that:
   a. there was a technological advancement in military goods production alone
   b. there was a technological advancement in civilian goods production alone
   c. there was a general technological advancement in both civilian goods production and military goods production
   d. there was an increase in population

13. Assume that the economy produces two groups of goods: civilian goods and military goods. An advancement in technology in the production of military goods may possibly result in which of the following?
   a. An increase in the production of civilian goods, with no increase in the production of military goods.
   b. An increase in the production of military goods, with no increase in the production of civilian goods
   c. An increase in the production of both military goods and civilian goods
   d. All of the above are possible

14. Which of the following is the rationale for the law of increasing opportunity cost?
   a. Economic resources are perfectly adaptable to alternative uses
   b. Economic resources are not perfectly adaptable to alternative uses
   c. As the production of one good increases, the amounts of other goods produced decreases
   d. As the unemployment rate falls, businesses will pay a higher wage rate to labor

15. Which of the following is true of theories?
   a. A theory is a simplification of reality
   b. A theory must be expressed in mathematical terms
   c. A theory must contain at least one direct and one inverse relationship
   d. All of the above
16. Which of the following is a formal statement regarding the relationship between two or more variables that is capable of falsification?
   a. An observation
   b. An hypothesis
   c. A fundamental assumption
   d. None of the above

17. Which of the following is a reason why consumers want to buy more of a good when its price decreases, ceteris paribus?
   a. Consumers expect the price to rise again in the future
   b. The lower price shifts the demand curve to the left
   c. Producers supply more of the product when the price decreases
   d. The lower price increases the purchasing power of consumers income enabling them to buy more

18. A rightward shift in the demand for popcorn could be the result of:
   a. a decrease in the number of buyers of popcorn
   b. a decrease in the price of potato chips (a substitute good)
   c. an increase in the price of butter (a complementary good)
   d. an increase in income

19. “When I was poor and starting my work career I drank a lot of Coors beer and not much Sam Adams beer. Now that I have a high paying job, I rarely drink Coors beer; rather I drink a lot of Sam Adams beer” This statement suggests that for this person Coors beer is:
   a. a normal good
   b. an inferior good
   c. complementary good with Coors beer
   d. an economic bad

20. The price of gasoline is $1 per gallon. At that price, consumers want to buy 1,000 gallons weekly and producers want to sell 2,000 gallons weekly. Which of the following will occur if the market for gasoline is a competitive market?
   a. Price will fall below $1, and consumers will tend to buy less than 1,000 gallons
   b. Price will fall below $1, and producers will tend to offer less than 2,000 gallons
   c. Price will rise above $1, and producers will tend to offer more than 2,000 gallons
   d. Price will rise above $1 and suppliers will tend to offer less than 2,000 gallons

21. Quantity demanded is:
   a. the total amount of a good that consumers desire to purchase during a given time period, in a given geographic area
   b. the amount exchanged between consumers and producers at all possible prices
   c. the total amount of a good that all household actually purchase during a given period of time, in a given geographic location
   d. excess demand
22. Of the following, which is a reason why the quantity supplied of good X increases when the price of good X increases, ceteris paribus. When the price of good X increases:
   a. consumers expect the price of the good to increase more in the future
   b. other goods that producers might produce become more attractive alternatives
   c. the wages of workers rise
   d. it becomes more profitable for producers to employ more resources in the production of good X

23. When one speaks on “demand” in a particular market, she is referring to:
   a. the whole demand curve
   b. only one point on the entire demand curve
   c. only one entry in a demand schedule
   d. a particular quantity actually demanded at the moment

24. If an increase in the price of good X causes the demand for good Y to decrease, it can be concluded that:
   a. X and Y are substitutes
   b. X and Y are complements
   c. X and Y are inferior goods
   d. X and Y are normal goods

25. Zinc and silver are complementary goods in production. Assume that the price of zinc increases, ceteris paribus. This would be predicted to result in which of the following changes in the equilibrium price and quantity of silver?
   a. Price decreases, quantity increases
   b. Price decreases, quantity decreases
   c. Price increases, quantity increases
   d. Price increases, quantity decreases

26. Assume that consumers expect the price of automobiles to increase in the future (next period), ceteris paribus. This would be predicted to result in which of the following changes in the equilibrium price and quantity of automobiles now (this period)?
   a. Price decreases, quantity increases
   b. Price decreases, quantity decreases
   c. Price increases, quantity increases
   d. Price increases, quantity decreases

27. Assume that potatoes are an inferior good. Suppose that the level of consumer income increases, ceteris paribus. This would be predicted to result in which of the following changes in the equilibrium price and quantity of potatoes?
   a. Price decreases, quantity increases
   b. Price decreases, quantity decreases
   c. Price increases, quantity increases
   d. Price increases, quantity decreases
28. Assume that the government gives a subsidy of $5 on each bushel of wheat producers produce, ceteris paribus. This would be predicted to result in which of the following changes in the equilibrium price and quantity of wheat?
   a. Price decreases, quantity increases
   b. Price decreases, quantity decreases
   c. Price increases, quantity increases
   d. Price increases, quantity decreases

Questions 29 and 30 are based on the following market demand schedule for wheat.

