Exam

Name________________________________

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

1) The economic concept that serves as the basis for the study of economics is: 1) ________
A) inflation. B) money.
C) unemployment. D) scarcity.
Answer: D

2) As a consequence of the condition of scarcity: 2) ________
A) things which are plentiful have relatively high prices.
B) production has to be centrally planned.
C) there is always enough of everything.
D) individuals and communities have to make choices among alternatives.
Answer: D

3) In every economic system, choices must be made because resources are: 3) ________
A) finite, but economic wants are insatiable.
B) limited, and so are economic wants.
C) infinite, but economic wants are finite.
D) unlimited, but economic wants are limited.
Answer: A

4) Opportunity cost is best defined as: 4) ________

A) marginal cost minus marginal benefit.
B) the value of the best foregone alternative.
C) the time spent on an economic activity.
D) the money cost of an economic decision.
Answer: B

5) Tammie makes $150 a day as a bank clerk. She takes off two days of work without pay to fly to another city to attend the concert of her favourite music group. The cost of transportation for the trip is $250. The cost of the concert ticket is $50. The opportunity cost of Tammie's trip to the concert is: 5) ________
A) $300 B) $450 C) $600 D) $500
Answer: C

6) When a provincial government chooses to build more roads, the required resources are no longer available for spending on public education. This dilemma illustrates the concept of: 6) ________
A) marginal analysis. B) opportunity cost.
C) full production. D) full employment.
Answer: B

7) Specialization and trade are beneficial to society because: 7) ________
A) scarce resources are utilized more efficiently.
B) the output of economic goods may be increased with no increase in resources.
C) a division of labour lowers prices for products.
D) all of the above are correct.

Answer: D

8) When economists describe "a market," they mean: 8) ________
A) information networks that allow individuals to keep in touch with each other.
B) a place where stocks and bonds are traded.
C) a hypothetical place where the production of goods and services takes place.
D) a mechanism which coordinates actions of consumers and producers to establish equilibrium prices and quantities.

Answer: D

9) The institution that coordinates actions of consumers and producers to establish prices for goods and services is known as: 9) ________
A) a market.
B) a production possibilities curve.
C) a monopoly.
D) consumer sovereignty.

Answer: A

10) A major argument for economic growth is that it: 10) ________
A) reduces the amount of taxation.
B) creates an equal distribution of income.
C) protects common property resources.
D) leads to a higher standard of living.

Answer: D

11) One of the basic economic defences of economic growth rests on the conclusion that: 11) ________
A) growth reduces the cost of "common property" resources to society.
B) growth makes the gap between unlimited wants and scarce resources less acute.
C) a growth-oriented society has a relatively equitable income distribution.
D) growth makes workers less obsolete and more secure in employment.

Answer: B

12) Concern about the general level of prices in an economy is primarily a concern about the economic goal of: 12) ________
A) economic efficiency.
B) equity.
C) economic security.
D) price-level stability.

Answer: D

13) Assume that a tradeoff exists in the short run between inflation and unemployment. This relationship means that: 13) _______
A) a low rate of unemployment causes a low rate of inflation.
B) less unemployment can be achieved with more inflation.
C) the unemployment rate always equals the inflation rate.
D) less unemployment can be achieved with less inflation.

Answer: B

14) The study of economics is primarily concerned with: 14) _______
A) keeping private businesses from losing money.
B) demonstrating that capitalistic economies are superior to socialistic economies.
C) determining the most equitable distribution of society's output.
D) choices which are made in seeking to use scarce resources efficiently.

Answer: D

15) The assertion that "There is no free lunch" means: 15) _______
A) marginal analysis is not used in economic reasoning.
B) choices do not need be made if behaviour is rational.
C) there are always tradeoffs between economic goals.
D) all production involves the use of scarce resources and thus the sacrifice of alternative goods.

Answer: D

16) The study of economics exists because: 16) _______
A) resources are scarce in relation to human material wants.
B) government interferes with the efficient allocation of scarce resources.
C) the market system is an obstacle to the efficient use of plentiful resources to satisfy constrained wants.
D) resources are overly abundant as compared to wants; thus, an allocation problem exists.

Answer: A

17) Economics may best be defined as: 17) _______
A) the empirical testing of value judgments through the use of induction and deduction.
B) the study of the behaviour of people and institutions in the production, distribution, and consumption of scarce goods.
C) the interaction between macro and micro considerations.
D) the use of policy to refute facts and hypotheses.

Answer: B

18) Purposeful behaviour suggests that: 18) _______
A) individuals make decisions with some desired outcome in mind.
B) resource availability exceeds material wants.
C) everyone will make identical choices.
D) an individual's economic goals cannot involve tradeoffs.

Answer: A

19) Consumers spend their incomes to get the maximum benefit or satisfaction from the goods and services they purchase. This is a reflection of: 19) _______

A) the tradeoff problem which exists between competing goals.
B) marginal costs which exceed marginal benefits.
C) purposeful behaviour.
D) resource scarcity and the necessity of choice.

Answer: C

20) The "economic perspective" refers to: 20) _______

A) the making of rational decisions in a context of marginal costs and marginal benefits.
B) macroeconomic phenomena, but not microeconomic phenomena.
C) microeconomic phenomena, but not macroeconomic phenomena.
D) unlimited resources in a context of limited material wants.

Answer: A

21) The "economic perspective" entails: 21) _______

A) the altering of behaviour when marginal benefits and marginal costs change.
B) rational behaviour by individuals and institutions.
C) a comparison of marginal benefits and marginal costs in decision making.
D) all of the above.

Answer: D

22) The economic perspective used in customer decision making at fast-food restaurants is reflected in: 22) _______

A) customers leaving rather than waiting if all lines are long.
B) all customer lines tending to be of equal length.
C) customers selecting the shortest line.
D) all of the above.

Answer: D

23) How is the economic perspective reflected in lines for fast food? 23) _______

A) Customers select the shortest line because they believe it will reduce their time cost of obtaining food.
B) Lines will typically be of unequal length because of the inefficiencies in counter service.
C) Customers select the shortest line because they have perfect information.
D) The set of food choices is often too complex for most customers and thus creates long lines.

Answer: A

24) From an economic perspective, when consumers leave a fast-food restaurant because the lines to be served are too long, they have concluded that the: 24) _______

A) management is exhibiting irrational behaviour by not maximizing profits.
B) marginal cost of waiting is less than the marginal benefit of being served.
C) management is making an assumption that other things are equal.
D) marginal cost of waiting is greater than the marginal benefit of being served.

Answer: D

25) Consumers might leave a fast-food restaurant without being served because: 25) _______

A) they conclude that the marginal cost (monetary plus time costs) exceeds the marginal benefit.
B) the lines waiting for service are not of equal length.
C) the environment is not conducive to a rational choice.
D) they are misinformed about the marginal cost and marginal benefits of the food being served.

Answer: A

26) At fast-food restaurants: 26) _______

A) decisions are usually made by trial and error.
B) decisions entail comparisons of marginal costs and marginal benefits.
C) consumers enjoy complete and accurate information.
D) benefits always exceed costs.

Answer: B

27) Economics involves "marginal analysis" because: 27) _______

A) much economic behaviour is irrational.
B) most decisions involve changes in the status quo.
C) marginal benefits always exceed marginal costs.
D) marginal costs always exceed marginal benefits.

Answer: B

28) You should decide to go to a movie: 28) _______

A) if your income will allow you to buy a ticket
B) because movies are inherently good products.
C) if the marginal benefit of the movie exceeds its marginal cost.
D) if the marginal cost of the movie exceeds its marginal benefit.

Answer: C

29) Marginal costs exist because: 29) _______

A) most decisions do not involve sacrifices or tradeoffs.
B) wants are scarce relative to resources.
C) households and businesses make rational decisions.
D) the decision to produce more of some product means the sacrifice of other products.

Answer: D

30) Even though local newspapers are very inexpensive, people rarely buy more than one of them each day. This fact: 30) _______

A) is an example of irrational behaviour.
B) implies that reading should be taught through phonics rather than the whole language method.
C) implies that, for most people, the marginal benefit of reading a second newspaper is less than the marginal cost.
D) contradicts the economic perspective.

Answer: C

31) The process of developing hypotheses, testing them against facts, and using the results to construct theories is called: 31) _______

A) microeconomics.
B) the scientific method.
C) opportunity cost calculation.
D) marginal analysis.

