

**Econ 2113 – Test #1**  
**Dr. Rupp – Fall 2004**

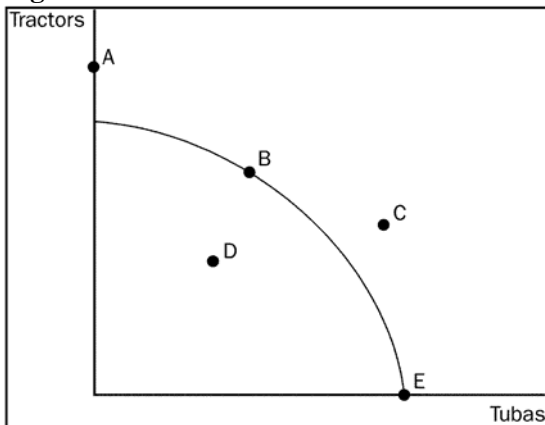
**Name** \_\_\_\_\_  
**Pledge:** “I have neither given nor received aid on this exam”  
**Signature:** \_\_\_\_\_

*Identify the letter of the choice that best completes the statement or answers the question. Turn cell phones off (if your phone rings during the test you will be ineligible to answer the extra credit question)..*

- \_\_\_\_\_ 1. Economics deals primarily with the concept of
  - a. scarcity.
  - b. poverty.
  - c. change.
  - d. power.
- \_\_\_\_\_ 2. What you give up to obtain an item is called your
  - a. opportunity cost.
  - b. explicit cost.
  - c. true cost.
  - d. direct cost.
- \_\_\_\_\_ 3. In a market economy, economic activity is guided by
  - a. the government.
  - b. labor laws.
  - c. central planners.
  - d. prices.
- \_\_\_\_\_ 4. The term used to describe a situation in which markets fail to allocate resources efficiently is called
  - a. economic meltdown.
  - b. market failure.
  - c. corporate bankruptcy.
  - d. disequilibrium.
- \_\_\_\_\_ 5. Prior to its collapse, the former Soviet Union worked on the premise that economic well-being could be organized only through/by
  - a. a market economy.
  - b. government central planners.
  - c. bulk purchases.
  - d. increased competition.
- \_\_\_\_\_ 6. An example of an externality is the impact of
  - a. bad weather on the income of farmers.
  - b. the personal income tax on a person's ability to purchase goods and services.
  - c. pollution from a factory on the health of people in the vicinity of the factory.
  - d. increases in health care costs on the health of individuals in society.
- \_\_\_\_\_ 7. The primary determinant of a country's standard of living is
  - a. the ability to reduce foreign competition.
  - b. its ability to produce goods and services.
  - c. the total supply of money in the economy.
  - d. the average age of the country's labor force.
- \_\_\_\_\_ 8. Inflation is defined as
  - a. a period of rising productivity in the economy.
  - b. a period of rising income in the economy.
  - c. an increase in the overall level of output in the economy.
  - d. an increase in the overall level of prices in the economy.

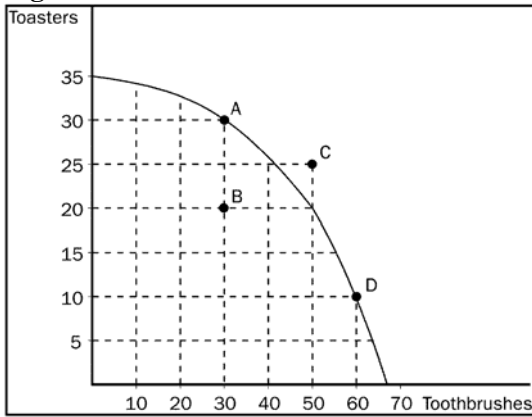
- \_\_\_ 9. In the short run, the Phillips curve illustrates
  - a. the tradeoff between inflation and unemployment.
  - b. the tradeoff between equity and efficiency.
  - c. labor productivity in an economy.
  - d. the level of government intervention in a market economy.
- \_\_\_ 10. In economics, capital refers to
  - a. the trade-off between unemployment and inflation.
  - b. buildings and machines used in the production process.
  - c. the money households use to purchase firms' output.
  - d. the city where firms must apply for the business license in their state.

