

IV. CONTROL TESTS

The control tests contain 220 questions which cover each part of the discipline. Each test is designed to offer comprehensive coverage of the textbook chapter.

Each test has only one correct answer.

1. **Economics deals primarily with the concept of ...**
 - a) change;
 - b) power;
 - c) poverty;
 - d) scarcity.

2. **Scarcity exists when ...**
 - a) the price of a good rises.
 - b) society can meet the wants of every individual.
 - c) there is less of a good or resource available than people wish to have.
 - d) there is less than an infinite amount of a resource or good.

3. **Economics is defined as the study of...**
 - a) how society manages its scarce resources;
 - b) business;
 - c) central planning;
 - d) government regulation.

4. **A good definition of equity would be...**
 - a) efficiency;
 - b) eliminating extreme affluence;
 - c) fairness;
 - d) everyone receiving the same income.

5. **When government policies are being designed, ...**
 - a) increasing efficiency usually results in more equity;
 - b) there is usually a tradeoff between equity and efficiency;
 - c) equity can usually be achieved without an efficiency loss;
 - d) equity and efficiency goals are usually independent of each other.

6. **The opportunity cost of an item is...**
 - a) what you give up to get that item;
 - b) always equal to the dollar value of the item;
 - c) always less than the dollar value of the item;
 - d) the number of hours needed to earn the money to buy it.

7. Masha spends an hour studying instead of going for a bike ride. The opportunity cost to him of studying is ...

- a) the improvement in his grades from studying for the hour;
- b) the enjoyment and exercise he would have received had he gone for a bike ride;
- c) the difference between the improvement in his grades from studying minus the enjoyment of a bike ride;
- d) zero. Since Masha chose to study rather than to ride his bike, the value of studying must have been greater than the value of the bike ride.

8. A rational decision maker takes an action only if the ...

- a) marginal benefit is greater than the marginal cost;
- b) average benefit is greater than the average cost;
- c) marginal benefit is less than the marginal cost;
- d) marginal benefit is greater than both the average cost and the marginal cost.

9. A marginal change is a...

- a) long-term trend;
- b) change for the worse;
- c) small incremental adjustment;
- d) large, significant adjustment.

10. Economists understand that people respond to...

- a) the wishes of policymakers;
- b) tax breaks, but not tax hikes;
- c) threats more than rewards;
- d) incentives.

11. Which is the most accurate statement about trade?

- a) Trade can make every nation better off;
- b) Trade makes some nations better off and others worse off;
- c) Trade helps rich nations and hurts poor nations;
- d) Trading for a good can make a nation better off only if the nation cannot produce that good.

12. If Canada is better than the United States at producing hockey sticks, but the United States is better than Canada at producing roller blades, the United States should...

- a) put a quota on the amount of Canadian hockey sticks imported;
- b) subsidize its hockey stick industry so that it can compete with Canadian hockey sticks;
- c) sell roller blades to Canada, and buy Canadian hockey sticks;

- d) impose a tariff on Canadian hockey sticks in order to protect jobs in the US roller blade industry.
- 13. In a market economy, economic activity is guided by...**
- a) the government;
 - b) corporations;
 - c) central planners;
 - d) prices.
- 14. One advantage market economies have over central planning is that market economies...**
- a) solve the problem of scarcity;
 - b) are more efficient;
 - c) establish government economic control;
 - d) provide an equal distribution of goods and services to consumers.
- 15. The term market failure refers to...**
- a) an unsuccessful advertising campaign;
 - b) a situation in which the market on its own fails to allocate resources efficiently;
 - c) a situation in which competition among firms becomes ruthless;
 - d) a firm which is forced out of business because of losses.
- 16. An externality is the impact of...**
- a) a person's actions on that person's well-being;
 - b) society's decisions on the well-being of society;
 - c) one person's actions on the well-being of a bystander;
 - d) society's decisions on the well-being of one person.
- 17. If a copper refinery does NOT bear the entire cost of the smoke it emits, it will...**
- a) emit too much smoke;
 - b) emit lower levels of smoke;
 - c) emit an acceptable level of smoke;
 - d) eliminate all smoke so as to avoid the entire cost of the smoke.
- 18. The two best reasons for a government to intervene in a market are to...**
- a) promote equity and to raise revenues;
 - b) promote equity and to promote efficiency;
 - c) promote efficiency and to raise revenues;
 - d) raise revenues and to promote stability.

- 19. Market power refers to the...**
- a) power of the government to regulate a market;
 - b) relative importance of a market to the overall economy;
 - c) power of a single person (or small group of people) to unduly influence market prices;
 - d) ability of a person or group of people to successfully market new products.
- 20. The income of a typical worker in a country is most closely linked to which of the following?**
- a) population;
 - b) government policies;
 - c) labor unions;
 - d) productivity.
- 21. Almost all variation in living standards is attributable to differences in countries' ...**
- a) population growth rates;
 - b) endowments of natural resources;
 - c) defense budgets;
 - d) productivity.
- 22. Productivity is defined as the...**
- a) amount of goods and services produced from each hour of a worker's time;
 - b) number of workers required to produce a given amount of goods and services;
 - c) amount of labor which can be saved by replacing workers with machines;
 - d) actual amount of effort workers put into an hour of working time.
- 23. Inflation is defined as**
- a) a period of rising productivity in the economy.
 - b) an increase in the overall level of prices in the economy.
 - c) a period of rising income in the economy.
 - d) an increase in the overall level of output in the economy.
- 24. Inflation causes**
- a) productivity to increase.
 - b) the value of money to rise.
 - c) the value of money to fall.
 - d) the government to lower taxes.

25. Which of the following is the most correct statement about the relationship between inflation and unemployment?

- a) In the long run, reducing inflation is associated with rising unemployment;
- b) In the short run, reducing inflation is associated with falling unemployment;
- c) In the long run, reducing inflation is associated with falling unemployment;
- d) In the short run, reducing inflation is associated with rising unemployment;

26. The production possibilities frontier is a...

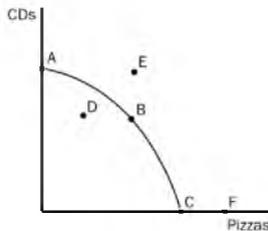
- a) map which shows the frontier beyond which agriculture is unprofitable;
- b) map which shows areas of the world in which capitalist production is now possible;
- c) graph that shows the various combinations of output that the economy can possibly produce given the available resources and technology;
- d) graph which shows the various combinations of resources that can be used to produce a given level of output.

27. Which of the following concepts is NOT illustrated by the production possibilities frontier?

- a) efficiency;
- b) opportunity cost;
- c) equity;
- d) tradeoffs.

28. On the production possibilities frontier shown, which point or points are possible for this economy to produce?

- a) A, B, C, D;
- b) A, B, C, F;
- c) A, B, C, D, E, F;
- d) D.