Answer: B

32) A "hypothesis" is: 32) _______

A) always the result of induction.
B) a fundamental truth which all economists accept.
C) the same as a normative statement.
D) a tentative, untested principle.

Answer: D

33) From the perspective of economists, which term provides the highest degree of confidence for explaining economic behaviour? 33) _______

A) a fact
B) an economic principle or a law
C) a hypothesis
D) an assumption

Answer: B

34) In constructing models, economists: 34) _______

A) make simplifying assumptions.
B) must use mathematical equations.
C) attempt to duplicate the real world.
D) include all available information.

Answer: A

35) Economic models: 35) _______

A) are limited to variables which are directly related to one another.
B) emphasize basic economic relationships by abstracting from the complexities of the real world.
C) are unrealistic and therefore of no practical consequence.
D) are of limited use because they cannot be tested empirically.

Answer: B

36) An economic model is: 36) _______

A) built using theory.
B) built on correlations.
C) a fact.
D) a value judgment.

Answer: A

37) The term "ceteris paribus" means: 37) _______

A) that if event A precedes event B, A has caused B.
B) prosperity inevitably follows recession.
C) that economics deals with facts, not values.
D) other things equal.

Answer: D

38) Suppose an economist says that "Other things equal, the lower the price of bananas, the greater the amount of bananas purchased." This statement indicates that: 38) _______

A) all factors other than the price of bananas (for example, consumer tastes and incomes) are assumed to be constant.
B) the quantity of bananas purchased determines the price of bananas.
C) one cannot generalize about the relationship between the price of bananas and the quantity purchased.
D) economists can conduct controlled laboratory experiments.

Answer: A

39) The term "other things equal" means that: 39) _______

A) when variable X increases so does related variable Y.
B) many variables affect the variable under consideration.
C) the associated statement is normative.
D) the assumption that factors other than those being considered do not change.

Answer: D

40) The basic purpose of the "other things equal" assumption is to: 40) _______

A) allow one to focus upon macro variables by ignoring micro variables.
B) allow one to focus upon micro variables by ignoring macro variables.
C) allow one to reason about the relationship between variables X and Y without the intrusion of variable Z.
D) determine whether X causes Y or vice versa.

Answer: C

41) Microeconomics is concerned with: 41) _______

A) a detailed examination of specific economic units which comprise the economic system.
B) the establishing of an overall view of the operation of the economic system.
C) the concealing of detailed information about specific segments of the economy.
D) the aggregate or total levels of income, employment, and output.

Answer: A

42) Microeconomics: 42) _______

A) is concerned with the aggregate or total levels of income, employment, and output.
B) is not concerned with details, but only with the overall "big picture" of the economy.
C) describes the aggregate flows of output and income.
D) is concerned with individual economic units and specific markets.

Answer: D

43) Which of the following is a microeconomic statement? 43) _______

A) The real domestic output increased by 2.5 percent last year.
B) The general price level increased by 4 percent last year.
C) Unemployment was 8.3 percent of the labour force last year.
D) The price of personal computers declined last year.

Answer: D

44) Macroeconomics approaches the study of economics from the viewpoint of: 44) _______

A) the entire economy.
B) individual firms.
C) governmental units.
D) the operation of specific product and resource markets.

Answer: A

45) Which of the following is associated with macroeconomics? 45) _______

A) an examination of the incomes of the University of Toronto Business School graduates
B) a case study of pricing and production in the textbook industry
C) a study of the trend of pecan prices since World War II
D) an empirical investigation of the general price level and unemployment rates in the 2000s

Answer: D

46) The problems of aggregate inflation and unemployment are: 46) _______

A) major topics of microeconomics.
B) major topics of macroeconomics.
C) not relevant to the Canadian economy.
D) peculiar to socialistic economies.

Answer: B

47) Which of the following statements pertains to macroeconomics? 47) _______

A) The national productivity rate grew by 1.4 percent last year.
B) The Pumpkin Center Chartered Bank increased its interest rate on consumer loans by 1 percent.
C) Because the minimum wage was raised, Mrs. Beepath decided to enter the labour force.
D) A decline in the price of soybeans caused farmer Wanek to plant more land in wheat.

Answer: A

48) Macroeconomics can best be described as the: 48) _______

A) study of the large aggregates of the economy or the economy as a whole.
B) analysis of how firms attempt to maximize their profits.
C) analysis of how a consumer tries to spend income.
D) study of how supply and demand determine prices in individual markets.

Answer: A

49) Which of the following is a macroeconomic statement? 49) _______

A) The productivity of steelworkers increased by 1 percent in 2012.
B) General Motors' profits increased in 2012.
C) The gross profits of all Canadian businesses were $70 billion last year.
D) The price of beef declined by 3 percent last year.

Answer: C

50) A positive statement is one which is: 50) _______

A) objective and is based on facts.
B) subjective and is based on a value judgment.
C) derived by an abstract generalization.
D) suggestive of what should be done.

Answer: A

51) Which of the following is a positive statement? 51) _______

A) It is too hot to jog today.
B) The temperature is 30 degrees today.
C) The humidity is too high today.
D) I enjoy summer evenings when it cools off.

Answer: B

52) A positive statement is concerned with: 52) _______

A) what is.
B) some goal which is desirable to society.
C) the formulation of economic policy.
D) what should be.

Answer: A

53) A normative statement is one which: 53) _______

A) pertains only to microeconomics.
B) pertains only to macroeconomics.
C) is based on the law of averages.
D) is based upon value judgments.

Answer: D

54) Which of the following is a normative statement? 54) _______

A) It is too hot to play tennis today.
B) It will cool off later this evening.
C) The humidity is high today.
D) The temperature is high today.

Answer: A

55) Normative statements are concerned with: 55) _______

A) what is.
B) rational choice involving costs and benefits.
C) facts and theories.
D) what ought to be.

Answer: D

56) Most of the disagreement among economists involves: 56) _______

A) theories. B) positive statements.

C) normative statements. D) facts.

Answer: C

57) Economics is concerned with using scarce productive resources efficiently in attempting to satisfy society's material wants. This statement is: 57) _______

A) positive, but incorrect. B) normative and correct.

C) normative, but incorrect. D) positive and correct.

Answer: D

58) Ben says that "An increase in the tax on beer will raise its price." Holly argues that "Taxes should be increased on beer because college students drink too much." We can conclude that: 58) _______

A) Holly's statement is normative, but Ben's is positive.

B) Both statements are normative.

C) Ben's statement is normative, but Holly's is positive.

D) Both statements are positive.

Answer: A

59) The global financial crisis that spread to Canada in late 2008 has been dubbed: 59) _______

A) The great recession. B) The great depression.

C) The great financial crisis. D) The housing bubble crash.

Answer: A

60) The individuals and society both face an economic problem. This problem arises from the fact that: 60) _______

A) resources are scarce relative to individual's wants.

B) individuals and institutions behave only in their self-interest.

C) both wants and resources are unlimited.

D) wants are limited but the resources are not.

Answer: A

61) The individual's limited income problem: 61) _______

A) persists only because countries have failed to achieve continuous full employment.

B) has been eliminated in affluent societies such as Canada and the United States.

C) has been solved in all industrialized nations.

D) exists because material wants are limited.

Answer: D

62) When an economist says that material wants are insatiable, this means that: 62) _______

A) economic resources are valuable only because they can be used to produce consumer goods.
B) economic resources—land, labour, capital, and entrepreneurial ability—are scarce.
C) the structure of consumer demand varies from time to time and from country to country.
D) these wants are virtually unlimited and therefore incapable of complete satisfaction.

Answer: D

63) As used in economics, the notion of scarce resources means that: 63) _______

A) the quantities available of some resources exceed the demand for them.
B) resources are not so plentiful that all individuals' material wants can be fulfilled.
C) some resources are free while others have price tags on them.
D) mineral deposits are only available in finite amounts.

Answer: B

64) The budget line shows: 64) _______

A) all equilibrium points on an indifference map.
B) all possible combinations of two goods which can be purchased, given money income and the prices of the goods.
C) the amount of product A which a consumer is willing to give up to obtain one more unit of product B.
D) all possible combinations of two goods which yield the same level of utility to the consumer.

