Exam

Name___________________________________

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Which of the following is the best definition of economics? 1) ________
A) The study of how firms decide what inputs to hire and what outputs to produce
B) The study of how consumers spend their income
C) The study of how the government allocates tax revenue
D) The study of how individuals and societies choose to use the scarce resources that nature and previous generations have provided

2) The problem of scarcity is directly relevant 2) ________
A) only to developing countries low in resources.
B) only to those periods of history before mass production.
C) to all countries and all individuals.
D) only to those on low incomes.
E) only to those times when rationing has been enforced.

3) The process by which resources are transformed into useful items is 3) ________
A) allocation. B) capitalisation. C) production. D) consumption.

4) Which of the following is a reason to study economics? 4) ________
A) To understand society
B) To be an informed voter
C) To understand global affairs
D) All of the above

5) Which of the following statements is incorrect? 5) ________
A) If poverty were eliminated there would be no reason to study economics.
B) Economics is a behavioural science.
C) Economic analysis can be used to explain how both individuals and societies make decisions.
D) In large measure, economics is the study of how people make choices.

6) Economists use the term 'capital' to mean 6) ________
A) the current value of the firm's shares on the stock exchange.
B) the total value of a firm to its shareholders.
C) the process by which inputs are transformed into outputs.
D) all inputs into the production process that have themselves been produced, e.g. factories, machines and tools.

7) Which of the following would not be called a resource by economists? 7) ________
A) Labour B) Buildings C) Land D) Money

8) In return for supplying factors of production, households are paid 8) ________
A) wages, rent and dividends.
B) wages, rent and retained profits.
C) goods and services.
D) pensions, interest and rent.

9) Which of the following are factors of production? 9) ________

(i) Land
(ii) Interest
(iii) Labour
(iv) Raw materials
(v) Rent
(vi) Wages
(vii) Profit
(viii) Capital

A) (iii), (v), (vi) and (vii)
B) (iii), (iv) and (viii)
C) (ii), (iii), (iv) and (vi)
D) (i), (ii), (iv) and (viii)
E) (i), (iii), (iv) and (viii)

10) ________ is related to wants and ________ is related to resources. Potential demands are typically ________ potential supplies. 10) ________

A) Demand; supply; greater than
B) Demand; supply; less than
C) Supply; demand; equal to
D) Supply; demand; less than
E) Supply; demand; greater than

11) A study of whether or not employers discriminate against women by paying them lower wages and assigning them to lower level positions than men would be in the area of 11) ________

A) industrial relations.
B) law and economics.
C) microeconomics.
D) macroeconomics.

12) A study of how increases in tax rates will affect the national unemployment rate is an example of 12) ________

A) microeconomics.
B) macroeconomics.
C) descriptive economics.
D) normative economics.

13) Macroeconomics is the branch of economics that examines 13) ________

A) outcomes of economic behaviour, evaluates them as good or bad, and prescribes preferred courses of action.
B) ways to understand behaviour and the operation of systems without making judgements.
C) the economic behaviour of aggregates (income, employment, and output) on a national scale.
D) the functioning of individual industries and the behaviour of individual decision-making units, i.e. business firms and households.

14) Economic growth may occur when a society 14) ________

A) acquires new resources.
B) learns to produce more using existing resources.
C) begins to produce the combination of goods that society wants most.
D) A and B

15) Inflation and unemployment are the focus of 15) ________

A) normative economics.
B) microeconomics.
C) macroeconomics.
D) positive economics.

16) Economists define a recession as a period of — 16) _______

A) declining prices.
B) declining employment.
C) declining national output.
D) high business failure.

17) Economists define the rate of inflation as the rate of change in — 17) _______

A) total spending.
B) the price level.
C) the overall level of economic activity.
D) the unemployment level.

18) The circular flow of income diagram shows — 18) _______

A) how households sell productive services to firms.
B) how firms sell goods to households.
C) how households produce services for their own use.
D) A and B
E) A, B and C

19) The cut in VAT to tackle the recession can be described as — 19) _______

A) a supply-side policy.
B) an incomes policy.
C) a regulatory policy.
D) a demand-side policy.
E) a distribution policy.

20) A cut in the income tax rate which was meant to encourage people to work more would be called — 20) _______

A) a microeconomic policy.
B) an incomes policy.
C) a demand-side policy.
D) a supply-side policy.
E) a regulatory policy.

