Student name:__________

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

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

2) Private property

A) encourages owners to maintain or improve their property to preserve or enhance value.
B) does everything indicated in the other choices.
C) discourages cooperation because people don't want to part with what they own.
D) discourages innovation as people are often afraid to risk losing their own property.

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

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

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 $4 and $3, respectively.

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

Which technique is economically most efficient in producing A?

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

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	3	3	3

Which technique is the most economically efficient?

A) Technique I with total costs of $18
B) Technique II with total costs of $15
C) Technique I with total costs of $17
D) Technique III with total costs of $13

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
Capital	2	3	5	1

If the price of product A is $1.00, and the firm is producing efficiently the firm will realize

A) Economic profit of $17.
B) Economic profit of $30.
C) Economic profit of $2.
D) Economic profit of $10.
E) Economic loss of $7.

7) [MISSING IMAGE: ,]
Refer to the diagram. Flow 4 represents

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

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

A) Self-interest applies to workers and businesses, not to consumers or the government.
B) Self-interest of entrepreneurs implies seeking maximum profits or minimum losses.
C) In a market system, self-interest is the motivating force.
D) Self-interest usually motivates an individual to deliver something of value to 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) $3,000.
B) $27,000.
C) $12,000.
D) $18,000.
E) $15,000.

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

A) It is managed by a board of directors.

B) It is owned and managed by two or more people.

C) The owners bear no personal responsibility for the debts of the business.

D) It is owned and managed by one person.

Answer Key Bank - Algo

Test name: Macroeconomics Chapter 02 Test

1) E

2) A

3) A

4) C

5) D

6) A

7) D

8) A

9) A

10) B