Practice Questions - Week 1 Day 1

1. Economics is
   a. exclusively the study of the markets for stocks and bonds
   b. the study of choice under conditions of scarcity
   c. exclusively the study of business firms
   d. fundamentally the same as sociology
   e. applicable only when scarcity is not a problem

2. Scarcity is a situation in which
   a. available resources cannot satisfy all potential uses for the resources
   b. there are unlimited wants
   c. resources outnumber the potential uses for resources in society
   d. there is a surplus, since buyers cannot obtain all of the goods that they want
   e. society's productive capital is publicly owned

3. Individuals must make choices because
   a. resources are scarce and wants are limited
   b. resources and wants are unlimited
   c. assets and wealth are distributed unevenly
   d. resources are scarce and wants are unlimited
   e. inflation usually outpaces income growth

4. The four main categories of resources are
   a. labor, money, capital, and inputs
   b. capital, land, raw materials, and entrepreneurship
   c. raw materials, money, labor, and capital
   d. land, capital, labor, natural resources, and entrepreneurship
   e. human capital, physical capital, labor, and natural resources

5. The term capital, as used by economists, refers to
   a. money
   b. the physical space in which production occurs
   c. the time allocated to producing goods and services
   d. financial securities such as stocks and bonds
   e. something that is long-lasting and used to produce goods and services

6. An entrepreneur is best described as
   a. someone that is hired to work in a firm
   b. someone who creates human capital
   c. someone with the ability to combine other resources in a productive enterprise
   d. anyone who owns productive enterprise
   e. anyone who produces long-lived physical capital

7. Microeconomics
   a. addresses scarcity from a global perspective
   b. examines how individuals, households, and firms make economic decisions
   c. is purely theoretical and has little value in explaining real-world phenomena
   d. focuses on what is happening in the economy as a whole
   e. answers the fundamental economic questions of how, when, where, and why
8. The study of how consumers and producers interact in individual markets is
   a. macroeconomics
   b. labor economics
   c. microeconomics
   d. econometrics
   e. development economics

9. Suppose that the following headlines appeared in a newspaper. Which would most clearly represent a macroeconomic issue?
   a. "Central Bank Raises Interest Rates"
   b. "Auto Dealership to Cut Prices"
   c. "Fanny's Freeze Dried Prunes to Lay Off 50 Workers"
   d. "United Workers Union to Strike April 15"
   e. "Brazilian Coffee Bean Crop Falls by 10 Percent"

10. An economist claims that "the evidence suggests that high rates of inflation are associated with slow long-term economic growth." This is an example of
   a. positive economics
   b. normative economics
   c. negative economics
   d. a simplifying assumption
   e. microeconomic analysis

11. Which of the following is a normative statement?
   a. Fifteen percent of Americans go without health insurance in a year.
   b. The Consumer Price Index rose three-tenths of one percent in May.
   c. An increase in the minimum wage will increase teenage unemployment.
   d. American would be better served by single-payer health care system.
   e. The French trade deficit reached an all-time high last year.

12. An economic model can be described as
   a. an abstract representation of reality
   b. a detailed description of some economic phenomenon
   c. something that is often more complex than the real-world phenomenon it represents
   d. a vehicle for making positive economic statements
   e. a vehicle for making normative economic statements

13. Consider an economic model designed to analyze the purchasing decisions of households. An assumption that a household chooses between only two goods would be an example of a
   a. simplifying assumption
   b. critical assumption
   c. macroeconomic assumption
   d. financial assumption
   e. positive assumption

14. A critical assumption differs from a simplifying assumption in that a critical assumption
   a. is a means of getting rid of extraneous details in the model
   b. cannot affect the conclusions of the model
   c. can affect the conclusions of the model
   d. is rarely used in economic models
   e. is never a fundamental assumption
Practice Questions - Week 1 Day 1
Answer Section

MULTIPLE CHOICE

1. B
2. A
3. D
4. D
5. E
6. C
7. B
8. C
9. A
10. A
11. D
12. A
13. A
14. C
Practice Questions - Week 1 Day 2

Short Answer

1. Graph the line given by the equation \( y=15-5x \), with \( y \) on the vertical axis.
   
   a) what is the slope of this line? what would be the slope if you put \( x \) on the vertical axis?
   
   b) Are \( x \) and \( y \) positively or negatively related?
   
   c) On the same graph, show the line given by the equation \( y=12-4x \).
   
   d) What is the slope of this line?
   
   e) Is this line steeper or flatter than the first?
   
   f) Solve algebraically for the value of \( x \) where these two lines cross.
   
   g) Write the equation for the line with the same slope as the one in part c, but having a \( y \)-intercept that is 4 units higher. Graph this line along with the others.