21) An increase in tax credits designed to encourage single parents to work is — 21) _______

A) an anti-inflation policy.
B) a demand-side policy.
C) a regulatory policy.
D) an incomes policy.
E) a supply-side policy.

22) An example of a demand-side government policy would be — 22) _______

A) general cuts in tax rates.
B) grants to firms to encourage them to invest in green technology.
C) reducing the power of trade unions.
D) reducing unemployment benefit to encourage people to take up employment.

23) The total demand for goods and services in an economy is known as — 23) _______

A) GDP (gross domestic product).
B) national demand.
C) total consumption.
D) GNP (gross national product).
E) aggregate demand.

24) Aggregate supply is the total amount 24) _______
A) produced by a named industry.
B) of goods and services produced in an economy.
C) produced by the government.
D) of labour supplied by all households.

25) The branch of economics that examines the functioning of individual industries and the behaviour of individual decision-making units is 25) _______
A) microeconomics.
B) normative economics.
C) macroeconomics.
D) positive economics.

26) Opportunity cost refers to 26) _______
A) the cost of producing one more unit of output.
B) the cost of buying one more unit of a product.
C) that which we forgo, or give up, when we make a choice or a decision.
D) a cost that cannot be avoided, regardless of what is done in the future.

27) The reason that opportunity costs arise is that 27) _______
A) people have unlimited wants.
B) resources are scarce.
C) there are no alternative decisions that could be made.
D) an economy relies on money to facilitate exchange of goods and services.

28) A retired individual decides to spend the day playing golf. The opportunity cost of this decision 28) _______
A) could be measured by using the wage rate this individual earned prior to retirement.
B) equals the cost of the golf outing plus the value of the individual's alternative use of time.
C) is equal to the cost of the golf outing.
D) is zero, since the individual is retired and is not forgoing any income to spend the day golfing.

29) Which of the following is not an opportunity cost of attending college? 29) _______
A) The income that you could have earned if you did not attend college
B) The alternative uses of the time you spend studying
C) The tuition fees that you or your local authority pays
D) The cost of the food that you consume while you are attending college

30) If you own a building and you decide to use that building to open a restaurant, then 30) _______
A) the only cost relevant to this decision is the price you paid for the building.
B) there are no irretrievable costs involved in this decision.
C) there is an opportunity cost of using this building for a restaurant because it could have been used in other ways.
D) there is no opportunity cost of using this building for a restaurant because you own it.

31) You own the DVD boxed set of *The Twilight Saga* and have watched the films once already. The opportunity cost of watching them a second time 31) _______
A) is half the price of the DVD boxed set, since this is the second time you have watched them.
B) is the value of the best alternative use of the time you spend watching the DVDs.
C) cannot be calculated.
D) is zero.

32) Assume that a firm can produce 6 units of good X or 12 units of good Y per hour with its current resources. The opportunity cost of a unit of X is 32) _______

A) 1/2 a unit of Y.
B) 6 units of Y.
C) 72 units of Y.
D) 2 units of Y.
E) 12 units of Y.

33) Which of the following is part of marginal cost? 33) _______

A) The cost of any rented factory, office and machinery
B) The raw material cost incurred in making one more unit of output
C) The total labour cost incurred in making the firm's output
D) The total sunk average cost allocated to the last unit of output

34) The additional cost of producing one more unit of a product is known as a firm's ________ cost. 34) _______

A) monetary
B) real
C) marginal
D) average
E) opportunity

35) A planned motorway connecting two cities was originally expected to cost £200 million. After building part of the system at a cost of £150 million, the government realised that the total cost of the system would be £260 million rather than £200 million. At this point, the marginal cost of completing the motorway is best estimated as 35) _______

A) £260 million. B) £60 million. C) £110 million. D) £50 million.

36) Costs that cannot be avoided, regardless of what is done in the future, because they have already been incurred are 36) _______

A) marginal costs. B) implicit costs. C) total costs. D) sunk costs.

37) Making a rational decision about whether to go to the cinema or to study involves comparing 37) _______

A) the total cost of each activity.
B) the total benefit of each activity.
C) the price of the cinema ticket with the importance of study.
D) marginal benefits and marginal costs.