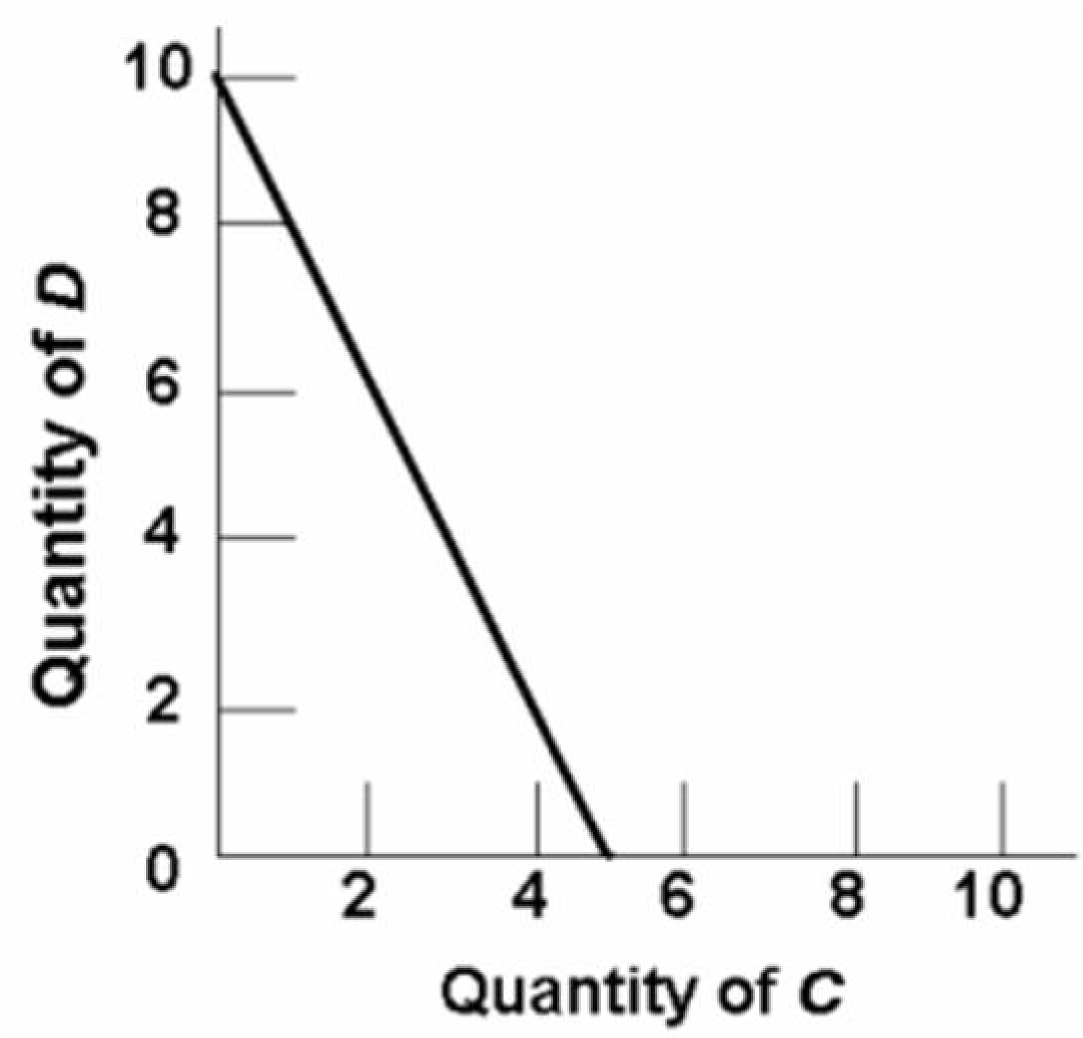
Answer: B

65) The price ratio of the two products is the: 65) _______

A) elasticity of demand for the two products.
B) point of tangency for equilibrium.
C) marginal rate of substitution.
D) slope of the budget line.

Answer: D

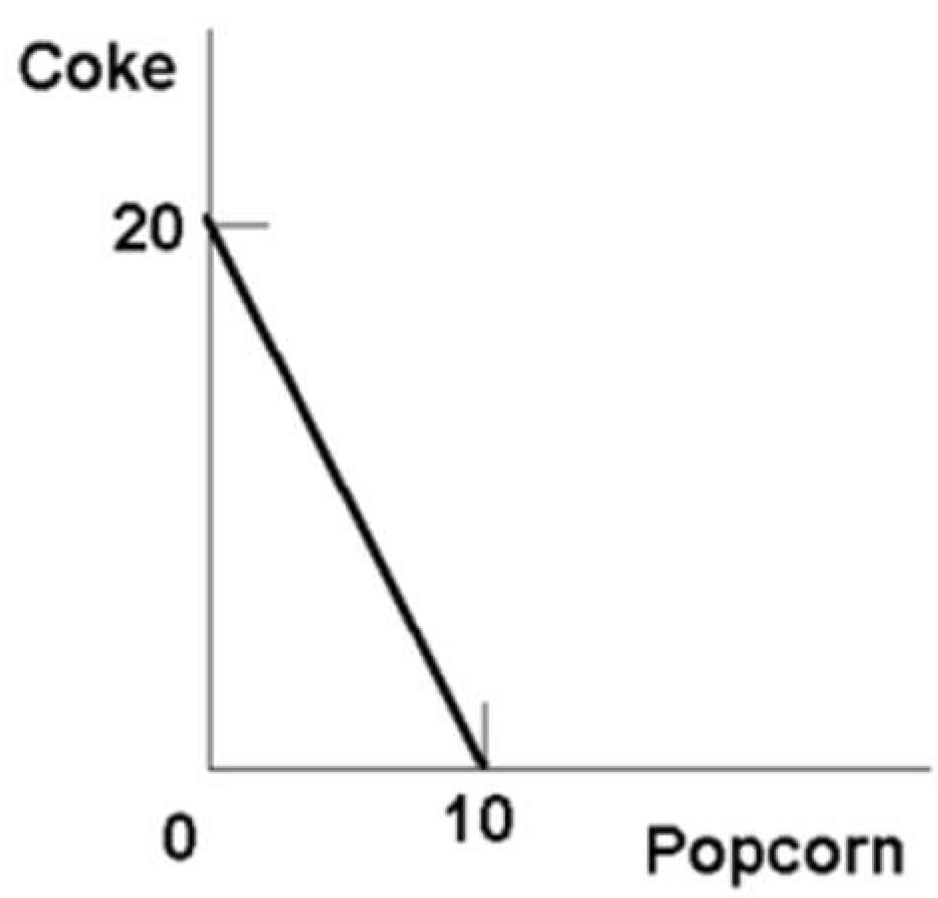
66) Refer to the budget line shown in the diagram below. If the consumer's money income is $20, the: 66) ______



A) consumer can obtain a combination of 5 units of both C and D.
B) prices of C and D cannot be determined.
C) price of C is $4 and the price of D is $2.
D) price of C is $2 and the price of D is $4.

Answer: C

67) Refer to the diagram below, suppose you have a money income of $10 all of which you spend on Coke and boxes of popcorn. The prices of Coke and popcorn respectively are: 67) ______



A) $1.00 and $.50.
B) $1.00 and $2.00.
C) $.50 and $1.00.
D) $.40 and $.50.

Answer: C

68) In moving along a given budget line: 68) _______

A) the prices of both products and money income are assumed to be constant.
B) the prices of both products are assumed to vary, but money income is constant.
C) money income varies, but the prices of the two goods are constant.
D) each point on the line will be equally satisfactory to consumers.

Answer: A

69) In drawing a budget line it is assumed that: 69) _______

A) consumer preferences are fixed.
B) consumer willingness to substitute between the two products is fixed.
C) money income is fixed.
D) the prices of the two products are variable.