29. On the production possibilities frontier shown, which point or points are inefficient?

- a) A, B, C;
- b) E, F;
- c) B;
- d) D.

30. The opportunity cost of obtaining more of one good is shown on the production possibilities frontier as the...

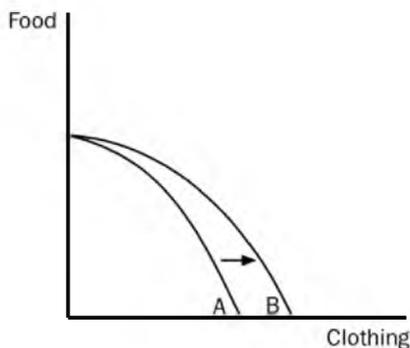
- a) amount of the other good which must be given up;
- b) market price of the additional amount produced;
- c) amount of resources which must be devoted to its production;
- d) number of dollars which must be spent to produce it.

31. A production possibilities frontier will be linear and not bowed out if...

- a) no tradeoffs exist;
- b) the tradeoff between the two goods is always at a constant rate;
- c) the unemployment rate is zero;
- d) resources are allocated efficiently.

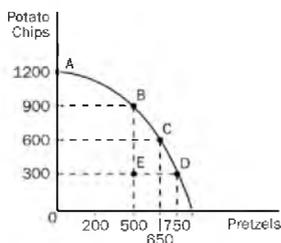
32. In the production possibilities frontier shown, the shift of the frontier from A to B was most likely caused by which of the following?

- a) more capital available in the economy;
- b) more labor available in the economy;
- c) a general technological breakthrough;
- d) technological improvement in the production of clothing.



33. In the production possibilities frontier shown, what is the opportunity cost to society of the movement from point D to point B?

- a) 600 pretzels;
- b) 800 pretzels;
- c) 250 pretzels;
- d) 100 pretzels.



34. In the production possibilities frontier shown, the movement from point C to point E was most likely caused by...

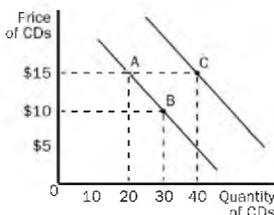
- a) an increase in society's preference for pretzels;
- b) a decrease in society's preference for potato chips;
- c) unemployment;
- d) a and b.

35. Which of the following would be considered a topic of study in microeconomics?

- a) the effect of changes in saving rates on GDP;
- b) the impact of minimum-wage laws on employment in the fast-food industry;
- c) the impact of monetary policy on the rate of inflation;
- d) the effect of tax policy on the rate of economic growth.

36. In the graph shown, the slope of the curve between points A and B is...

- a) -2;
- b) -1/2;
- c) 1/2;
- d) 2.



37. A country's consumption possibilities frontier can be outside its production possibilities frontier...

- a) with trade;
- b) by allocating resources differently;
- c) by lowering unemployment in the country;
- d) by producing a greater variety of goods and services.

38. If labor in Moldova is less productive than labor in the Ukraine in all areas of production, ...

- a) neither nation can benefit from trade;
- b) Moldova can benefit from trade but the Ukraine cannot;
- c) both nations can benefit from trade;
- d) Moldova will not have a comparative advantage in any good.

39. Refer to the table shown. For the Farmer, the opportunity cost of 1 pound of meat is...

- a) 1/2 pound of potatoes;
- b) 2 pounds of potatoes;
- c) 4 hours of labor;
- d) 8 hours of labor.

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

40. Refer to the table shown. For the Rancher, the opportunity cost of 1 pound of meat is...

- a) 1 hour of labor;
- b) 5 hours of labor;
- c) 4 pounds of potatoes;
- d) 1/4 pound of potatoes.

41. Refer to the table shown. For the Farmer, the opportunity cost of 1 pound of potatoes is...

- a) 1/2 pound of meat;
- b) 2 pounds of meat;
- c) 4 hours of labor;
- d) 8 hours of labor.

42. Refer to the table shown. For the Rancher, the opportunity cost of 1 pound of potatoes is...

- a) 4 hours of labor;
- b) 2 hours of labor;.

- c) 4 pounds of meat;
- d) 1/4 pound of meat.

43. Refer to the table shown. The Farmer has an absolute advantage in _____ and the Rancher has an absolute advantage in _____.

- a) meat, meat;
- b) meat, potatoes;
- c) potatoes, meat;
- d) neither good, both goods.

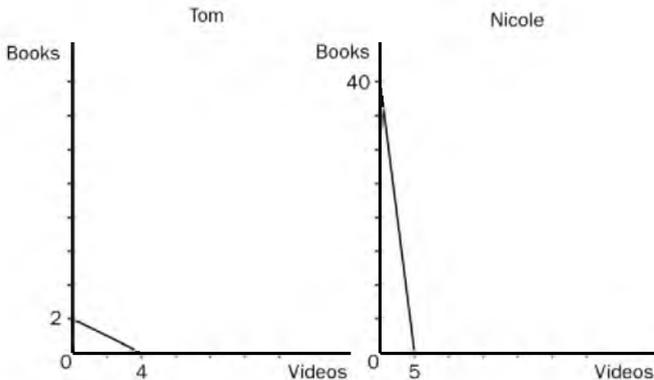
44. Refer to the table shown. The Rancher has a comparative advantage in _____ and the Farmer has a comparative advantage in _____.

- a) meat, potatoes;
- b) both goods, neither good;
- c) potatoes, meat;
- d) neither good, both goods.

45. Refer to the table shown. The Farmer and Rancher both could benefit by the Farmer specializing in _____ and the Rancher specializing in _____.

- a) potatoes, meat;
- b) meat, potatoes;
- c) neither good, meat;
- d) They cannot benefit by specialization and trade.

46. These figures illustrate the production possibilities available to Tom and Nicole with 40 hours of labor.



47. Refer to the graphs shown. The opportunity cost of 1 video for Tom is...

- a) 1/2 book;
- b) 1 book;
- c) 2 books;
- d) 4 books.

48. Refer to the graphs shown. The opportunity cost of 1 video for Nicole is...

- a) 1/40 book;
- b) 1/8 book;
- c) 8 books;
- d) 40 books.

49. Refer to the graphs shown. The opportunity cost of 1 book for Nicole is...

- a) 1/40 video;
- b) 1/8 video;
- c) 5 videos;
- d) 8 videos.

50. Refer to the graphs shown. The opportunity cost of 1 book for Tom is...

- a) 1/4 video;
- b) 1/2 video;
- c) 2 videos;
- d) 4 videos.

51. Refer to the graphs shown. Nicole has an absolute advantage in _____ and Tom has an absolute advantage in _____.

- a) books, videos;
- b) videos, books;
- c) both goods, neither good;
- d) neither good, both goods.