**Figure 2-3**



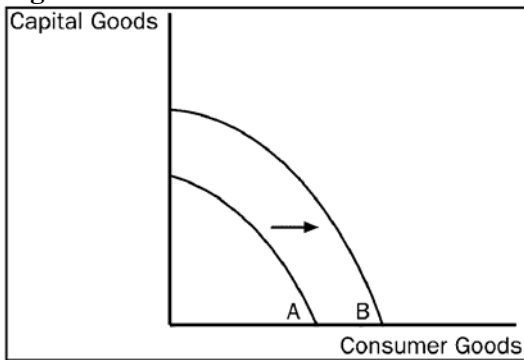
- \_\_\_ 11. Refer to Figure 2-3. The economy can produce at which point or points?
  - a. B, D, E
  - b. A, B, D, E
  - c. D, C
  - d. D
- \_\_\_ 12. Refer to Figure 2-3. The economy CANNOT produce at which point or points?
  - a. A
  - b. C
  - c. A, C
  - d. A, C, D,
- \_\_\_ 13. Refer to Figure 2-3. Which point or points are inefficient?
  - a. A, C
  - b. D, C
  - c. C
  - d. D

**Figure 2-4**



14. Refer to Figure 2-4. The opportunity cost to the economy of getting 30 additional toothbrushes by moving from point A to point D is
- a. 10 toasters.
  - b. 15 toasters.
  - c. 20 toasters.
  - d. 25 toasters.

**Figure 2-7**



15. Refer to Figure 2-7. Which of the following would most likely have caused the production possibilities frontier to shift outward from A to B?
- a. an increase in resources necessary to produce capital goods
  - b. an improvement in the technology of producing consumer goods
  - c. an increase in the overall level of technology in the economy
  - d. an increase in unemployment

Production Possibilities for Toyland

**Table 2-1**

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

- \_\_\_ 16. Refer to Table 2-1. What is the opportunity cost to Toyland of increasing doll production from 200 to 300?
- 200 fire trucks
  - 150 fire trucks
  - 100 fire trucks
  - Not enough information is given to answer the question.
- \_\_\_ 17. Macroeconomics is the study of
- individual decisionmakers.
  - economic history.
  - economy-wide phenomena.
  - how firms maximize profit.
- \_\_\_ 18. Which of the following is an example of a normative statement?
- If the price of a product decreases, quantity demanded increases.
  - Reducing tax rates on the wealthy would be good for the country.
  - If the national saving rate were to increase, so would the rate of economic growth.
  - All of the above are correct.
- \_\_\_ 19. Which of the following is NOT correct?
- Trade allows for specialization.
  - Trade is good for nations.
  - Trade is based on absolute advantage.
  - Trade allows individuals to consume outside of their individual production possibilities curve.

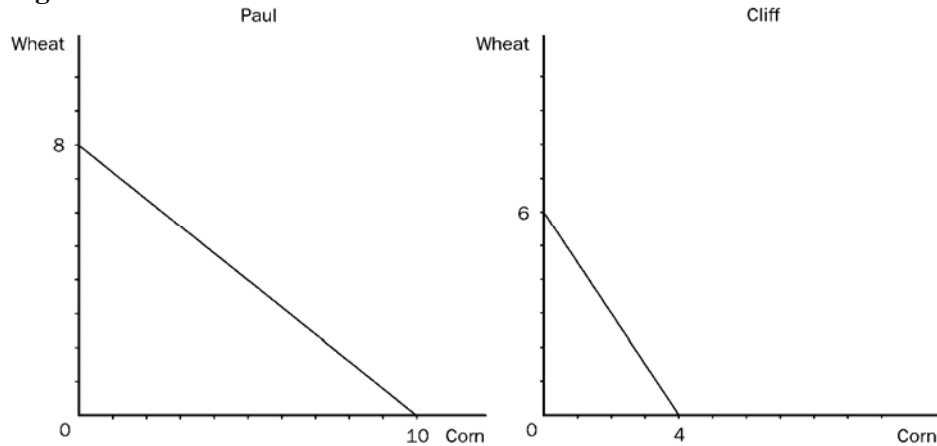
**Table 3-1**

	Labor Hours Needed to Make 1 Pound of:		Pounds produced in 40 hours:	
	Meat	Potatoes	Meat	Potatoes
Farmer	8	2	5	20
Rancher	4	5	10	8

