1) Economics is
   a. the narrow study of how to make money in financial markets
   b. the broad study of how to allocate unlimited resources to satisfy limited uses
   c. the broad study of how to allocate limited resources to satisfy unlimited wants
   d. the narrow study of using stocks and bonds to their maximum potential
   e. the narrow study of how to be conservative in financial affairs

2) 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

3) Which of the following is the best example of physical capital used to produce a textbook?
   a. the expertise and writing ability of the author
   b. the ink used in the printing press
   c. the printing press
   d. the property on which the publisher's office is located
   e. the time spent by editors reviewing the textbook

4) 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"

5) Understanding the distinction between positive and normative economic statements is important because it
   a. enables us to derive better forecasts of macroeconomic aggregates such as GDP
   b. explains why economics is not a physical science
   c. is the primary distinction between macroeconomics and microeconomics
   d. provides a framework for understanding differences among economists
   e. enables us to see the rationale behind economic models
6) The money we pay for a good or service
   a. generally exceeds its opportunity cost
   b. generally equals its opportunity cost
   c. has no part in determining its opportunity cost
   d. generally equals two-thirds of its opportunity cost
   e. generally is only part of its opportunity cost

7) 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 and forgo studying for an exam scheduled for the next morning. He estimates that he will lose 3 hours at work, at a wage of $6 per hour, plus 2 hours of study time. Carl's opportunity cost of attending the concert equals
   a. $73 plus the value of the higher exam grade he could earn by studying longer
   b. $73
   c. $35 plus the value of the higher exam grade he could earn by studying longer
   d. $35
   e. $55 plus the value of the higher exam grade he could earn by studying longer

8) 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 tank is approximately
   a. 20 guns
   b. 50 guns
   c. 50 tanks
   d. 1/50 of a tank
   e. 1/50 of a gun

9) According to the law of comparative advantage, individuals and economies should specialize in producing those goods and services in which they have a comparative advantage.
   a. True
   b. False

10) Jenni can change a car's oil in 10 minutes and clean a bathroom in 20 minutes. Rob can change a car's oil in 20 minutes and clean a bathroom in 10 minutes. Therefore,
   a. Jenni should clean the bathroom and Rob should change the car's oil
   b. Rob should clean the bathroom and Jenni should change the car's oil
   c. there are no gains from specialization
   d. Rob has an absolute advantage in both activities
   e. Jenni has an absolute advantage in cleaning the bathroom
11) 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

12) The U.S. system of resource ownership
   a. is pure capitalism
   b. excludes any state ownership of resources
   c. includes government restrictions on the use of privately owned resources
   d. is designed to eliminate the problem of scarce resources
   e. excludes any communal ownership

![Figure 3 - 3](image)

13) Suppose that initially the market for cassette tapes is at point A on demand curve D2 in Figure 3-3. If the price of DVDs (substitute for cassette tapes) decreased,
   a. the demand curve will shift to D3
   b. equilibrium will move to point B on demand curve D2
   c. equilibrium will move to point C on demand curve D2
   d. there will be no change from point A
   e. the demand curve will shift to D1
14) Bread and butter are complements. A decrease in the price of bread results in a(n)
   a. decrease in the supply of bread
   b. increase in the demand for butter
   c. increase in the demand for bread
   d. increase in resource prices
   e. violation of the law of demand

15) Studies show that the supply curve for bananas has shifted. All of the following could be
    possible explanations for the shift, except one. Which is the exception?
    a. The price of land for growing bananas has risen.
    b. Weather conditions in banana-growing countries have worsened.
    c. The price of apples has fallen.
    d. The price of bananas has risen.
    e. The salaries paid to banana growers has risen.

16) A decrease in demand coupled with a decrease in supply results in a(n)
    a. increase in equilibrium price and a decrease in equilibrium quantity
    b. decrease in equilibrium price and a decrease in equilibrium quantity
    c. increase in equilibrium price and a increase in equilibrium quantity
    d. ambiguous effect of equilibrium price and a decrease in equilibrium quantity
    e. ambiguous effect on equilibrium price and a increase in equilibrium quantity

17) Rapid economic growth has increased the economic well-being of U.S. citizens because
    a. people are now earning higher incomes while goods and services are cheaper
    b. the dollar is worth now more than in the past
    c. the output of goods and services has risen faster than the population
    d. the population is now living and working longer
    e. the population has increased while production has decreased
18) Refer to Figure 4-1. If the economy moves from point A to B on the graph, it is going through a(n)
   a. peak
   b. trough
   c. expansion
   d. boom
   e. recession

19) Which of the following would be included in a year's GDP?
   a. Susan cleans the fuel injectors on her car.
   b. A private individual purchases 100 shares of IBM stock.
   c. A timber company purchases land in Oregon.
   d. A man buys an antique desk from his neighbor.
   e. A college professor purchases a new computer.

20) Even though households do not actually purchase certain items, the government estimates and adds to the consumption component what the household would pay for these items in the marketplace. An example of this type of item is
   a. a car that an individual builds from parts of old cars
   b. food that a farm family grows for themselves
   c. a pond that a household member digs by hand
   d. police and fire protection
   e. a barn that a household builds on their own property
21) An example of a capital good is
   a. food produced by U.S. farmers in 2003
   b. the pickup truck that your friend drives to school
   c. a house owned and occupied by a family
   d. the rent your friend paid last year for a college apartment
   e. a share of General Electric Company stock

22) Full employment occurs when
   a. everyone has a job
   b. everyone who wants a job has one
   c. there is no frictional unemployment
   d. there is no cyclical unemployment
   e. there is no structural, frictional, and seasonal unemployment

23) The events of September 11, 2001 had a major direct impact on the economy's GDP.
   a. True
   b. False

24) Suppose that the current overall unemployment rate is 7.5%. If structural unemployment is
    1.5%, frictional unemployment is 3%, and cyclical unemployment is 2%, what fraction of
    overall unemployment is due to seasonal factors?
    a. 14%
    b. 5.5%
    c. 4.5%
    d. 6%
    e. 1%

25) Prices of finished imported goods are
    a. not included in the CPI because the goods were produced outside the country
    b. not included in the CPI because different countries choose different base periods
    c. not included in the CPI because import prices are not denominated in U.S. dollars
    d. not included in the CPI because most imports are raw materials
    e. included in the CPI

26) Suppose that the inflation rate was 4 percent in 2002 and 3 percent in 2003. This would mean
    that
    a. the price level fell from 2002 to 2003
    b. the price level fell at a faster rate in 2003 than in 2002
    c. the price level rose at a faster rate in 2003 than in 2002
    d. the price level rose at a slower rate in 2003 than in 2002
    e. all prices in the economy rose at a rate of 3 percent in 2003
27) The real wage rate measures
   a. nominal wages after taxes
   b. what workers are paid in terms of this year's dollars
   c. what workers are paid in terms of purchasing power
   d. what workers have available for spending after paying their bills
   e. the number of dollars earned by workers

28) Inflation is harmful to society because it often
   a. causes consumers' purchasing power to decline
   b. causes sellers' costs to increase
   c. causes nominal wages to fall
   d. causes purchasing power to be redistributed in haphazard ways
   e. has no effect at all on anyone's purchasing power

29) If inflation is higher than anticipated and benefits are not indexed, which group loses purchasing power?
   a. borrowers and lenders
   b. lenders and retirees
   c. borrowers and retirees
   d. only borrowers
   e. only lenders

30) 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. 0.5 percent
   c. 2 percent
   d. 5 percent
   e. 10 percent