52. Refer to the graphs shown. Nicole has a comparative advantage in _____ and Tom has a comparative advantage in _____.

- a) books, videos;
- b) both goods, neither good;
- c) videos, books;
- d) neither good, books.

53. Refer to the graphs shown. Nicole should specialize in _____ and Tom should specialize in _____.

- a) videos, books;
- b) books, videos;

- c) both goods, videos;
 - d) books, neither good.
- 54. Refer to the graphs shown. If Tom and Nicole both specialize in the good in which they have a comparative advantage, total production of books will be _____ and total production of videos will be _____.**
- a) 42, 9;
 - b) 40, 4;
 - c) 4, 40;
 - d) 9, 42.
- 55. Comparative advantage is based on...**
- a) capital costs;
 - b) labor costs;
 - c) dollar price;
 - d) opportunity costs.
- 56. Absolute advantage is found by...**
- a) comparing opportunity costs;
 - b) calculating the dollar cost of production;
 - c) first determining which country has a comparative advantage;
 - d) comparing the productivity of one nation to that of another.
- 57. The principle of comparative advantage was developed by...**
- a) Adam Smith;
 - b) Harry Truman;
 - c) David Ricardo;
 - d) John Maynard Keynes.
- 58. Economists generally support...**
- a) government management of trade;
 - b) free international trade;
 - c) trade restrictions;
 - d) export subsidies.
- 59. Exports are...**
- a) a limit placed on the quantity of goods brought into a country;
 - b) goods produced domestically and sold abroad;
 - c) usually a country's least desirable product;
 - d) goods produced abroad and sold domestically.
- 60. Ukraine could benefit by ...**
- a) promoting imports and restricting exports;
 - b) restricting imports and promoting exports;

- c) restricting both imports and exports;
 - d) not restricting trade.
- 61. The gains from trade are...**
- a) higher from trade between a rich nation and a poor nation;
 - b) a result of more efficient resource allocation;
 - c) based on different wage rates between nations;
 - d) based on the principle of absolute advantage.
- 62. A market is a...**
- a) place where only buyers come together;
 - b) place where only sellers meet;
 - c) group of people with common desires;
 - d) group of buyers and sellers of a particular good or service.
- 63. A monopoly is a market...**
- a) with one seller;
 - b) with few sellers;
 - c) with one buyer;
 - d) where the government sets the price.
- 64. When we are studying the behavior of buyers, we are studying...**
- a) supply;
 - b) demand;
 - c) an entire market;
 - d) government regulation.
- 65. A demand curve is the...**
- a) curve that relates income with quantity demanded;
 - b) upward-sloping line relating price with quantity supplied;
 - c) downward-sloping line relating the price of the good with the quantity demanded.
 - d) None of the above answers is correct.
- 66. If a good is «normal», then an increase in income will result in...**
- a) a lower market price;
 - b) a decrease in the demand for the good;
 - c) an increase in the demand for the good;
 - d) no change in the demand for the good.
- 67. If the price of a substitute to good X increases, then the...**
- a) demand for good X will decrease;
 - b) demand for good X will increase;
 - c) market price of good X will decrease;
 - d) demand for good X will not change.

68. What will happen in the rice market if buyers are expecting higher prices in the near future?

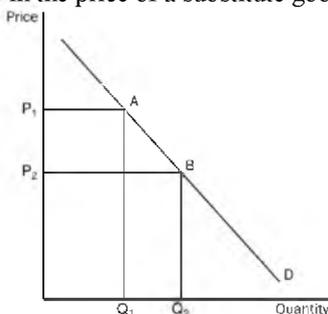
- a) The supply of rice will increase.
- b) The demand for rice will decrease.
- c) The demand for rice will increase.
- d) The demand for rice will be unaffected.

69. Ceteris paribus is a Latin phrase that literally means...

- a) «after this therefore because of this»;
- b) «other things being equal»;
- c) «to respond slowly to a change in price»;
- d) «there's no such thing as a free lunch».

70. The movement from point A to point B on the graph would be caused by...

- a) an increase in income;
- b) an increase in price;
- c) a decrease in price;
- d) a decrease in the price of a substitute good.



71. Which of the following would NOT shift the demand curve for a good or service?

- a) a change in income;
- b) a change in the price of a related good;
- c) a change in the price of the good or service;
- d) a change in expectations about the price of the good or service.

72. If the number of buyers in the market decreases, the...

- a) demand in the market will decrease;
- b) supply in the market will increase;
- c) demand in the market will increase;
- d) supply in the market will decrease.

73. When the price of a good or service changes, ...

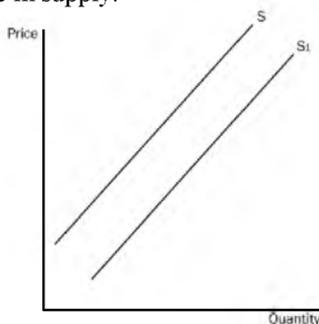
- a) supply shifts in the opposite direction;
- b) demand shifts in the opposite direction;
- c) demand shifts in the same direction;
- d) there is a movement along a stable demand curve.

74. A supply curve slopes upward because...

- a) a decrease in input prices decreases supply;
- b) an increase in input prices increases supply;
- c) as more is produced, per-unit costs of production fall;
- d) an increase in price gives producers incentive to supply a larger quantity.

75. On the graph, the movement from S to S₁ is called...

- a) a decrease in quantity supplied;
- b) an increase in quantity supplied;
- c) a decrease in supply;
- d) an increase in supply.



76. A technological advancement will shift the...

- a) supply curve to the left;
- b) demand curve to the left;
- c) supply curve to the right;
- d) demand curve to the right.

77. Suppose there is an increase in input prices. We would expect supply...

- a) to increase;
- b) to decrease;
- c) to remain unchanged;
- d) to either increase or decrease.

78. The unique point at which the supply and demand curves intersect is called...

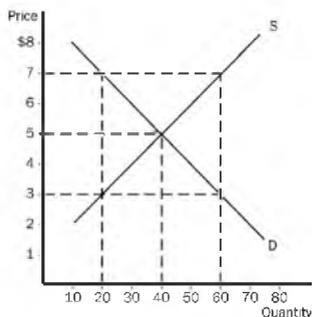
- a) cohesion;
- b) market unity;
- c) equilibrium;
- d) an agreement.

79. According to the graph, at the equilibrium price, ...

- a) 20 units would be supplied and demanded;
- b) 40 units would be supplied and demanded;
- c) 60 units would be supplied and demanded;
- d) 60 units would be supplied, but only 20 would be demanded.

80. According to the graph, at a price of \$ 7, ...

- a) a surplus would exist and the price would tend to rise;
- b) a surplus would exist and the price would tend to fall;
- c) the market would be in equilibrium;
- d) a shortage would exist and the price would tend to fall.