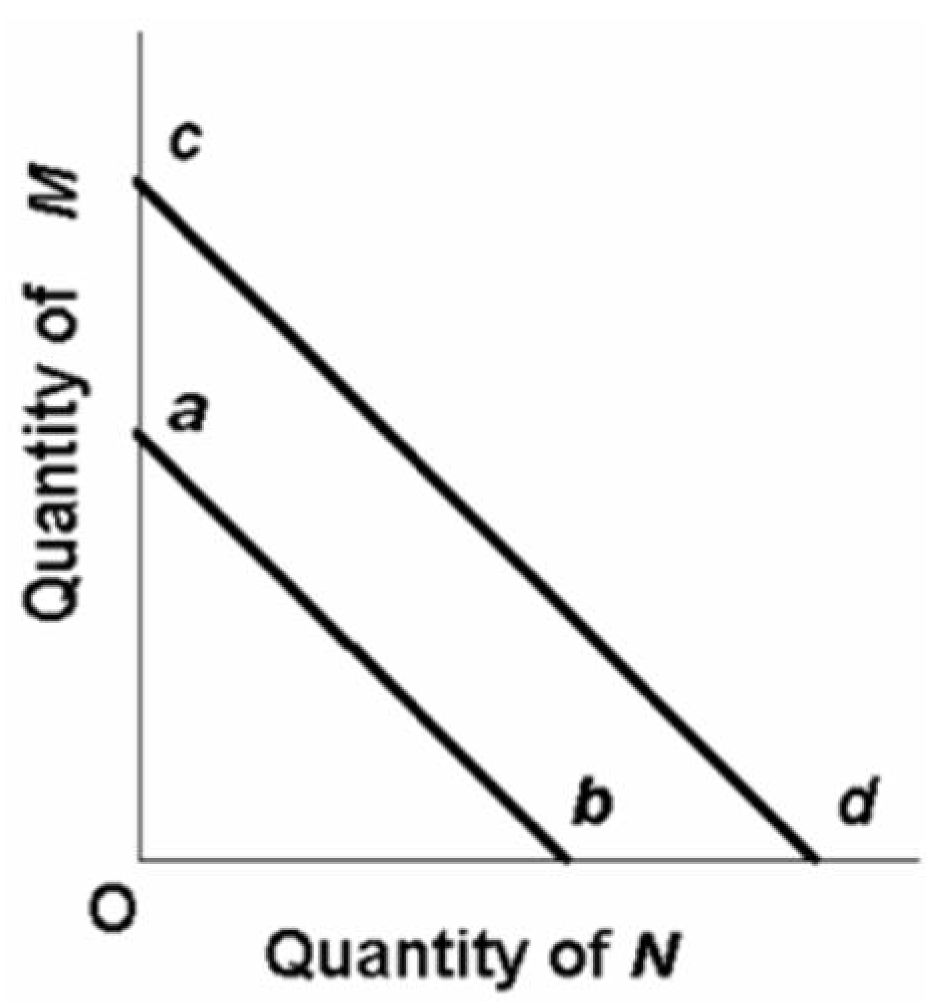
Answer: C

70) Any combination of goods lying outside of the budget line: 70) _______

A) yields less utility than any point on the budget line.
B) is unattainable, given the consumer's income.
C) implies that the consumer is not spending all of his income.
D) yields less utility than any point inside the budget line.

Answer: B

71) The budget line shift from cd to ab in the below figure is consistent with: 71) _______



A) a decrease in money income.
B) an increase in the price of M and a decrease in the price of N.
C) an increase in money income.
D) decreases in the prices of both M and N.

Answer: A

72) A leftward shift of a consumer's budget line to a position parallel with the original one could indicate that the: 72) _______

A) marginal utilities derived from both products have decreased.
B) prices of both products have decreased in the same proportion.
C) price of one product has decreased in relation to the other.
D) consumer's money income has increased but the prices of both products have increased proportionately more.

Answer: D

73) Which of the following statements is not correct? 73) _______

A) An increase in money income will shift the budget line to the right.
B) A reduction in money income will shift the budget line to the right.
C) An increase in product prices will shift the budget line to the left.
D) A reduction in money income accompanied by an increase in product prices will necessarily shift the budget line to the left.

Answer: B

74) The society must also make choices under conditions of scarcity. This problem arises from the fact that: 74) _______

A) society's wants are limited but the resources are not.
B) resources are scarce relative to society's wants.
C) society's wants and resources are both unlimited.
D) societies behave only in their self-interest.

Answer: B

75) The fundamental problem of economics is: 75) _______

A) the scarcity of productive resources relative to material wants.
B) the establishment of prices which accurately reflect the relative scarcities of products and resources.
C) to achieve a more equitable distribution of money income in order to mitigate poverty.
D) to establish a democratic political framework for the provision of social goods and services.

Answer: A

76) Economic resources are also called: 76) _______

A) consumption goods.
B) free gifts of nature.
C) units of money capital.
D) factors of production.

Answer: D

77) Money is not considered to be an economic resource because: 77) _______

A) idle money balances do not earn interest income.
B) money, as such, is not productive.
C) money is a free gift of nature.
D) the terms of trade can be determined in non-monetary terms.

Answer: B

78) Which of the following is real capital? 78) _______

A) a share of TD Bank stock
B) a savings account
C) a pair of stockings
D) a dump truck

Answer: D

79) The main function of the entrepreneur is to: 79) _______

A) innovate.
B) create market demand.
C) make routine pricing decisions.
D) purchase capital.

Answer: A

80) The following production possibilities table represents an economy which is producing two products, tanks and autos. Refer to the table, in moving from possibility C to D, the cost of a tank in terms of autos is: 80) _______

Product	A	B	C	D	E	F
Tanks	0	1	2	3	4	5
Autos	1000	950	850	650	350	0

A) 50
B) 200
C) 100
D) 300

Answer: B

(The following economy produces two products.)

Production Possibilities Table

Product	A	B	C	D	E	F
Steel	0	1	2	3	4	5
Wheat	100	90	75	55	30	0

81) Refer to the above table. A change from possibility C to B means that: 81) _______

A) 2 units of steel are given up to get 15 more units of wheat.
B) 2 units of steel are given up to get 75 units of wheat.
C) 1 unit of steel is given up to get 75 units of wheat.
D) 1 unit of steel is given up to get 15 more units of wheat.

Answer: D

82) Refer to the above table. In moving from possibility C to D, the cost of a unit of steel in terms of a unit of wheat is: 82) _______

A) 20
B) 30
C) 25
D) 10

Answer: A

83) Refer to the above table. A change from possibility B to C means that: 83) _______

A) 10 units of wheat are given up to get one more unit of steel.
B) 75 units of wheat are equal to one unit of steel.
C) 15 units of wheat are equal to one unit of steel.
D) 15 units of wheat are given up to get one more unit of steel.

Answer: D

84) The production possibilities curve represents which of the following? 84) _______

A) the amount of goods attainable if prices decline
B) the amount of goods attainable with variable resources
C) the maximum amount of goods attainable with variable resources
D) maximum combinations of goods attainable with fixed resources

Answer: D

85) The production possibilities curve represents: 85) _______

A) the maximum amount of labour and capital available for production.
B) the maximum rate of growth of capital and labour in an economy.
C) combinations of goods and services among which consumers are indifferent.
D) maximum combinations of products available with fixed resources and technology.

Answer: D

86) The construction of a production possibilities curve assumes: 86) _______

A) full employment and full production are being realized.
B) technology is fixed.
C) the quantities of all resources are fixed.
D) all of the above.

Answer: D

87) Assume an economy is operating at some point on its production possibilities curve which shows civilian and military goods. If the output of military goods is increased, the output of civilian goods: 87) _______

A) must also be increased.
B) will remain unchanged.
C) must be decreased.
D) may be either increased or decreased.

Answer: C

88) The production possibilities curve shows: 88) _______

A) the various combinations of two goods which can be produced when society uses its scarce resources efficiently.
B) the various combinations of two goods which can be produced when some resources are unemployed.
C) the minimum outputs of two goods which will sustain a society.
D) the ideal, but unattainable, combinations of two goods which would maximize consumer satisfactions.

Answer: A

89) The negative slope of the production possibilities curve is a graphical way of indicating that: 89) ______
A) to produce more of one product we must accept less of another.
B) consumers buy more when prices are low than they do when prices are high.
C) the principle of increasing opportunity costs does not apply to the economy as a whole.
D) any economy "can have its cake and eat it too."

Answer: A

90) If an economy is operating on its production possibilities curve for consumer goods and capital goods, this means that: 90) ______
A) it is impossible to produce more capital goods.
B) more consumer goods can only be produced at the cost of fewer capital goods.
C) it is impossible to produce more consumer goods.
D) resources cannot be reallocated between the two goods.