- \_\_\_ 20. Refer to Table 3-1. The opportunity cost of 1 pound of meat for the farmer is
- 1/4 hour of labor.
  - 4 hours of labor.
  - 4 pounds of potatoes.
  - 1/4 pound of potatoes.
- \_\_\_ 21. Refer to Table 3-1. The opportunity cost of 1 pound of meat for the rancher is
- 4 hours of labor.
  - 5 hours of labor.
  - 5/4 pounds of potatoes.
  - 4/5 pound of potatoes.
- \_\_\_ 22. Refer to Table 3-1. The Farmer has an absolute advantage in
- meat, and the Rancher has an absolute advantage in potatoes.
  - potatoes, and the Rancher has an absolute advantage in meat.
  - meat, and the Rancher has an absolute advantage in meat.
  - neither good, and the Rancher has an absolute advantage in both goods.
- \_\_\_ 23. Refer to Table 3-1. The Rancher has an absolute advantage in
- both goods, and the Farmer has a comparative advantage in meat.
  - meat, and the Farmer has a comparative advantage in potatoes.
  - meat, and the Farmer has a comparative advantage in neither good.
  - both goods, and the Farmer has a comparative advantage in potatoes.

24. Refer to Table 3-1. The Rancher has a comparative advantage in
- neither good, and the Farmer has a comparative advantage in both goods.
  - both goods, and the Farmer has a comparative advantage in neither good.
  - meat, and the Farmer has a comparative advantage in potatoes.
  - potatoes, and the Farmer has a comparative advantage in meat.

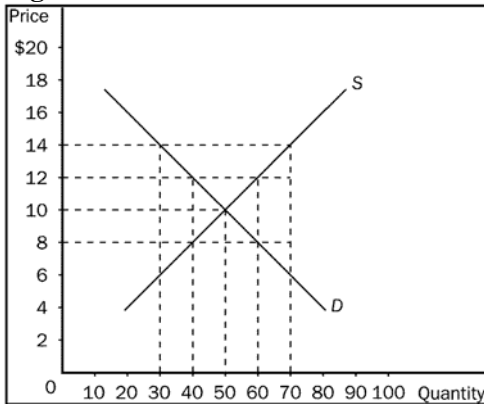
**Figure 3-1**



25. Refer to Figure 3-1. If Paul divides his time equally between corn and wheat, he will be able to produce
- 2 bushels of wheat and 2 bushels of corn.
  - 3 bushels of wheat and 3 bushels of corn.
  - 4 bushels of wheat and 5 bushels of corn.
  - 4 bushels of wheat and 6 bushels of corn.
26. Refer to Figure 3-1. The opportunity cost of 1 bushel of wheat for Cliff is
- $1/3$  bushel of corn.
  - $2/3$  bushel of corn.
  - 1 bushel of corn.
  - $3/2$  bushels of corn.
27. Comparative advantage is based on
- capital costs.
  - labor costs.
  - dollar price.
  - opportunity costs.
28. Imports are
- people who work in foreign countries.
  - an example of an economic model.
  - whatever is given up to obtain some item.
  - goods produced abroad and sold domestically.
29. You lose your job and as a result you buy fewer mystery books. This shows that mystery books are a/an
- normal good.
  - inferior good.
  - luxury good.
  - complementary good.
30. An example of an inferior good might be
- neckties.
  - Ramen noodles.
  - cloth napkins.
  - cut flowers.

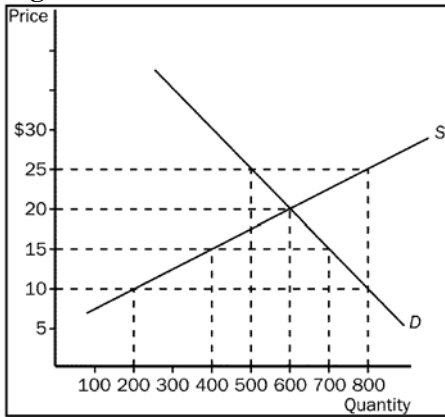
- \_\_\_ 31. An example of complementary goods would be
  - a. hamburgers and hot dogs.
  - b. lawnmowers and automobiles.
  - c. hamburgers and fries.
  - d. Coke and Pepsi.
- \_\_\_ 32. An example of substitute goods would be
  - a. butter and margarine.
  - b. tennis balls and tennis rackets.
  - c. televisions and tractors.
  - d. peanut butter and jelly.
- \_\_\_ 33. The law of demand says that when price
  - a. rises, quantity demanded falls.
  - b. rises, quantity demanded rises also.
  - c. falls, quantity supplied rises.
  - d. falls, quantity supplied falls also.
- \_\_\_ 34. The relationship between price and quantity supplied is
  - a. negative, or inverse.
  - b. positive, or direct.
  - c. nonexistent.
  - d. the same as the relationship between price and quantity demanded.

