Student name:__________

1) Which of the following is *not* a typical characteristic of a market system?

A) technological advance
B) specialization
C) use of money
D) government production planning
E) freedom of choice

2) Private property

A) does not apply to patents and copyrights.
B) discourages exchange since people must get government approval before selling their property.
C) does everything indicated in the other choices.
D) encourages investment since people know what they own can't just be taken away from them.

3) Which of the following is one of the Five Fundamental Questions?

A) How will the system promote progress?
B) How will the system stop creative destruction?
C) How much should society save?
D) How much should entrepreneurs be taxed?

4) Answer the question based on the following information: Suppose 30 units of product A can be produced by employing just labor and capital in the four ways shown below. Assume the prices of labor and capital are $1 and $5, respectively.

	Production Techniques			
	I	III	III	IV
Labor	4	3	2	5
Capital	2	3	5	1

Which technique is economically most efficient in producing A?

A) I
B) II
C) IV
D) III

5) Answer the question based on the following information: Suppose 10 units of product X can be produced by employing just labor and capital in the three ways shown below. Assume the prices of labor and capital are as shown.

	Resource price	Production Technique I	Production Technique II	Production Technique III
Labor	$2	4	3	2
Capital	$3	2	2	3

Which technique is the most economically efficient?

A) Technique III with total costs of $13
B) Technique I with total costs of $14
C) Technique II with total costs of $12
D) Technique II with total costs of $5

6) Answer the question based on the following information: Suppose 30 units of product A can be produced by employing just labor and capital in the four ways shown below. Assume the prices of labor and capital are $2 and $3, respectively.

	Production Techniques			
	I	II	III	IV
Labor	4	3	2	5
Capita	2	3	5	1

1				

If the price of product A is $1.50, and the firm is producing efficiently the firm will realize

A) Economic profit of $32.
B) Economic profit of $45.
C) Economic profit of $30.
D) Economic loss of $13.
E) Economic profit of $2.

7) [MISSING IMAGE: ,]Refer to the diagram. Flow 2 represents

A) goods and services.
B) wage, rent, interest, and profit income.
C) consumer expenditures.
D) land, labor, capital, and entrepreneurial ability.

8) Which of the following statements about self-interest in a market system is false?

A) In a market system, consumers are just like firms: self-interest is what motivates them.
B) Self-interest usually motivates an individual to deliver something of value to others.
C) Self-interest of entrepreneurs implies seeking maximum profits or minimum losses.
D) Self-interest applies only to capitalists and entrepreneurs, not to workers employed by others.

9) If the total costs of producing 1,500 units of output is $12,000 and this output sold to consumers for a total of $15,000, then the firm would earn economic profits of

A) $15,000.
B) $18,000.
C) $3,000.
D) $12,000.
E) $27,000.

10) Which of the following is a characteristic of a corporation?

A) It is owned and managed by one person.
B) The 2 owners pool their business talents to run the business.
C) It is an independent legal entity on its own.
D) The owners bear all the responsibility of the business's debts.

Answer Key

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1) D

2) D

3) A

4) C

5) C

6) A

7) D

8) D

9) C

10) C