Answer: B

91) In drawing a production possibilities curve we hold constant: 91) ______
A) the consumer price index.
B) the money supply.
C) resource supplies only.
D) both technology and resource supplies

Answer: D

92) The production possibilities curve tells us: 92) ______
A) that costs do not change as society varies its output.
B) what specific combinations of two products is most desired by society.
C) costs are irrelevant in a society which has fixed resources.
D) what combinations of two goods can be produced with society's available resources.

Answer: D

93) When an economy is operating with maximum efficiency, the production of more of commodity A will mean the production of less of commodity B because: 93) ______
A) resources are not specialized and are imperfectly substitutable.
B) of the law of decreasing opportunity costs.
C) resources are limited.
D) material wants are insatiable.

Answer: C

94) The production possibilities curve: 94) _______

A) is a frontier between all combinations of two goods which can be produced and those combinations which cannot be produced.
B) indicates that any combination of goods lying outside the curve is economically inefficient.
C) shows all of those combinations of two goods which are most preferred by society.
D) shows all of those levels of production which are consistent with a stable price level.

Answer: A

95) The production possibilities curve illustrates the basic principle that: 95) _______

A) if all the resources of an economy are in use, more of one good can be produced only if less of another good is produced.
B) an economy's capacity to produce increases in proportion to its population size.
C) an economy will automatically seek that level of output at which all of its resources are employed.
D) the production of more of any one good will in time require smaller and smaller sacrifices of other goods.

Answer: A

96) A production possibilities curve illustrates: 96) _______

A) consumer preferences.
B) the distribution of income.
C) scarcity.
D) market prices.

Answer: C

97) A production possibilities curve shows: 97) _______

A) combinations of capital and labour necessary to produce specific levels of output.
B) the maximum amounts of two goods which can be produced assuming the full and efficient use of available resources.
C) that resources are unlimited.
D) that people prefer one of the goods more than the other.

Answer: B

98) In drawing the production possibilities curve we assume that: 98) _______

A) technology is fixed.
B) economic resources are unlimited.
C) unemployment exists.
D) wants are limited.

Answer: A

99) Which of the following is assumed in constructing a typical production possibilities curve? 99) _______

A) the economy is engaging in international trade.
B) the economy is using its resources inefficiently.
C) production technology is fixed.
D) resources are perfectly shiftable among alternative uses.

Answer: C

100) Which of the following is not correct? A typical production possibilities curve: 100) ______

A) specifies how much of each product society should produce.
B) indicates how much of two products a society can produce.
C) indicates that to produce more of one product society must give up larger and larger amounts of the other product.
D) reveals how much each additional unit of one product will cost in terms of the other product.

Answer: A

101) Which one of the following statements is correct? 101) ______

A) Most production possibilities curves are convex as viewed from the origin.
B) The central concept underlying the production possibilities curve is that of limited resources.
C) The production possibilities curve shows society's preferences for consumer goods relative to capital goods.
D) Relative scarcity is no longer a central notion in economics because we are in an age of abundance.

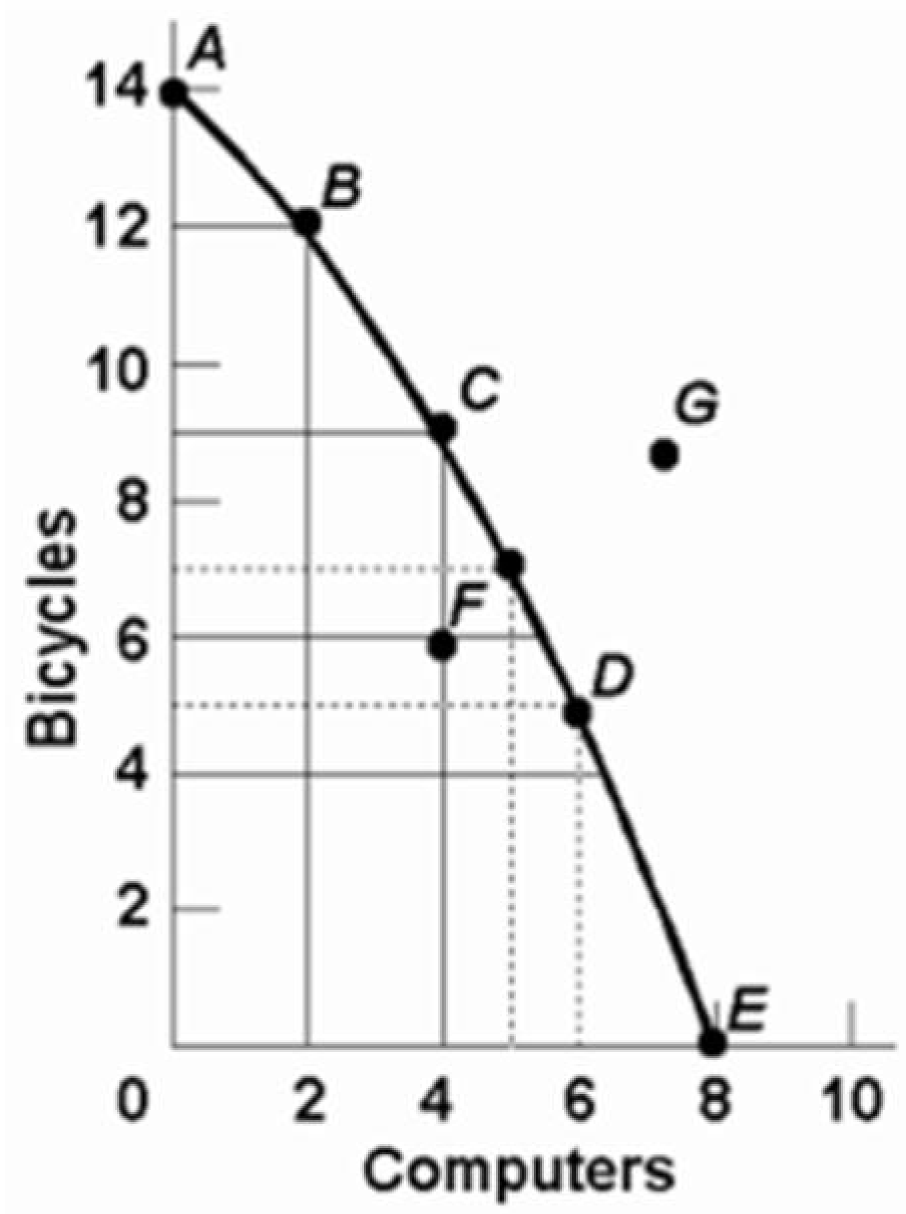
Answer: B

102) The typical production possibilities curve is: 102) ______

A) an upward sloping line which is concave to the origin.
B) a downward sloping line which is convex to the origin.
C) a straight upward sloping line.
D) a downward sloping line which is concave to the origin.