38) An institution through which buyers and sellers interact and engage in exchange is a 38) _______

A) laissez-faire. B) central agency.
C) market. D) production curve.

39) Which of the following is not true of a market economy? 39) _______

A) The interaction between buyers and sellers answers the basic economic questions of what gets produced, how it gets produced and who gets it.
B) In its pure form, it is also know as a laissez-faire economy.
C) It relies upon millions of individual economic decisions to determine economic outcomes.
D) All decisions are regulated by a central agency.

40) Scarce resources create an 'economic problem' because 40) _______
A) natural resources are limited.
B) consumers typically want to consume more goods and services.
C) some goods cost more than others.
D) A and B

41) Which of the following could help to move an economy out of a recession? 41) _______
A) Taxing inefficient companies
B) Lowering taxes on goods and services
C) Raising interest rates
D) Buying more imported goods and services

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

42) The process by which resources are transformed into goods and services is called production. 42) _______

43) The purchase of final goods and services is termed 'consumption' by economists. 43) _______

44) Scarcity occurs because incomes are not allocated fairly. 44) _______

45) Inputs are often called factors of production. 45) _______

46) Capital goods are products which are owned by businesses rather than households. 46) _______

47) 'Land' is the term used for inputs that are not owned by businesses and households. 47) _______

48) A reduction in supply will normally reduce price. 48) _______

49) Macroeconomics is the study of aggregates, such as inflation and unemployment. 49) _______

50) Governments only ever intervene in the economy to stabilise the macroeconomic environment. 50) _______

51) Microeconomics would consider questions such as what goods are going to be produced. 51) _______

52) The total amount of output in the economy is called aggregate supply. 52) _______

53) The rate of inflation is the percentage increase in the level of prices over a 12-month period. 53) _______

54) The total of consumer spending in the economy is called aggregate demand. 54) _______

55) In the 'circular flow of income' model, consumers are labelled as households. 55) _______

56) In the 'circular flow of income' model, firms earn income from households and households earn income from firms. 56) _______

57) The opportunity cost of something is the compensation you receive for not using it. 57) _______

58) The opportunity cost of something is what you give up to get it. 58) _______

59) Rational decision-making involves computer-assisted mediation. 59) _______

60) Rational decision-making means that an activity is worthwhile if the marginal benefit exceeds the marginal cost. 60) _______

61) If the marginal benefit exceeds the marginal cost, it is rational to do the activity (or to do more of it). 61) _______

62) Marginal costs are the total costs of production divided by the number of units of output produced. 62) _______

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

63) The market system is mankind's most valuable tool for meeting the needs of the people. Do you agree with this statement? Please explain your argument in detail.

64) What is economics all about?

65) What are the main scarce resources, and why does scarcity create an 'economic problem'?

66) What are the two main divisions into which economic ideas fall?

67) How do economists define unemployment?

68) What are demand-side and supply-side policies?

69) Define what you consider to be the main macroeconomic variables that are of interest to a business economist. Why are the variables you have chosen important?

70) Define what you consider to be the main microeconomic information that is of interest to a business economist.

71) Suggest some demand-side policies that a government could use to move the economy out of a recession.

72) Suggest some supply-side policies that a government could use to move the economy out of a recession.

73) Explain the simple circular flow of income.

74) What is opportunity cost? Illustrate your answer with two examples.

75) From the point of view of Nissan™, what are the marginal cost and marginal benefit of producing one additional car?

1) D
2) C
3) C
4) D
5) A
6) D
7) D
8) A
9) E
10) E
11) C
12) B
13) C
14) D
15) C
16) C
17) B
18) D
19) D
20) D
21) E
22) A
23) E
24) B
25) A
26) C
27) B
28) B
29) D
30) C
31) B
32) D
33) B
34) C
35) C
36) D
37) D
38) C
39) D
40) D
41) B
42) TRUE
43) FALSE
44) FALSE
45) TRUE
46) FALSE
47) FALSE
48) FALSE
49) TRUE
50) FALSE