2. A survey of high school students generated the following data.

<table>
<thead>
<tr>
<th>Hour Spent Studying</th>
<th>Avg. SAT Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>900</td>
</tr>
<tr>
<td>20</td>
<td>1050</td>
</tr>
<tr>
<td>40</td>
<td>1175</td>
</tr>
<tr>
<td>60</td>
<td>1275</td>
</tr>
<tr>
<td>80</td>
<td>1350</td>
</tr>
<tr>
<td>100</td>
<td>1400</td>
</tr>
</tbody>
</table>

   a) Graph the data with SAT score on the vertical axis and Hours on the horizontal axis.
   
   b) What is the slope of the relationship between hours spent studying and SAT score in the range of 40 to 60 hours?
   
   c) Does the slope increase of decrease as the number of hours is increased. Interpret this in everyday language.

3. A newspaper, USA-Yesterday, prints the same number of pages every day. Readers like the news and photographs in the paper, but dislike advertising. As a result, as the number of pages devoted to ads increases, the number of readers declines. This relationship is described by the equation \( R=140-5A \), where \( R \) is the number of readers (in thousands) and \( A \) is the number of pages of advertising.

   a) At what level of \( A \) will the number of readers hit zero?
   
   b) At what level of \( A \) is the number of readers maximized?
Practice Questions - Week 1 Day 2
Answer Section

SHORT ANSWER

1. a) -5; -1/5.
   b) negatively related.
   c) see lecture notes.
   d) -4
   e) steeper
   f) x=3
   g) y=16-4x
2. a) see lecture notes.
   b) 5.
   c) decrease.
3. a) 28; see graph in lecture notes.
   b) 0
1. Suppose your friends take you out for dinner on your birthday and you have a much better time than you would have had doing anything else. There is still an opportunity cost, even though they will not let you pay for anything.
   a. True
   b. False

2. Opportunity costs exist because
   a. there is a price attached to virtually every good or service
   b. technology is not fixed in the economy
   c. people have different tastes and preferences
   d. limited resources cannot satisfy all of the wants in society
   e. the production possibilities frontier is bowed in with respect to the origin

3. After graduating from high school, Steve had three choices, listed in order of preference: (1) attend our campus, (2) work in a printed circuit board factory, or (3) attend a rival college. His opportunity cost of going to college here includes which of the following?
   a. the cost of books and supplies at the rival college
   b. the income he could have earned at the printed circuit board factory plus the direct cost of attending college here (tuition, textbooks, etc.)
   c. the benefits he could have received from going to the rival college
   d. only the tuition and fees paid for taking classes here
   e. cannot be determined from the given information

4. A particular music store, Discs-R-Us, sells over 3,000 different compact disks. Pat's opportunity cost of choosing to purchase a compact disk by Pearl Jam
   a. is zero if he does not like any other compact disk
   b. is how much he would have enjoyed his second-favorite compact disk
   c. depends on the compact disks not sold by the store
   d. is negative
   e. is how much he would have enjoyed a compact disk by Vanilla Ice
5. Grant has four hours of time to divide between studying for a physics exam and a geology exam. Figure 2-1 shows his estimates of the grades (on a scale of 0 to 100) that he could earn from studying a particular number of hours on each subject. If he plans on spending two hours studying each subject, what would be his opportunity cost of an additional hour studying physics?
   a. 10 points on his geology exam
   b. 20 points on his geology exam
   c. 80 points on his geology exam
   d. 25 points on his physics exam
   e. 85 points on his physics exam

6. Carl is considering attending a concert with a ticket price of $35. He estimates that the cost of driving to the concert and parking there will total an additional $20. In order to attend the concert, Carl will have to take time off from his part-time job. He estimates that he will lose 5 hours at work, at a wage of $6 per hour. Carl's opportunity cost of attending the concert equals
   a. $35
   b. $55
   c. $30
   d. $65
   e. $85

7. Society as a whole faces opportunity costs because
   a. there is not enough money to go around
   b. politicians are greedy
   c. workers shirk their responsibilities and management is unable to compensate for this
   d. resources are abundant
   e. resources are scarce

8. Since resources are scarce, if society produces more of one commodity, it has to sacrifice some amount of another commodity. The amount sacrificed is
   a. a normative problem
   b. the out-of-pocket cost
   c. the opportunity cost
   d. the lost profit
   e. the total factor productivity