81. If there is a shortage of farm laborers, we would expect...

- a) the wages of farm laborers to increase;
- b) the wages of farm laborers to decrease;
- c) the prices of farm commodities to decrease;
- d) a decrease in the demand for substitutes of farm labor.

82. At the equilibrium price...

- a) sellers would eventually require a higher price;
- b) there will be no pressure on price to rise or fall;
- c) there can still be upward or downward pressure on price;
- d) buyers would not be willing to purchase the output sellers desire to sell.

- 83. When the price is higher than the equilibrium price, ...**
- a) a shortage will exist;
 - b) quantity demanded equals quantity supplied;
 - c) buyers desire to purchase more than is produced;
 - d) sellers desire to produce and sell more than buyers wish to purchase.
- 84. Suppose that demand decreases AND supply decreases. What would you expect to occur in the market for the good?**
- a) Both equilibrium price and equilibrium quantity would increase.
 - b) Equilibrium price would decrease, but the impact on equilibrium quantity would be ambiguous.
 - c) Equilibrium quantity would decrease, but the impact on equilibrium price would be ambiguous.
 - d) Equilibrium price would increase, but the impact on equilibrium quantity would be ambiguous.
- 85. Suppose that the incomes of buyers in a particular market for a normal good declines and there is also a reduction in input prices. What would we expect to occur in this market?**
- a) Both the equilibrium price and quantity would increase.
 - b) Equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.
 - c) Equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
 - d) Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
- 86. In a free market system, what is the mechanism for rationing scarce resources?**
- a) the government;
 - b) prices;
 - c) buyers;
 - d) sellers.
- 87. Price controls are...**
- a) established by firms with monopoly power;
 - b) used to make markets more efficient;
 - c) nearly always effective in eliminating inequities;
 - d) usually enacted when policymakers believe that the market price of a good or service is unfair to buyers or sellers.
- 88. A legal minimum price at which a good can be sold is a price...**

- a) cut;
- b) floor;
- c) ceiling;
- d) stabilization.

89. If a price ceiling is a binding constraint on the market, ...

- a) the forces of supply and demand must be in equilibrium;
- b) the equilibrium price must be below the price ceiling;
- c) the equilibrium price must be above the price ceiling;
- d) it will have no effect on supply or demand.

90. A binding price ceiling is imposed on the market for peaches.

At the ceiling price, the quantity demanded of peaches will be...

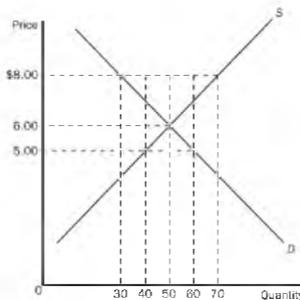
- a) greater than the quantity supplied;
- b) smaller than the quantity supplied;
- c) equal to the quantity supplied;
- d) artificially restricted by the price ceiling.

91. A binding price ceiling will make it necessary to...

- a) supply more of the product;
- b) increase demand for the product, because there will be a surplus;
- c) develop a better marketing plan, because there will be a surplus;
- d) develop a way of rationing the product, because there will be a shortage.

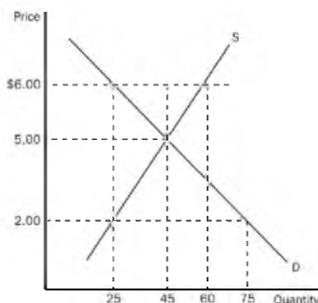
92. According to the graph shown, if the government imposes a binding price ceiling in this market at a price of \$5.00, the result would be a...

- a) surplus of 20 units;
- b) surplus of 40 units;
- c) shortage of 20 units;
- d) shortage of 30 units.



93. According to the graph shown, a binding price floor would exist at a price of...

- a) \$ 2.00;
- b) \$ 5.00;
- c) \$ 6.00.
- d) None of the above.



94. A price floor is binding if it is...

- a) set by the government;
- b) higher than the equilibrium market price;
- c) lower than the equilibrium market price;
- d) equal to the equilibrium market price.

95. The minimum wage is an example of...

- a) a price floor;
- b) a price ceiling;
- c) a free-market process;
- d) an efficient labor allocation mechanism.

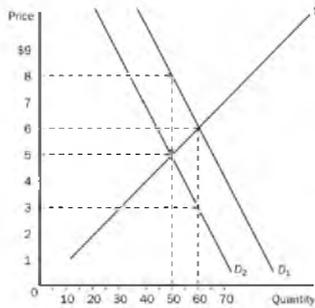
96. If the minimum wage is above the equilibrium wage, ...

- a) anyone who wants a job at the minimum wage can find one;
- b) the quantity demanded of labor will be greater than the quantity supplied;
- c) the quantity demanded of labor will equal the quantity supplied;
- d) the quantity demanded of labor will be less than the quantity supplied.

97. According to the graph, the price buyers will pay after the tax is imposed is...

- a) \$ 3.00;
- b) \$ 5.00;

- c) \$ 6.00;
- d) \$ 8.00.



98. According to the graph, the price sellers receive after the tax is imposed is...

- a) \$ 3.00;
- b) \$ 5.00;
- c) \$ 6.00;
- d) \$ 8.00.

99. According to the graph, the amount of the tax imposed in this market is...

- a) \$ 1.00;
- b) \$ 1.50;
- c) \$ 3.00;
- d) \$ 5.00.

100. According to the graph, the amount of the tax that buyers would pay would be...

- a) \$ 1.00;
- b) \$ 2.00;
- c) \$ 3.00;
- d) \$ 4.00.

101. According to the graph, the amount of the tax that sellers would pay would be...

- a) \$ 1.00;
- b) \$ 2.00;
- c) \$ 3.00;
- d) \$ 4.00.

102. A tax on the buyers of popcorn...

- a) reduces the size of the popcorn market;
- b) increases the size of the popcorn market;

- c) has no effect on the size of the popcorn market;
- d) may increase, decrease, or have no effect on the size of the popcorn market.

103. A tax on the sellers of popcorn...

- a) causes the supply curve to shift to the right;
- b) leads sellers to supply a smaller quantity at every price;
- c) leads buyers to demand a smaller quantity at every price;
- d) leads sellers to supply a larger quantity at every price.

104. A tax of \$.10 per bag on the sellers of popcorn will cause the...

- a) supply curve of popcorn to shift up by \$.10 per bag;
- b) supply curve of popcorn to shift down by \$.05 per bag;
- c) demand curve of popcorn to shift up by \$.10 per bag;
- d) supply curve of popcorn to shift down by \$.10 per bag.

105. A tax on the sellers of popcorn will...

- a) reduce the equilibrium price of popcorn, and increase the equilibrium quantity;
- b) reduce the equilibrium price of popcorn, and reduce the equilibrium quantity;
- c) increase the equilibrium price of popcorn, and reduce the equilibrium quantity;
- d) increase the equilibrium price of popcorn, and increase the equilibrium quantity.