Answer: D

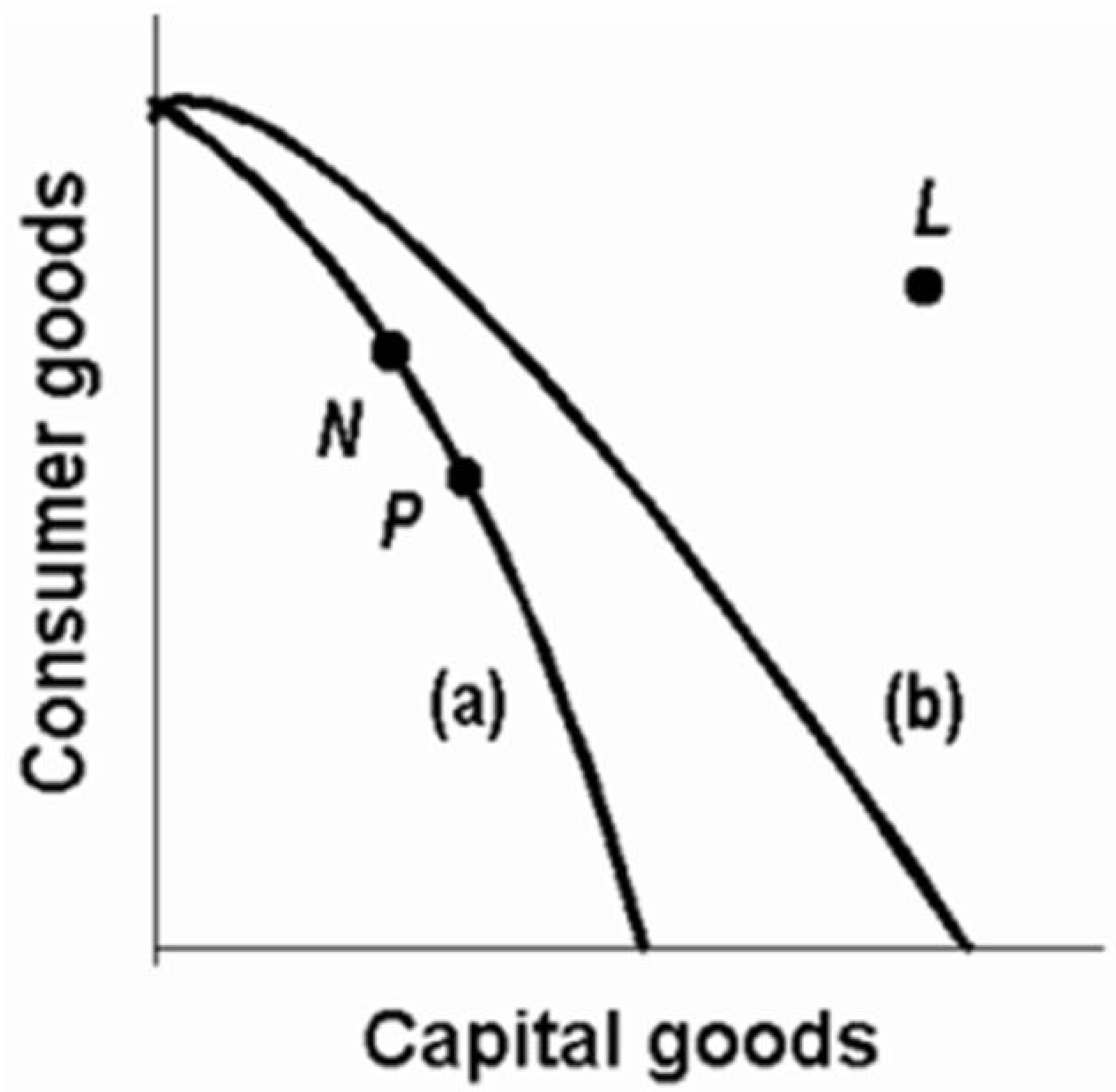
103) Refer to the diagram below. Points A, B, C, D, and E show: 103) _____



A) combinations of bicycles and computers which society can produce by using its resources efficiently.
B) that society's demand for computers is greater than its demand for bicycles.
C) that the opportunity cost of bicycles increases, while that of computers is constant.
D) that the opportunity cost of computers increases, while that of bicycles is constant.

Answer: A

104) Refer to the following production possibilities curves. Curve (a) is the current curve for the economy. Given production possibilities curve (a), the combination of capital and consumer goods indicated by point L: 104) ______



A) would entail substantial unemployment.
B) suggests the productive capacity of the system is declining.
C) is beyond the productive capacity of this society.
D) would entail an inefficient use of society's resources.

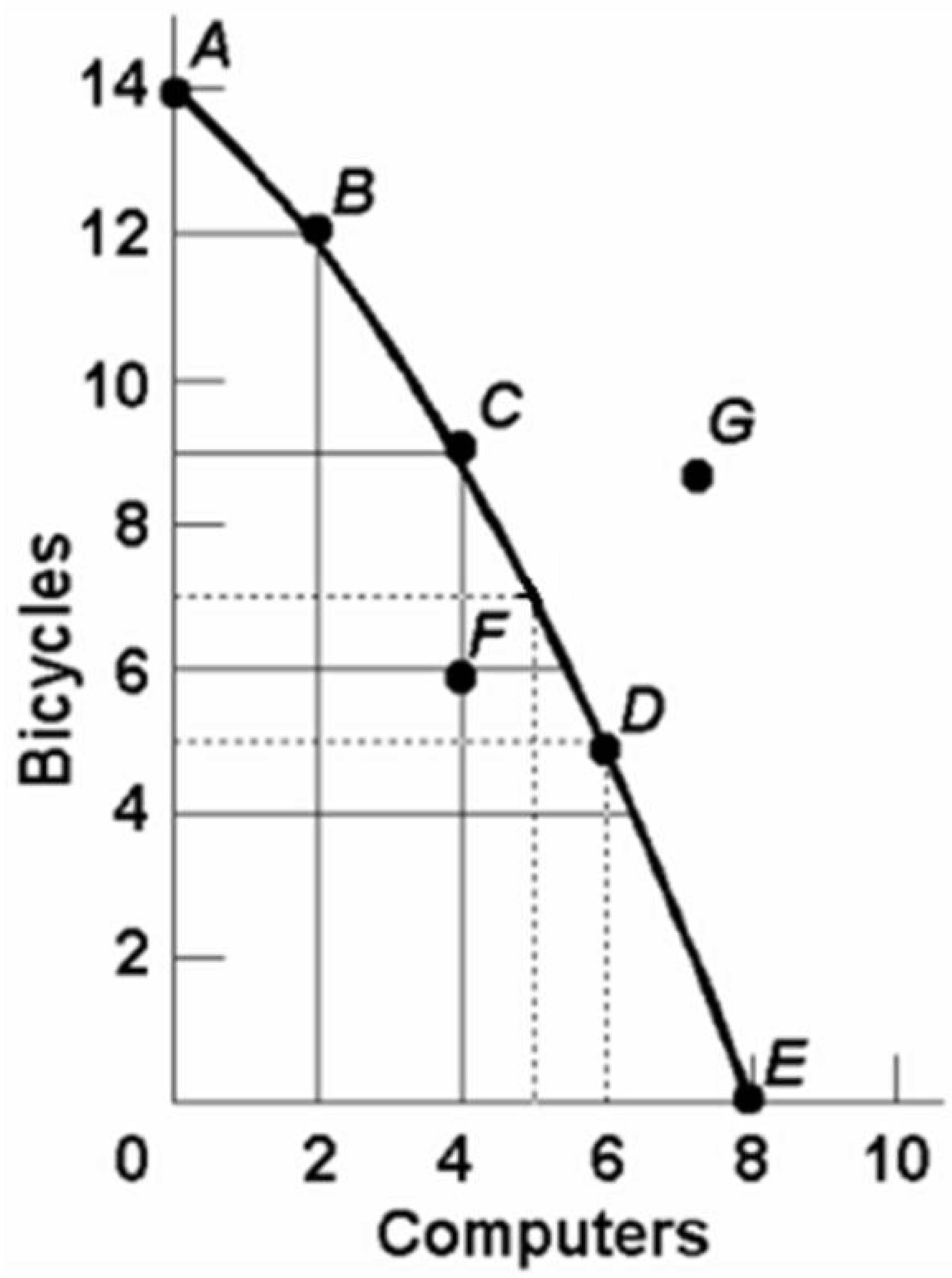
Answer: C

105) A point on the frontier of the production possibilities curve is: 105) ______
A) attainable and the economy is efficient.
B) unattainable and the economy is efficient.
C) unattainable, but the economy is inefficient.
D) attainable, but the economy is inefficient.

Answer: A

106) A point inside the production possibilities curve is: 106) ______
A) unattainable, but the economy is inefficient.
B) attainable and the economy is efficient.
C) attainable, but the economy is inefficient.
D) unattainable and the economy is efficient.

Answer: C



107) Refer to the above diagram. The combination of computers and bicycles shown by point G is: 107) ______

A) unattainable, given currently available resources and technology.
B) attainable, but too costly.
C) attainable, but involves unemployment.
D) irrelevant because it is inconsistent with consumer preferences.

Answer: A

108) Refer to the above diagram. The combination of computers and bicycles shown by point F: 108) ______

A) is irrelevant because it is inconsistent with consumer preferences.
B) is attainable, but entails economic inefficiency.
C) suggests that opportunity costs are constant.
D) is unattainable, given currently available resources and technology.

Answer: B

109) Refer to the above diagram. If society is currently producing the combination of bicycles and computers shown by point D, the production of 2 more units of bicycles: 109) ______

A) will cost 2 units of computers.
B) will cost 1 unit of computers.
C) cannot be realized because resources are fully employed.
D) will cause some resources to become unemployed.