<table>
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<th>Price</th>
<th>Quantity Demanded</th>
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<td>90</td>
</tr>
<tr>
<td>$0</td>
<td>100</td>
</tr>
</tbody>
</table>

29. Using the measure of arc elasticity (the midpoint formula), the coefficient of price elasticity of demand over the range of prices between $14 and $16 is:
   a. 2.33  b. 3  c. 3.33  d. 4

30. Using the measure of arc elasticity, the coefficient of price elasticity of demand over the range of prices between $4 and $6 is:
   a. 0.25  b. 0.43  c. 0.10  d. 10

31. Suppose that the government increases the excise tax on beer by $10 per barrel. In which situation will the largest part of the tax increase be passed on to the consumer?
   a. Inelastic demand for beer, elastic supply of beer
   b. Elastic demand for beer, inelastic supply of beer
   c. Inelastic demand for beer, inelastic supply of beer
   d. Elastic demand for beer, inelastic supply of beer

32. Which of the following is a true statement about a negatively sloped, straight line demand curve?
   a. It is more elastic at the top than at the bottom
   b. It is more elastic at the bottom than at the top
   c. It has a constant elasticity throughout its length
   d. It has a zero elasticity throughout its length
33. A supermarket raises the price of its meat and finds that the total revenue that its meat department makes decreases. We can conclude that:
   a. the demand curve for meat is horizontal
   b. the demand curve for meat is vertical
   c. the demand for meat is price elastic
   d. the demand for meat is price inelastic

34. Suppose that an automobile dealer reduces car prices by 10% and finds that he sells 15% more automobiles. The demand for her automobiles is:
   a. price elastic
   b. price inelastic
   c. unit elastic
   d. decreasing at lower prices

35. Suppose you are the oil minister of an oil producing nation. If you want to maximize your total revenue from selling oil, which price would you charge?
   a. The price at which the coefficient of price elasticity of demand for oil is at a maximum
   b. The price at which the coefficient of price elasticity of demand for oil is equal to one
   c. The price at which the coefficient of price elasticity of demand for oil is zero
   d. The highest possible price the market would bear

36. If a government tax official is interested in generating maximum possible tax revenue from placing an excise tax on a good, she should place the tax on a good for which:
   a. the demand is price elastic
   b. the demand is price inelastic
   c. the demand is unit elastic at every price
   d. the supply is infinitely elastic

37. Suppose that you are on a committee considering ways to raise revenue for your college athletic program. You would recommend increasing the price of football tickets only if you thought:
   a. the demand for football tickets was price elastic
   b. the demand for football tickets was price inelastic
   c. the demand for football tickets was unit elastic
   d. the demand for football tickets was income elastic

38. The elasticity of demand for a good is likely to:
   a. increase when the elasticity of supply increases
   b. decrease when the elasticity of supply increases
   c. be higher the longer a price change persists
   d. be higher the shorter a price change persists
39. In rejecting the call for a reduction in the price of textbooks, a major publisher says: “lowering the price won’t sell a single additional book.” She must believe the demand for textbooks is:
   a. infinitely elastic.
   b. perfectly inelastic.
   c. unit elastic.
   d. positively sloped.

40. Opportunity cost exists because:
   a. of waste and inefficiency in the economic system.
   b. resources are limited and human wants and desires are unlimited, which requires individuals to make choices.
   c. of the institution of money.
   d. of business firms that produce goods and services.

41. Which of the following statements about opportunity cost is incorrect?
   a. Opportunity cost always involves giving up a certain amount of money to get what you want.
   b. Opportunity cost is an important determinant of human behavior.
   c. Opportunity cost is subjective; it may differ for different individuals.
   d. None of the above.

42. When economists say that people behave rationally, this means:
   a. they have perfect information when making a choice.
   b. people respond in predictable ways to changes in costs and benefits.
   c. people never make mistakes and regret a choice they have made.
   d. people only consider the cost of a choice; they disregard the potential benefits.

43. An economic incentive:
   a. is anything that affects the benefit or cost of choosing an alternative.
   b. will influence the choices that rational individuals make.
   c. is an important concept in economics that can used to explain how people behave in the marketplace.
   d. All of the above.

44. If the price of potato chips increases, the demand for potato chip dip will:
   a. increase because the goods are substitutes.
   b. decrease because the goods are substitutes.
   c. increase because the goods are complements.
   d. decrease because the goods are complements.

45. Which of the following would most likely increase the supply of college textbooks?
   a. Five major publishers go out of business
   b. The cost of paper doubles.
   c. There has been an advancement in book production technology.
   d. The wage rate of book printers increases.
46. The demand for salmon is:
   a. more elastic than the demand for fish because there are more substitutes for fish in general than for salmon.
   b. less elastic than the demand for fish because there are more substitutes for fish in general than for salmon
   c. less elastic than the demand for fish because there are more substitutes for salmon than for fish in general.
   d. more elastic than the demand for fish because there are more substitutes for salmon than for fish in general.

47. Jennifer usually buys three CDs per week. She expects the price of CDs to increase by 10% next week. What does the theory of demand hypothesize will happen to Jennifer’s demand for CDs this week?
   a. It increases because she expects price to be higher next week.
   b. It decreases because she expects price to be higher next week.
   c. It does not change because the theory of demand assumes consumers only form expectations about future income, not price.
   d. It does not change because the theory of demand assumes consumers don’t form expectations about the future.