106. A tax on the sellers of popcorn will cause the price the buyers pay...

- a) and the effective price the sellers receive to rise;
- b) and the effective price the sellers receive to fall;
- c) to fall, and the price the sellers receive to rise;
- d) to rise, and the effective price the sellers receive to fall.

107. What is true about the burden of a tax imposed on popcorn?

- a) Sellers bear the entire burden of the tax.
- b) Buyers bear the entire burden of the tax.
- c) Buyers and sellers share the burden of the tax.
- d) The government bears the entire burden of the tax.

108. The key feature of a payroll tax is that it...

- a) is a tax on corporations;
- b) is a tax on poor people;
- c) does not affect equilibrium in labor markets;
- d) places a wedge between the wage that firms pay and the wage that workers receive.

109. If a tax is imposed on a market with inelastic demand and elastic supply, ...

- a) sellers will bear most of the burden of the tax;
- b) buyers will bear most of the burden of the tax;
- c) the burden of the tax will be shared equally between buyers and sellers;
- d) it is impossible to determine how the burden of the tax will be shared.

110. Which of the following is the most correct statement about tax burdens?

- a) A tax burden falls most heavily on the side of the market that is closer to unit elastic.
- b) A tax burden is distributed independently of relative elasticities of supply and demand.
- c) A tax burden falls most heavily on the side of the market that is elastic.
- d) A tax burden falls most heavily on the side of the market that is inelastic.

111. The equilibrium of supply and demand in a market...

- a) maximizes the profits of producers;
- b) minimizes the costs incurred by consumers;
- c) maximizes the total benefits received by buyers and sellers;
- d) minimizes the expenditures of buyers.

112. The area below a demand curve and above the price measures...

- a) total surplus;
- b) producer surplus;
- c) willingness to pay;
- d) consumer surplus.

113. Willingness to pay measures the...

- a) maximum amount that a buyer will pay for a good;
- b) amount a seller actually receives for a good minus the minimum amount the seller is willing to accept;
- c) maximum amount a buyer is willing to pay minus the minimum amount a seller is willing to accept;
- d) amount a buyer is willing to pay for a good minus the amount the buyer actually pays for it.

114. If a consumer is willing and able to pay \$ 15.50 for a particular good but the price of the good is \$ 16.00, then the...

- a) market must not be a perfectly competitive market;
- b) consumer would have consumer surplus of \$ 0.50;
- c) consumer would not purchase the good and would not have any consumer surplus;
- d) consumer would increase his/her willingness and ability to pay by earning more.

115. If Masha is willing to pay \$ 500 for a new suit, but is able to buy the suit for \$ 350, his consumer surplus is...

- a) \$ 850;
- b) \$ 500;
- c) \$ 350;
- d) \$ 150.

116. Masha values a lawnmower at \$ 300, but buys it for \$ 200. Masha's willingness to pay is...

- a) \$ 500;
- b) \$ 300;
- c) \$ 200;
- d) \$ 100.

117. Consumer surplus is the...

- a) quantity of a good consumers get free;
- b) total value of a good to a consumer;
- c) amount a consumer is willing to pay less the amount the consumer actually pays;
- d) amount a consumer has to pay less the amount the consumer was willing to pay.

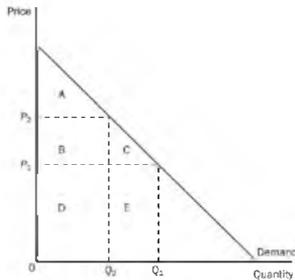
118. If you pay a price exactly equal to your willingness to pay, then...

- a) you place little value on the good;
- b) your consumer surplus is \$ 0;
- c) your consumer surplus is negative;
- d) your willingness to pay is less than your consumer surplus.

119. Refer to the graph shown. When the price rises from P1 to P2, consumer surplus...

- a) increases by an amount equal to A;
- b) decreases by an amount equal to C;

- c) decreases by an amount equal to $B + C$;
- d) increases by an amount equal to $B + C$.



120. Consumer surplus equals...

- a) Value to buyers – Costs of sellers;
- b) Value to buyers – Amount paid by buyers;
- c) Amount received by sellers – Costs of sellers;
- d) Value to buyers – Amount paid by buyers + Amount received by sellers – Costs of sellers.

121. Cost is a measure of the...

- a) producer shortage;
- b) seller's willingness to sell;
- c) seller's producer surplus;
- d) seller's willingness to buy.

122. Producer surplus is the...

- a) amount a seller is paid less the cost of production;
- b) cost to sellers of participating in a market;
- c) amount represented by the area under the supply curve;
- d) area under the supply curve to the left of the amount sold.

123. The marginal seller is the seller who...

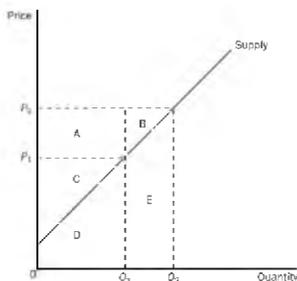
- a) can produce at the lowest cost;
- b) has the greatest producer surplus;
- c) cannot compete with the other sellers in the market;
- d) would leave the market first if the price were any lower.

124. Producer surplus is the area...

- a) under the supply curve;
- b) below the price and above the supply curve;
- c) between the supply and demand curves;
- d) under the demand curve, and above the price.

125. According to the graph shown, when the price is P₂, producer surplus is equal to...

- a) A;
- b) A + C;
- c) D + E;
- d) A + B + C.



126. According to the graph shown, when the price falls from P₂ to P₁, producer surplus...

- a) decreases by an amount equal to A;
- b) decreases by an amount equal to A + B;
- c) decreases by an amount equal to A + C;
- d) increases by an amount equal to A + B.

127. Producer surplus measures the...

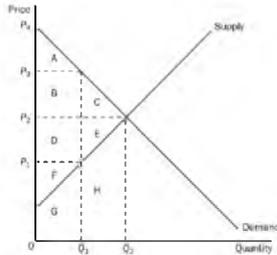
- a) loss to sellers;
- b) well-being of sellers;
- c) well-being of society as a whole;
- d) well-being of buyers and sellers.

128. «Romashka» produces nails at a cost of \$ 200 per ton. If it sells the nails for \$ 500 per ton, its producer surplus is...

- a) \$ 700 per ton;
- b) \$ 500 per ton;
- c) \$ 300 per ton;
- d) \$ 200 per ton.

129. If Masha sells a shirt for \$ 40, and his producer surplus from the sale is \$ 23, his cost must have been...

- a) \$ 17;
- b) \$ 23;
- c) \$ 40;
- d) \$ 63.



130. We can say that the allocation of resources is efficient if...

- a) total surplus is maximized;
- b) consumer surplus is maximized;
- c) producer surplus is maximized.
- d) None of the above is correct.