Answer: B

110) Refer to the above diagram. The movement down the production possibilities curve from point A to point E suggests that the production of: 110) ______

A) both bicycles and computers is subject to constant opportunity costs.
B) bicycles, but not computers, is subject to increasing opportunity costs.
C) both bicycles and computers is subject to increasing opportunity costs.
D) computers, but not bicycles, is subject to increasing opportunity costs.

Answer: C

111) The slope of the typical production possibilities curve: 111) ______

A) is constant as one moves down the curve.
B) is positive.
C) increases as one moves southeast along the curve.
D) decreases as one moves southeast along the curve.

Answer: C

112) The production possibilities curve has: 112) ______

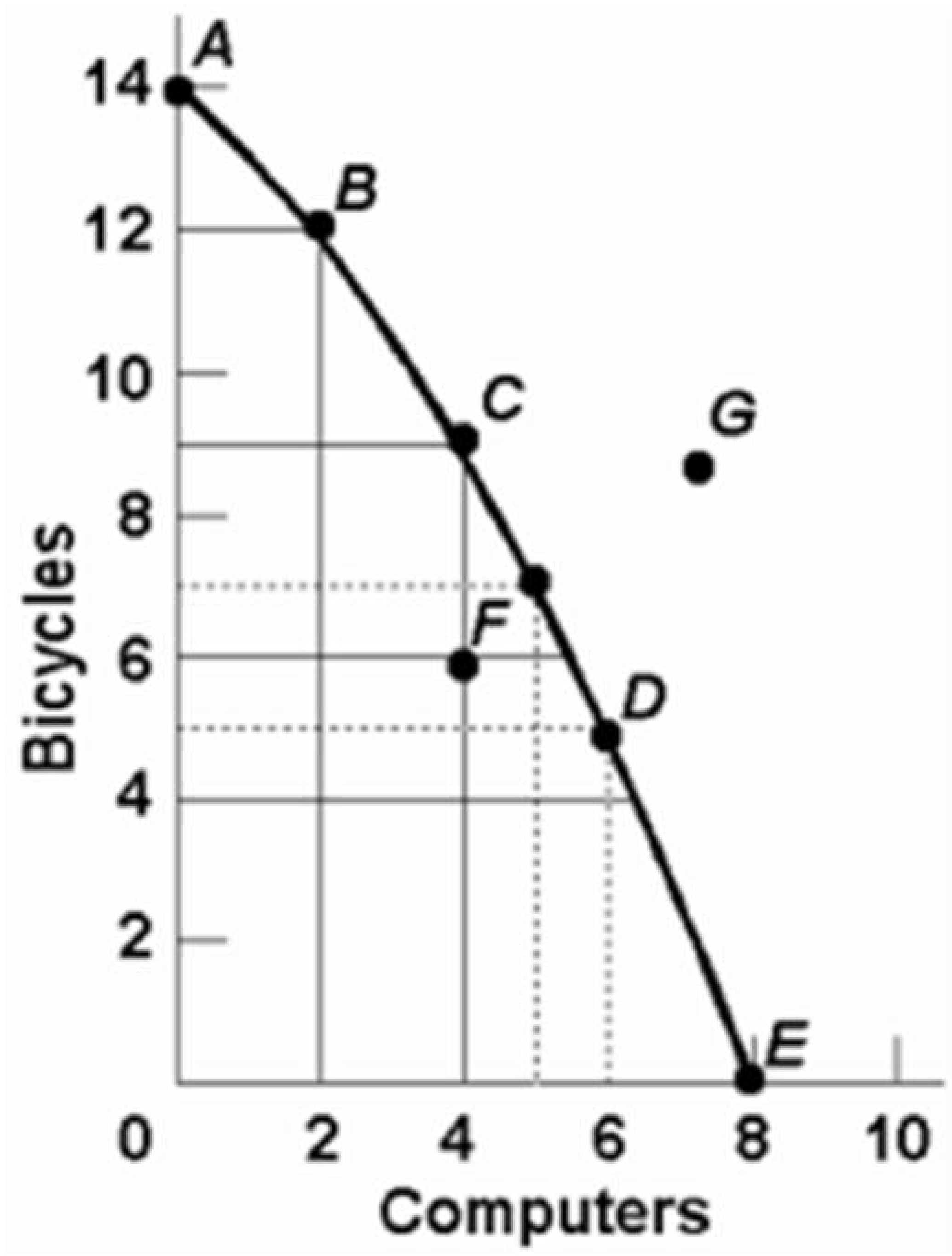
A) a negative slope which is constant as we move along it from left to right.
B) a negative slope which increases as we move along it from left to right.
C) a negative slope which decreases as we move along it from left to right.
D) a positive slope which increases as we move along it from left to right.

Answer: B

113) The law of increasing opportunity costs states that: 113) ______

A) if society wants to produce more of a particular good, it must sacrifice larger and larger amounts of other goods to do so.
B) if the prices of all the resources devoted to the production of goods increase, the cost of producing any particular good will increase at the same rate.
C) if the sum of the costs of producing a particular good rises by a specified percent, the price of that good must rise by a greater relative amount.
D) the sum of the costs of producing a particular good cannot rise above the current market price of that good.

Answer: A



114) Refer to the above diagram. This production possibilities curve is: 114) ______
A) convex to the origin because of increasing opportunity costs.
B) concave to the origin because of increasing opportunity costs.
C) linear because opportunity costs are constant.
D) convex to the origin because opportunity costs are constant.

Answer: B

115) Refer to the above diagram. If society is currently producing 9 units of bicycles and 4 units of computers and it now decides to increase computer output to 6, the cost: 115) ______
A) will be 4 units of bicycles.
B) will be zero because unemployed resources are available.
C) will be 2 units of bicycles.
D) of doing so cannot be determined from the information given.

Answer: A

116) The concept of opportunity cost: 116) ______
A) is irrelevant if the production possibilities curve is shifting to the right.
B) is irrelevant in socialistic economies because of central planning.
C) suggests that the use of resources in any particular line of production means that alternative outputs must be forgone.
D) suggests that insatiable wants can be fulfilled.

Answer: C

117) Which of the following is not an illustration of the idea of opportunity cost? 117) ______

A) Resources devoted to consumer goods production are not available for capital goods production.
B) The land a Manitoba farmer plants in wheat is not available for corn production.
C) A growing economy can produce more consumer goods and more capital goods at the same time.
D) If I buy a pizza, I will not be able to afford a movie.

Answer: C

118) Opportunity cost is best defined as: 118) ______

A) the monetary price of any productive resource.
B) the ratio of the prices of imported goods to the prices of exported goods.
C) the amount of one product which must be given up to produce one more unit of another product.
D) the amount of labour which must be used to produce one unit of any product.

Answer: C

Production possibilities tables for two countries, North Cantina and South Cantina:

North Cantina
Production possibilities (alternatives)

	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	10	18	24	28	30

South Cantina
Production possibilities (alternatives)

	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	8	15	21	25	27

119) Refer to the above tables. If South Cantina is producing at production alternative D, the opportunity cost of the third unit of capital goods is: 119) ______

A) 6 units of consumer goods.
B) 5 units of consumer goods.
C) 4 units of consumer goods.
D) 3 units of consumer goods.

Answer: A

120) Refer to the above tables. If North Cantina is producing at production alternative B, the opportunity cost of the eleventh unit of consumer goods will be: 120) ______