9. In one hour, George can fix 4 flat tires or type 200 words. His opportunity cost of fixing a flat tire is
   a. 200 words
   b. 4 flat tires
   c. 1 word
   d. 50 words
   e. 800 words
10. In one year, a weapons plant can manufacture either 1,000 more guns or 50 more tanks. The plant's opportunity cost of an extra gun is approximately
   a. 50 tanks
   b. 20 guns
   c. 20 tanks
   d. 1/20 of a tank
   e. 1/50 of a tank

11. Figure 2-2 illustrates the trade-off for a particular student between time spent studying per week and income per week from working part-time. What is the opportunity cost for this person of moving from point a to point b?
   a. $5 of income per week
   b. $10 of income per week
   c. two hours of studying per week
   d. $10 per hour of studying per week
   e. $20 of income per week

12. Production possibilities frontiers are typically concave (bowed out) from the origin because
   a. of the law of supply
   b. there is usually a one-for-one trade-off in resources used in production
   c. economies of scale enable firms to reduce the average costs of production as output rises
   d. the opportunity cost of a good rises as the quantity of the good produced increases
   e. resources are often left idle in the firm

13. Combinations of goods on the production possibilities frontier
   a. are unattainable without additional resources
   b. can be produced using currently available resources and technology
   c. reflect minimum normative value allocations
   d. will meet society's needs but not its wants
   e. are attainable only through international trade
14. If the economy is producing a combination of goods inside its production possibilities frontier, then
   a. workers are on vacation
   b. a significant number of workers have little education
   c. some resources are being wasted
   d. technology must improve before output can increase
   e. the opportunity cost of producing more output is greater than the value of the additional output that could be produced

**Figure 2-3**

15. Assume that U.S. agricultural land is used either to raise cattle for beef or to grow wheat. Figure 2-3 represents the production possibility frontier for beef and wheat. Between points F and G, the opportunity cost increasing wheat by two bushels equals
   a. 0.25 million pounds of beef
   b. 1.75 million pounds of beef
   c. 0.125 pounds of beef
   d. 8.0 pounds of beef
   e. 0.5 pounds of beef

16. Assume that U.S. agricultural land is used either to raise cattle for beef or to grow wheat. Figure 2-3 represents the production possibility frontier for beef and wheat. Production at point H is
   a. unattainable given currently available technology and resources
   b. attainable by more fully employing already available resources
   c. attainable by using better technology which is already available
   d. attainable if beef production drops to zero
   e. attainable if all available resources are used to produce wheat

17. Assume that U.S. agricultural land is used either to raise cattle for beef or to grow wheat. Figure 2-3 represents the production possibility frontier for beef and wheat. What is assumed constant as the economy moves from point F to point G?
   a. both d and e
   b. the money supply
   c. consumer tastes and preferences
   d. the level of currently available technology
   e. the amount of available resources
18. When there is an improvement in technology, holding all else constant,
   a. the production possibilities frontier will shift inward
   b. society faces larger opportunity costs from shifting productive resources from one use to another
   c. goods and services will increase in price
   d. the economy must have some idle resources
   e. the production possibilities frontier will shift outward

19. If an economy's production possibilities frontier shifted to the right, this would illustrate
   a. increasing opportunity cost
   b. decreasing opportunity cost
   c. a fall in resource utilization
   d. economic growth
   e. a rise in resource utilization

![Figure 2-9](image)

20. Assume that U.S. agricultural land is used either to raise cotton for clothing or to grow wheat. Curve FG in Figure 2-9 represents the current production possibilities frontier for cotton and wheat. What could cause the production possibilities frontier to shift from FG to FH?
   a. a change in government subsidies that favors wheat production over cotton production
   b. development of a new fertilizer that improves production of wheat, but has no impact on cotton production
   c. development of a new fertilizer that improves production of cotton, but has no impact on wheat production
   d. newly reclaimed swampland that is equally suited to growing either crop
   e. newly reclaimed swampland that can be used to grow either crop, but is better suited to growing wheat
Practice Questions Week 1 Day 3
Answer Section

MULTIPLE CHOICE

1. A
2. D
3. B
4. B
5. B
6. E
7. E
8. C
9. D
10. D
11. B
12. D
13. B
14. C
15. A
16. A
17. A
18. E
19. D
20. B
Practice Questions Week 1 Day 4

1. All of the following, except one, help explain why specialization leads to greater production than is otherwise possible. Which is the exception?
   a. It allows the organization of production in business firms.
   b. Specialization reduces the time lost in moving from one activity to another.
   c. As workers repeat an activity over and over, they hone their skills and become more expert.
   d. Specialization allows workers to be assigned to the activities for which they have the greater natural ability.
   e. The more often workers repeat an activity, the more stimulating and enjoyable they find it.