131. Total surplus in a market equals...

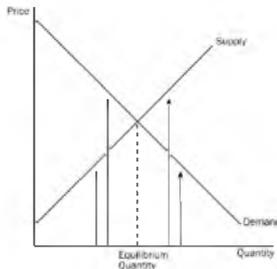
- a) Value to buyers – Amount paid by buyers;
- b) Value to buyers – Costs of sellers;
- c) Amount received by sellers – Costs of sellers;
- d) Amount received by sellers – Amount paid by buyers.

132. In the figure shown, at the market-clearing equilibrium, total surplus is represented by the area...

- a) $A + B + C$;
- b) $A + B + D + F$;
- c) $A + B + C + D + E + F$;
- d) $A + B + C + D + E + F + G + H$.

133. According to the graph, at quantities greater than the equilibrium quantity in a free market, ...

- a) the cost to sellers is equal to the value to buyers;
- b) the value to buyers is greater than the cost to sellers;
- c) the cost to sellers is greater than the value to buyers;
- d) producer surplus would be greater than consumer surplus.



- 134. The «invisible hand» refers to the...**
- a) automatic maximization of consumer surplus in free markets;
 - b) marketplace as a place where government looks out for the self-interests of individual participants in the market;
 - c) equity that results from market forces allocating the goods produced in the market;
 - d) marketplace guiding the self-interests of market participants into promoting general economic well-being.
- 135. In the absence of externalities the invisible hand of the marketplace...**
- a) induces people to act in a manner inconsistent with self-interest;
 - b) is unable to resolve inherent inefficiencies in the market system;
 - c) leads to a market outcome that maximizes total benefit to society;
 - d) increases the transactions cost of contracting between parties to an exchange.
- 136. An externality exists when...**
- a) a firm sells its product in a foreign market;
 - b) markets are not able to reach equilibrium;
 - c) the government intercedes in the operation of private markets by forcing the market to adjust to the balance of supply and demand;
 - d) a person engages in an activity that influences the well-being of a bystander and yet neither pays nor receives payment for that effect.
- 137. When a production externality has a beneficial (or positive) effect on a bystander, society could benefit from...**
- a) an increase in the production of this product;
 - b) a decrease in the production of this product;
 - c) the government placing a Pigovian tax on this product;
 - d) the government not interfering in the market for this product.
- 138. An externality will...**
- a) cause markets to allocate resources efficiently;
 - b) usually be characterized as a form of market failure;
 - c) strengthen the role of the «invisible hand» in the marketplace;
 - d) always require the producer to compensate society.
- 139. To enhance the well-being of society, a social planner will encourage firms to increase production when...**
- a) there is excess supply in the market;
 - b) the firms are producing basic goods;
 - c) technology spillovers are associated with production;
 - d) negative externalities associated with production are imposed only upon consumers.

- 140. A positive production externality will cause a market to produce...**
- a) a quantity that is socially desirable;
 - b) more than is socially desirable;
 - c) less than is socially desirable;
 - d) more than is market optimal.
- 141. A positive consumption externality occurs when...**
- a) Masha's consumption is not beneficial to Petya;
 - b) Masha receives personal benefits from his own consumption of a certain good;
 - c) Masha's benefit exceeds Petya's benefit when they each consume the same good;
 - d) Masha receives a benefit from John's consumption of a certain good.
- 142. A negative consumption externality will cause a private market to produce...**
- a) more than is socially desirable;
 - b) less than is socially desirable;
 - c) less than is market optimal;
 - d) the socially desirable quantity.
- 143. Which of the following policies is government most inclined to use when faced with a positive externality?**
- a) permits;
 - b) taxation;
 - c) subsidies;
 - d) usage fees.
- 144. A good is excludable if...**
- a) it is not a normal good;
 - b) people can be prevented from using it;
 - c) the government regulates its availability;
 - d) one person's use of the good diminishes another person's enjoyment of it.
- 145. If one person's use of a good diminishes another person's enjoyment of it, the good is...**
- a) rival;
 - b) normal;
 - c) excludable;
 - d) exhaustible.
- 146. Goods that are nonexcludable and nonrival are...**
- a) common resources;
 - b) natural monopolies;

- c) private goods;
- d) public goods.

147. The market does not provide national defense because...

- a) the fixed cost of national defense is too high;
- b) the resources to operate national defense are not available in the private sector;
- c) it is impossible to prevent any single person from enjoying the benefit of national defense.
- d) All of the above.

148. The fish in the ocean are an example of a...

- a) private good;
- b) public good;
- c) common resource;
- d) natural monopoly good.

149. Due to the externalities associated with public goods and common resources, ...

- a) private markets will lead to an efficient allocation of resources;
- b) private markets will correct for the gain or loss in consumer surplus;
- c) government intervention can potentially raise economic well-being;
- d) All of the above.

150. Market failure associated with the free-rider problem is a result of...

- a) a problem associated with pollution;
- b) a project in which costs exceed benefits;
- c) losses that accrue to providers of the product;
- d) benefits that accrue to those who don't pay.

151. Basic research is a public good because it...

- a) is a rival good;
- b) is difficult to exclude those who might benefit from it;
- c) is used to develop public goods;
- d) always benefits developed countries at the expense of developing countries.

152. If everyone benefits from helping the poor, ...

- a) taxing the wealthy to raise the living standards of the poor can potentially make everyone better off;
- b) government intervention can only make things worse;

- c) eliminating taxes aimed at redistributing income will necessarily make rich people better off;
- d) private markets can adequately provide charity programs to help the poor despite free-rider problems.

153. A lighthouse is typically considered a good example of a public good because...

- a) there is rarely another lighthouse nearby to provide competition;
- b) all passing ships are able to enjoy the benefits of the lighthouse without paying;
- c) a nearby port authority cannot avoid paying fees to the lighthouse owner;
- d) the owner of the lighthouse is able to exclude beneficiaries from enjoying the lighthouse.

154. Which of the following suggests that individuals do not place an infinite value on human life?

- a) sky-diving;
- b) road intersections without stop signs;
- c) cars that are manufactured and purchased without the latest safety features.
- d) All of the above.

155. Some goods can be either common resources or public goods depending on...

- a) the marginal cost of the good;
- b) whether the good is rival;
- c) how policymakers deal with the good.
- d) None of the above.

156. Overuse of common resources can potentially be resolved by governments that...

- a) subsidize use;
- b) deregulate use;
- c) convert the common resource to a private good.
- d) All of the above.

157. If a road is congested, then use of that road by an additional person would lead to a...

- a) positive externality;
- b) negative externality;
- c) natural monopoly problem;
- d) free-rider problem with rush hour drivers stuck in traffic.