**Figure 4-8**



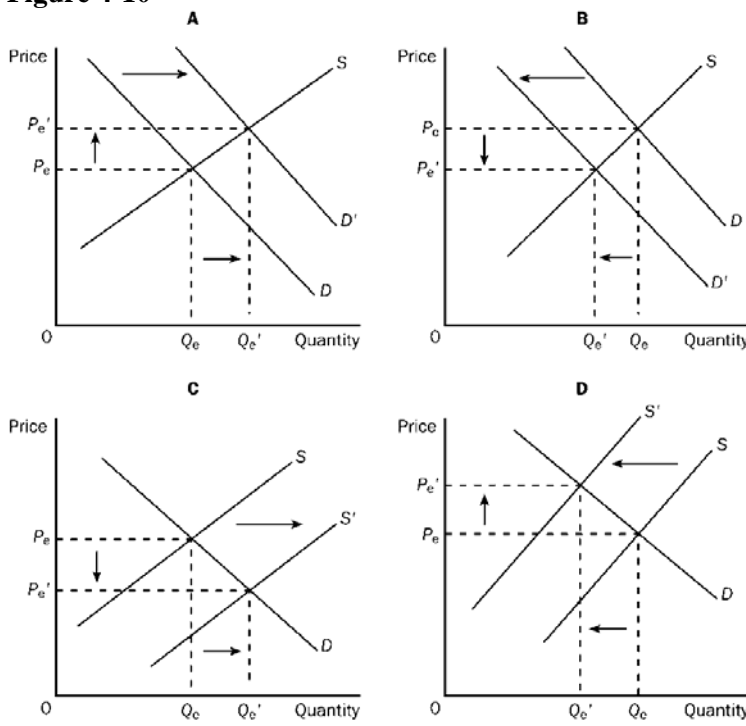
- \_\_\_ 35. Refer to Figure 4-8. If price in this market is currently \$14, there would be a
  - a. shortage of 20 units and price would tend to rise.
  - b. surplus of 20 units and price would tend to fall.
  - c. shortage of 40 units and price would tend to rise.
  - d. surplus of 40 units and price would tend to fall.

**Figure 4-9**



36. Refer to Figure 4-9. At a price of \$15
- quantity demanded  $>$  quantity supplied.
  - quantity demanded = quantity supplied.
  - quantity demanded  $<$  quantity supplied.
  - None of the above are correct.

**Figure 4-10**



37. Refer to Figure 4-10. Which of the four graphs represents the market for peanut butter after a major hurricane hits the peanut-growing south?
- A
  - B
  - C
  - D

- \_\_\_\_\_ 38. Refer to Figure 4-10. Which of the four graphs represents the market for winter boots in June?
- a. A
  - b. B
  - c. C
  - d. D
- \_\_\_\_\_ 39. Refer to Figure 4-10. Which of the four graphs represents the market for pizza delivery in Greenville in September?
- a. A
  - b. B
  - c. C
  - d. D
- \_\_\_\_\_ 40. An early frost in the vineyards of Napa Valley would cause
- a. an increase in the demand for wine, increasing price.
  - b. an increase in the supply of wine, decreasing price.
  - c. a decrease in the demand for wine, decreasing price.
  - d. a decrease in the supply of wine, increasing price.

41. Extra Credit: (Did your cell phone ring during class? If so, please leave this question blank since you are ineligible for extra credit on this test.) According to a student presentation from the *Wall Street Journal* why will the U.S. Social Security program begin running a deficit in 2019?

- a) Falling interest rates
- b) Rising interest rates
- c) The rising U.S. debt
- d) The U.S. trade deficit imbalance
- e) Baby boomers retiring

*Note: I will be returning this test to you, but not your bubble sheets. So if you want to know which questions you missed (or got correct) you will need to pencil in your answers on the test. Your test score, however, will be based on the Scantron answers. Have a good weekend!*



Econ2113 Fall 2004  
Test 1 Answer Key

1	A
2	A
3	D
4	B
5	B
6	C
7	B
8	D
9	A
10	B
11	A
12	C
13	D
14	C
15	C
16	B
17	C
18	B
19	C
20	C
21	D
22	B
23	B
24	C
25	C
26	B
27	D
28	D
29	A
30	B
31	C
32	A
33	A
34	B
35	D
36	A
37	D
38	B
39	A
40	D
41	E