2. The principle of specialization and exchange implies that
   a. total production is highest when individuals specialize according to their absolute advantages
   b. productive inefficiency increases as producers in society specialize
   c. exchange can only occur when there is specialization in the economy
   d. gains from specialization will only occur when society is operating at a point along its production possibilities frontier
   e. total production is highest when individuals specialize according to their comparative advantages

3. Molly needs 30 minutes to wash the car and 45 minutes to mow the lawn. Renee needs 1 hour to wash the car and 2 hours to mow the lawn. Which of the following statements is correct?
   a. Molly should specialize in both tasks.
   b. Renee should specialize in both tasks.
   c. Each woman should specialize in the task in which she has the absolute advantage.
   d. Absolute advantage is not an appropriate guide for determining specialization.
   e. Neither woman should specialize.

4. Economies organize according to the principle of specialization and exchange because doing so
   a. enables the government to exercise greater control than would otherwise be possible
   b. forces people to work longer hours than they would do normally
   c. eliminates the "law of increasing opportunity costs"
   d. enables workers to move up to management in the least amount of time
   e. enables greater production and higher standards of living to be realized than would otherwise be possible

5. Suppose that the United States has an absolute advantage over Mexico in producing both agricultural and manufactured goods. In the U. S., the opportunity cost of 1 unit of agricultural output is 2 units of manufactured goods. In Mexico, the opportunity cost of 1 unit of agricultural output is 1.5 units of manufactured goods. Total production in the U. S. and Mexico will be maximized if
   a. the U. S. specializes in both types of output
   b. Mexico specializes in both types of output
   c. the U. S. specializes in agricultural goods and Mexico specializes in manufactured goods
   d. the U. S. specializes in manufactured goods and Mexico specializes in agricultural goods
   e. each country achieves self-sufficiency
6. Bill can cook dinner in 45 minutes and mow the lawn in 1.5 hours. Eileen can cook dinner in 1.5 hours and mow the lawn in 2 hours. Which of the following statements is correct?
a. Bill should specialize in both tasks.
b. Bill should specialize in cooking dinner; Eileen should specialize in mowing the lawn.
c. Bill should specialize in mowing the lawn; Eileen should specialize in cooking dinner.
d. Eileen should specialize in both tasks.
e. neither person should specialize.

<table>
<thead>
<tr>
<th>Figure 12-13</th>
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<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Political Jokes per day</td>
</tr>
<tr>
<td>Celebrity Jokes per day</td>
</tr>
</tbody>
</table>

7. Suppose Bob and Tom are writing jokes for their new TV show. Suppose there are two types of jokes, political jokes and jokes about celebrities. The number of jokes that can be produced by each person in each category are listed in Figure 2-13. From this table they should
a. have Bob specialize in both political and celebrity jokes
b. have Tom specialize in both political and celebrity jokes
c. cooperate on the writing of both political and celebrity jokes
d. have Bob write political jokes and Tom write celebrity jokes
e. have Tom write political jokes and Bob write celebrity jokes

8. In deciding where to operate along its production possibilities frontier, a society is answering the question of
a. which goods and services should be produced with its scarce resources
b. what production methods should be used to produce goods and services
c. how will output be allocated among the individuals in the society
d. what prices will be charged for goods and services
e. how much will it trade with other societies in the world

9. In deciding to produce more agricultural goods and fewer manufactured goods, a society is addressing the question of
a. where on its production possibilities frontier to operate
b. what production methods should be used to produce goods and services
c. how will output be allocated among the individuals in the society
d. what prices will be charged for goods and services
e. the optimal degree of central planning

10. The three problems of resource allocation are faced by
a. traditional societies
b. command systems
c. centrally planned economies
d. market economies
e. all types of societies

11. In a market economy, most of what we consume is obtained by
a. a command system
b. greed
c. altruism
d. exchange
e. central planning
12. In a market system, resources are allocated by
   a. the orders of authority
   b. traditional practices
   c. prices
   d. absolute advantage
   e. production possibilities frontiers

13. Under a market system of resource allocation, the most important limitations on individual freedom of action are imposed by
   a. tradition
   b. the government
   c. the scarcity of resources
   d. the stagnation of the economy
   e. the rigidity of the economy's rules
Practice Questions Week 1 Day 4
Answer Section

MULTIPLE CHOICE

1. E 
2. E 
3. D 
4. E 
5. D 
6. B 
7. D 
8. A 
9. A 
10. E 
11. D 
12. C 
13. C