158. In an attempt to improve the pollution problem outside the central city of Singapore, the Singapore government...

- a) charges a premium tax on gasoline;
- b) allows only motorcycle and bicycle transportation;
- c) auctions off the right to license new cars;
- d) does not allow taxis to travel outside the central city.

159. Excessive fishing occurs because...

- a) fishermen have other marketable skills and do not fear exploitation of fish reserves;
- b) fishermen rely on government managers to worry about fish populations;
- c) each individual fisherman has little incentive to maintain the species for the next year;
- d) fishermen are concerned about the population dynamics of fish biomass, not current harvest rates.

160. The government protects fish by...

- a) subsidizing the fishing industry;
- b) heavily taxing competing industries;
- c) increasing taxes on fishing poles and lures;
- d) selling fishing licenses and regulating fish lengths.

161. Why do elephants face the threat of extinction while cows do not?

- a) There is a high demand for products that come only from the cow.
- b) Cattle are owned by ranchers, while elephants are owned by no one.
- c) There are still lots of cattle that roam free, while most elephants are in zoos.
- d) Cattle are a valuable source of income for many people and elephants have no market value.

162. A good solution to saving the tiger from extinction would be to...

- a) tax the sale of tiger hides;
- b) outlaw the sale of tigers or any part of them;
- c) give the tigers' habitat to someone;
- d) regulate the traditional use of Asian medicines that use tiger liver.

163. In a competitive market, the actions of any single buyer or seller will...

- a) have a negligible impact on the market price;
- b) adversely affect the profitability of more than one firm in the market;
- c) cause a noticeable change in market production and price;
- d) have little effect on market production, but ultimately change price.

164. Which of the following is a characteristic of a perfectly competitive market?

- a) Firms are price setters.
- b) There are few sellers in the market.
- c) Firms can exit and enter the market freely.
- d) All of the above are correct.

165. When firms have an incentive to exit a competitive market, their exit will...

- a) drive down market prices;
- b) drive down profits of existing firms in the market;
- c) decrease the quantity of goods supplied in the market;
- d) All of the above are correct.

166. In a perfectly competitive market, the process of entry or exit ends when...

- a) firms are operating with excess capacity;
- b) firms are making zero economic profit;
- c) firms experience decreasing marginal revenue;
- d) price is equal to marginal cost.

167. The exit of existing firms from a competitive market will...

- a) decrease market supply and increase market prices;
- b) decrease market supply and decrease market prices;
- c) increase market supply and increase market prices;
- d) increase market supply and decrease market prices.

168. When firms in an industry have the same cost structure which is not changed by the entry or exit of firms, ...

- a) the long-run market supply curve must be upward sloping;
- b) the long-run market supply curve must be horizontal;
- c) the long-run market supply curve must be downward sloping;
- d) We can't tell anything about the shape of the long-run market supply curve.

169. Which of the following statements about a firm's market pricing of its product is true?

- a) Both competitive firms and monopolies are price makers.
- b) Both competitive firms and monopolies are price takers.
- c) A competitive firm is a price taker and a monopoly is a price maker.
- d) A competitive firm is a price maker and a monopoly is a price taker.

170. A fundamental source of monopoly market power arises from...

- a) availability of «free» natural resources, such as water or air;
- b) perfectly elastic demand;

- c) perfectly inelastic demand;
- d) barriers to entry.

171. The defining characteristic of a natural monopoly is...

- a) economies of scale over the relevant range of output;
- b) diseconomies of scale over the relevant range of output;
- c) marginal cost is U-shaped over the relevant range of output;
- d) marginal cost is constant over the relevant range of output.

172. Authors are allowed to be monopolists in the sale of their books in order to...

- a) satisfy literary advocacy groups that exercise their lobbying power;
- b) encourage authors to write more and better books;
- c) correct for the negative externalities that the internet and television impose;
- d) promote a society that thinks for themselves and learns from whichever books they please.

173. If a monopolist faces a downward-sloping market demand curve, its...

- a) marginal revenue is always less than the price of the units it sells;
- b) marginal revenue is greater than the price of the units it sells;
- c) average revenue is always less than marginal revenue;
- d) average revenue is less than the price of its product.

174. In theory, perfect price discrimination increases...

- a) the monopolist's profits;
- b) consumer surplus;
- c) deadweight loss.
- d) All of the above are correct.

175. Firms may be prevented from price discrimination, if...

- a) there are large fluctuations in the price of raw materials;
- b) buyers can arbitrage;
- c) firms have high fixed costs.
- d) All of the above are correct.

176. Markets with only a few sellers, each offering a product similar or identical to the others, are typically referred to as...

- a) monopoly markets;
- b) perfectly competitive markets;
- c) monopolistically competitive markets;
- d) oligopoly markets.

177. Firms in industries that have competitors but, at the same time, do not face so much competition that they are price takers, are operating in either a(n)...

- a) monopoly or monopolistically competitive market;
- b) monopolistically competitive or perfectly competitive market;
- c) oligopoly or monopoly market;
- d) oligopoly or monopolistically competitive market.

178. Firms in Ukraine are typically classified as...

- a) duopolists;
- b) imperfectly competitive;
- c) oligopolists;
- d) perfectly competitive.

179. Which list contains all market structures having many firms?

- a) oligopoly and perfect competition;
- b) oligopoly and monopolistic competition;
- c) perfect competition and monopolistic competition;
- d) oligopoly, perfect competition, and monopolistic competition.

180. As a group, oligopolists are always better-off collectively if they...

- a) decrease prices;
- b) limit production;
- c) increase production;
- d) each operate according to their own self-interest.

181. Because each oligopolist cares about its own profit rather than the collective profit of their industry...

- a) society is worse-off;
- b) they are unable to maintain monopoly power;
- c) they are able to maximize industry profits.
- d) All of the above are correct.

182. As the number of firms in an oligopoly grows larger, price and output in that market approach...

- a) those in a competitive market;
- b) those in a monopoly;
- c) the Nash equilibrium of a duopoly.
- d) None of the above is correct.

183. Factors of production are best defined as the...

- a) wages paid to the workforce;
- b) goods and services sold in the market;
- c) output produced from raw materials;
- d) inputs used to produce goods and services.

184. Most of the total income earned in Ukrainian economy is ultimately paid to households in the form of...

- a) rent;
- b) wages;
- c) interest;
- d) profit.

185. The production function describes the relationship between...

- a) inputs and cost;
- b) outputs and profit;
- c) inputs and outputs;
- d) inputs and revenue.

186. The marginal product of labor is defined as the increase in...

- a) revenue per additional unit of input;
- b) output per additional unit of input;
- c) revenue per additional unit of output;
- d) output per additional unit of revenue.

187. If hiring more workers causes each additional worker to contribute less to the total output, ...

- a) diminishing profitability is present;
- b) increasing marginal product is present;
- c) diminishing marginal product is present;
- d) diminishing marginal cost is present.