51) TRUE
52) TRUE
53) TRUE
54) FALSE
55) TRUE
56) TRUE
57) FALSE
58) TRUE
59) FALSE
60) TRUE
61) TRUE
62) FALSE
63) This essay should first establish a definition of 'needs' and demonstrate that not all needs are economic needs (e.g. affection, love, friendship and health). It should then explore the pros and cons of the market system. The benefits of the system must include the idea of freedom of choice for the consumers (where to work/live, what to eat, etc.) and the idea that the market system helps preserve natural resources by attaching a higher price tag to the scarcest goods. Disadvantages should include the notion that the system will never satisfy everyone at the same time, a comment on the unfairness of the market system, and the idea that inequality (of income) may well be an essential component of this system (e.g. incentives to be more productive).
64) Sloman, Hinde and Garratt answer this question in two ways:
   • It is about production and consumption, and all the decisions that are involved in both these activities.
   • It is also about how demand for goods adjusts to supply of them, and how supply adjusts to demand.

   Economic decision-making involves doing the best we can with scarce resources, whether they are inputs, time or income. In formal terms, economics involves 'constrained maximisation'.
65) Scarce resources are usually classified under the headings of 1) labour, 2) land and raw materials, and 3) capital. These are all in limited supply (including renewable resources which may be renewable, but are not in unlimited supply during each period). Scarce resources create an economic problem as the demands for consumers are beyond what can actually be produced. Therefore, choices between alternatives must be made.
66) Macroeconomics and microeconomics.
   • Macroeconomics is concerned with aggregates (the economy as a whole), particularly national income or output, unemployment and inflation.
   • Microeconomics deals with individual decisions by households and firms, and how markets bring these individual decisions together to decide prices and output of individual goods and services.
67) Economists try to use definitions which can be measured, so that we can say what is happening, in this case, to unemployment. There is general agreement that the unemployed must be ready, willing and able to work at present wage rates, but there is some disagreement over which statistics show this most clearly. Later chapters in the book explore the debate over how to define unemployment.
68) This is a way of looking at government policies that affect the economy.
   • Demand-side policies act on demand by changing incomes, taxes on goods and social security payments. People will then buy more, or less, and this affects employment and prices.
   • Supply-side policies, crucially, affect the cost of production. Income tax reductions might make people more willing to work, transport improvements could cut costs and education and training might make workers more productive. This would feed through to reduce prices, stimulate demand and reduce unemployment.

69) The list of variables and reasons may include:
- Unemployment, as this relates to the level of demand within an economy and the availability of employees.
- Inflation, as firms need information on future input and output prices to be able to plan effectively.
- Exchange rates, since materials may be sourced from overseas, sales may be to overseas markets and/or competitors may be based overseas, business performance may be heavily influenced by various exchange rates.
- Interest rates, as this will influence the company cost of borrowing/opportunity cost of capital, household spending, etc.

70) The information chosen may include: prices of competitors' products, raw material costs, costs associated with alternative production methods, costs and demands associated with expanding activities, predictions of future demand, influence of promotional activity and output changes on product demand, availability and costs of finance, possible competitor reactions to changes in company activity, current tax and legal regime, etc.

71) Cutting taxes, raising government expenditure, lowering interest rates, etc. At this point in the text the student is not expected to be able to provide much detail on how these policies work.

72) Tax incentives for business investment, improvements in government-funded education and training schemes, improving infrastructure, etc. At this point in the text the student is not expected to be able to provide much detail on how these policies work.

73) The circular flow of income links the producers of foods and services (firms) with the consumers of goods and services (households). Households supply factors of production (labour, land, etc.) and receive factor incomes in return (wages, rent, etc). Household income is then returned to firms as a payment for goods and services.

74) This is one of the most important economic ideas, and, if you learn nothing else in your study of economics, make sure you learn this!

The cost of anything is what we have to give up to get it. Or, to put it another way, the opportunity cost of something is the value of the activity measured by reference to the best alternative forgone. Opportunity cost draws attention to the alternatives. If land is used for a motorway, it cannot be a peaceful wood. If we spend our time drinking, we cannot use the time and money for something else.

Other examples include: investing in firm A rather than firm B, the decision to produce one product in favour of another one, taking a job offer to work in firm A rather than firm B.

75) The marginal cost of producing an additional car is the additional costs of production incurred in its production. This will include things such as wages for the labour and the cost of the raw materials needed to produce the additional car, but would not include items such as advertising costs as these costs will be incurred irrespective of the additional car being made. The marginal benefit will be the additional revenue generated from the sale of the additional car.