188. The value of the marginal product of labor is equal to the change in...

- a) marginal cost with the addition of the last worker;
- b) total cost with the addition of the last worker;
- c) total profit with the addition of the last worker;
- d) total revenue with the addition of the last worker.

189. A worker's contribution to a firm's revenue is measured directly by the worker's...

- a) contribution to output;
- b) value of marginal product;
- c) marginal product minus his/her wage;
- d) marginal product multiplied by his/her wage.

190. If the price of airline tickets rises, what will happen to the demand curve for flight attendants?

- a) It will shift to the left.
- b) It will shift to the right.

- c) There will be a movement along the curve.
- d) It will remain unchanged; price changes do not shift demand curves.

191. Which of the following events would cause an increase in the labor supply curve?

- a) more married women deciding to work;
- b) a lower Social Security retirement age;
- c) fewer married men deciding to work;
- d) tighter restrictions on immigration policy.

192. When labor supply increases, ...

- a) profit-maximizing firms reduce employment;
- b) the marginal productivity of workers always increases;
- c) wages increase as long as supply is upward sloping;
- d) wages decrease as long as labor demand is downward sloping.

193. Which of the following could decrease labor demand?

- a) an increase in migrant workers;
- b) a decrease in the labor supply;
- c) a decrease in demand for the final product produced by labor;
- d) an increase in the marginal productivity of workers.

194. When firms are able to increase the amount of physical capital available to workers the...

- a) value of the marginal product of labor will decrease;
- b) value of the marginal product of labor will increase;
- c) final product price will increase;
- d) marginal product of labor will decline.

195. When economists refer to a firm's capital, they are likely to be using the term to describe the...

- a) markets for final goods and services;
- b) amount of financing provided by the equity markets;
- c) stock of equipment and buildings used in production;
- d) amount of bank financing used by the firm.

196. The purchase price of land is...

- a) the price received from the flow of some land services;
- b) the price a person pays to own the factor of production;
- c) always less than the rental price;
- d) the value of the land to the firm this time period.

197. The marginal product of any factor of production depends on...

- a) the price of the final good;
- b) the quantity of the factor used;
- c) the demand for the final good;
- d) whether it is used to produce a good or a service.

198. As a result of severe flooding, a farmer loses one-half of his productive farmland. He should expect to see the marginal productivity of his land...

- a) increase;
- b) decrease;
- c) become negative;
- d) remain unchanged.

199. The change in the supply of one factor...

- a) alters the earnings of all factors;
- b) will not alter the marginal productivity of other factors, but may lower their price;
- c) will not lower the price of other factors, but may alter their marginal productivity;
- d) will not change the value of marginal product for other factors.

200. The labor supply curve is fundamentally a representation of the trade-off people face between which of the following?

- a) work and wage;
- b) work and leisure;
- c) wage and productivity;
- d) technology and wage.

201. Macroeconomics is the study of...

- a) market regulation;
- b) money and financial markets;
- c) economy-wide phenomena;
- d) how households and firms make decisions and how they interact.

202. For the economy as a whole...

- a) expenditure exceeds income because of taxes;
- b) income must equal expenditure;
- c) income exceeds expenditure because of saving;
- d) expenditure exceeds income because of the government budget deficit.

203. Gross Domestic Product is defined as the market value of...

- a) all final goods and services produced by a country's citizens in a given period of time;
- b) every good and service produced within a country in a given period of time;
- c) all final goods and services produced within a country in a given period of time;
- d) all goods and services produced by a country's citizens in a given period of time.

204. Goods and services produced and sold illegally are...

- a) excluded from GDP;
- b) included in GDP;
- c) included in GDP only if income from the sales is reported on income tax returns;
- d) included in GDP to the extent that they can be measured.

205. Masha decides to hire Petya to mow her lawn, instead of mowing it herself, as he is accustomed to doing. As a result of this transaction, GDP...

- a) will decrease;
- b) will increase;
- c) will be unaffected because the same service would be performed in either case;
- d) could increase or decrease, depending on whether Petya mows lawn as well as Masha could mow it herself.

206. The value of intermediate goods that are sold is...

- a) not added to GDP;
- b) added to GDP if they were produced in a previous year;
- c) added to GDP if they were produced and sold in the current year;
- d) added to GDP unless they are sold at a loss.

207. Ukrainian company owns a store in Moldova. The value of the goods and services produced in the store are included...

- a) in both GDP;
- b) in Moldova's GDP, but not Ukrainian GDP;
- c) in Ukrainian GDP, but not Moldovan GDP;
- d) partly in Moldovan GDP and partly in Ukrainian GDP.

208. National income is defined as...

- a) all income produced within a country;
- b) the income received by the national government;

- c) the total income earned by a nation's residents from the production of goods and services within the borders of the country;
- d) the total income earned by a nation's residents in the production of goods and services.

209. The government reports that GDP «increased by 2 percent in the last quarter»...

- a) GDP increased by 10 percent for the year;
- b) GDP increased at an annual rate of 2 percent during the last quarter;
- c) GDP increased at an annual rate of 8 percent during the last quarter;
- d) GDP increased at an annual rate of .5 percent during the last quarter.

210. The four components of GDP are consumption, ...

- a) money supply, government purchases, and exports;
- b) investment, transfer payments, and imports;
- c) investment, government purchases, and net exports;
- d) investment, government purchases, and foreign exchange.

211. If exports are smaller than imports, net exports...

- a) are positive;
- b) are negative;
- c) will increase GDP;
- d) are larger than imports.

212. The best measure of a country's production of goods and services is...

- a) real GDP;
- b) real NNP;
- c) nominal GDP;
- d) nominal GNP.

213. Real GDP is the production of goods and services valued at...

- a) current year prices;
- b) future year prices;
- c) constant prices;
- d) the ratio of current year prices to constant year prices.

214. Barter...

- a) is more efficient than money;
- b) makes trading easier than money;

- c) allows greater specialization than money.
- d) None of the above is correct.

215. Ukrainian currency is currently...

- a) commodity money with no intrinsic value;
- b) fiat money with no intrinsic value;
- c) commodity money with intrinsic value;
- d) fiat money with intrinsic value.

216. When the price level rises, the number of dollars needed to buy a representative basket of goods...

- a) decreases, so the value of money rises;
- b) decreases, so the value of money falls;
- c) increases, so the value of money rises;
- d) increases, so the value of money falls.

217. A decrease in the money supply creates an excess...

- a) demand for money that is eliminated by rising prices;
- b) demand for money that is eliminated by falling prices;
- c) supply of money that is eliminated by rising prices;
- d) supply of money that is eliminated by falling prices.

218. In order to maintain stable prices, the central bank must:

- a) tightly control the money supply;
- b) keep unemployment low;
- c) sell indexed bonds.
- d) All of the above are correct.