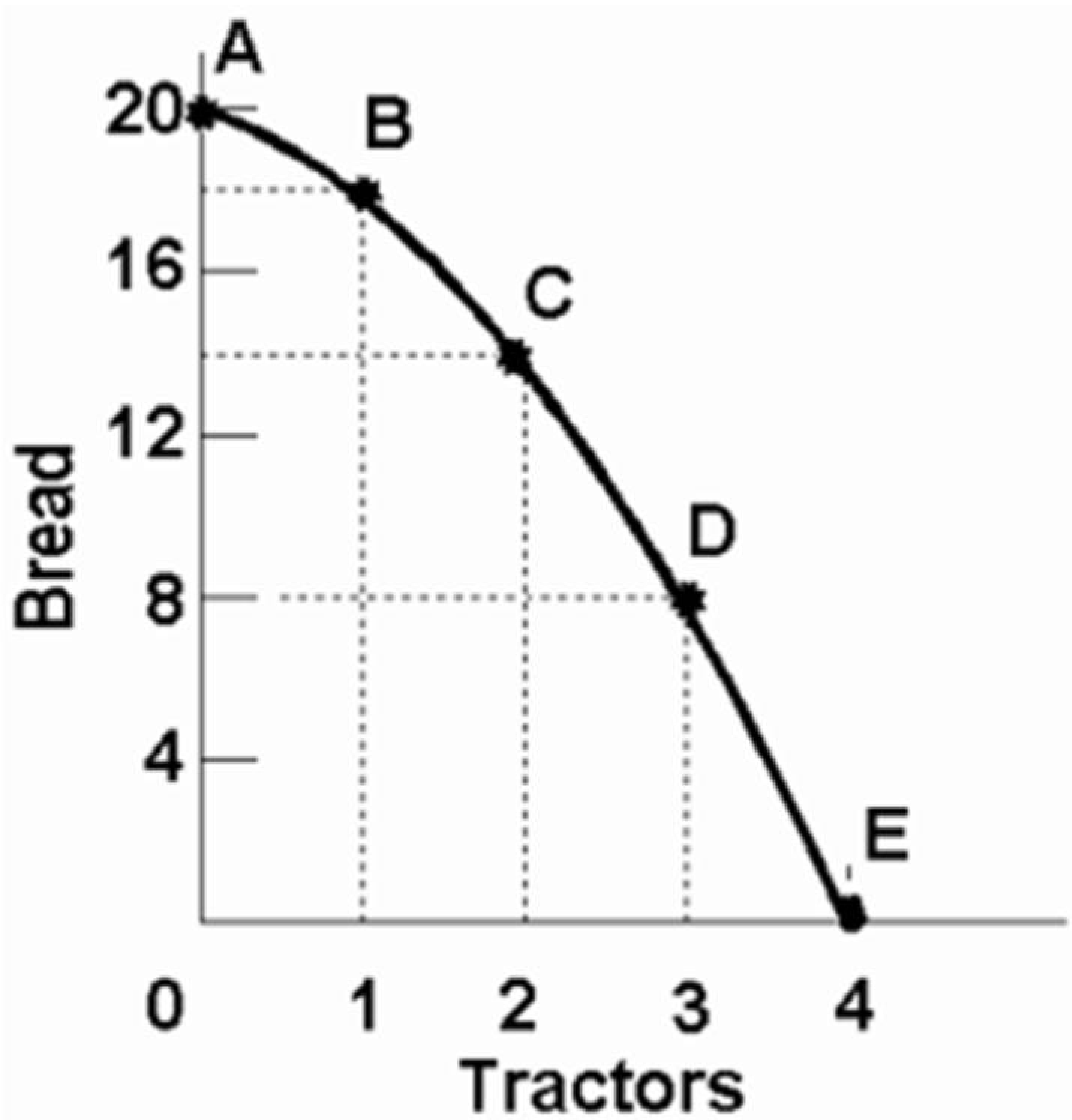
A) $1/4$ of a unit of capital goods.
B) 8 units of capital goods.
C) 10 units of capital goods.
D) $1/8$ of a unit of capital goods.

Answer: D

121) Refer to the above tables. The opportunity cost of the fifth unit of capital goods: 121) ______

A) is the same in North Cantina and South Cantina.
B) is lower in North Cantina than in South Cantina.
C) is higher in North Cantina than in South Cantina.
D) cannot be determined from the information provided.

Answer: C



122) Refer to the above diagram. Starting at point A, the opportunity cost of producing each successive unit of tractors is: 122) ______

A) 8, 6, 4, and 2 units of bread.
B) a constant 2 units of bread.
C) the reciprocal of the output of tractors.
D) 2, 4, 6, and 8 units of bread.

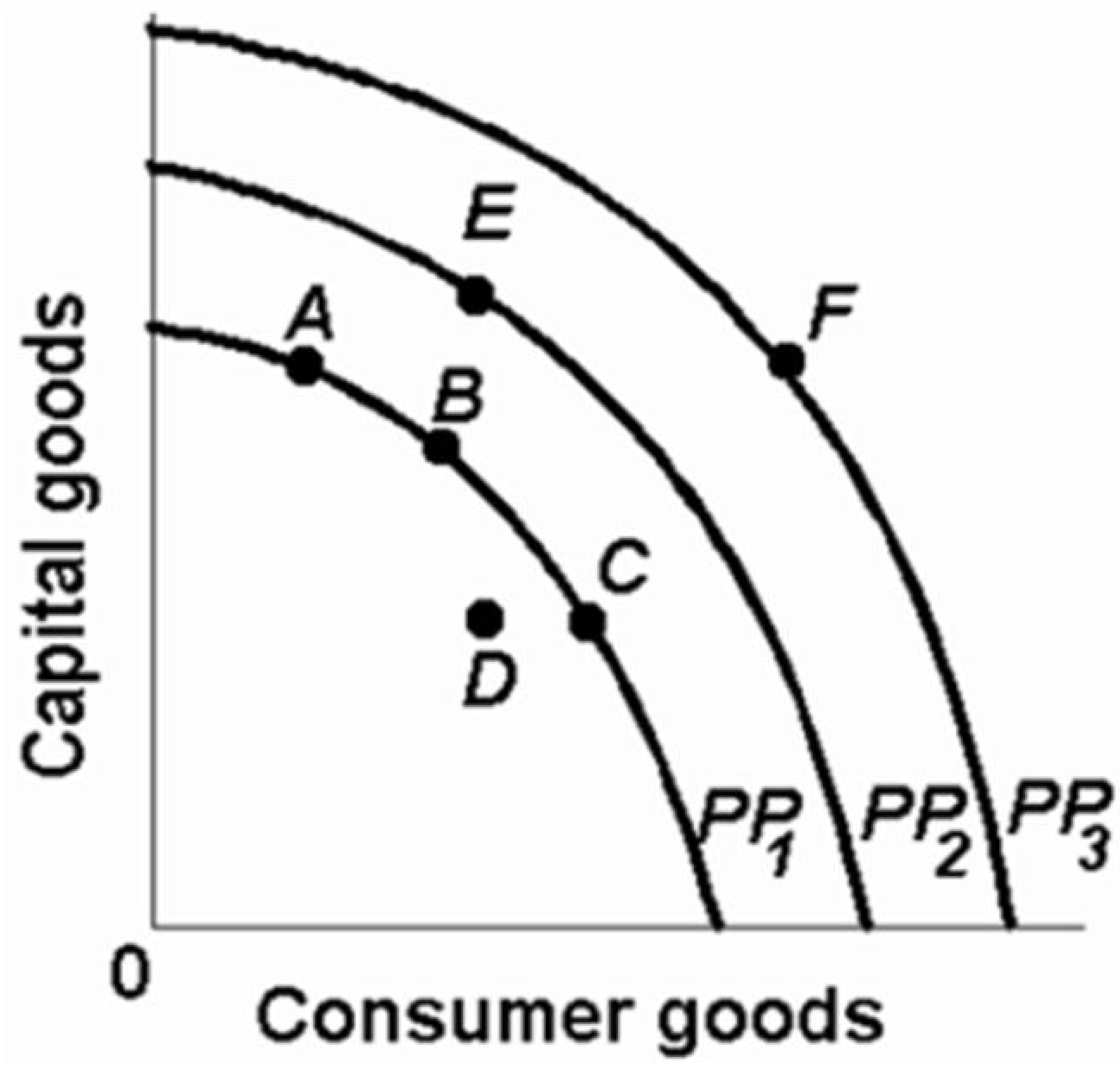
Answer: D

123) Refer to the above diagram. Starting at point E, the production of successive units of bread will cost: 123) ______

A) a constant 8 units of tractors.
B) $^1/_2$, $^1/_4$, $^1/_6$, and $^1/_8$ units of tractors.
C) $^1/_8$, $^1/_6$, $^1/_4$, and $^1/_2$ units of tractors.
D) a constant 6 units of tractors.

Answer: C

124) Refer to the diagram below. The concept of opportunity cost is best represented by the: 124) ______



A) move from B on PP_1 to C on PP_1.
B) move from B on PP_1 to E on PP_2.
C) move from D inside PP_1 to B on PP_1.
D) shift of the production possibilities curve from PP_1 to PP_2.

Answer: A

125) The fact that the slope of the production possibilities curve becomes steeper as we move down along the curve indicates that: 125) ______

A) resources are perfectly shiftable between alternative uses.
B) society's resources are limited.
C) the principle of increasing opportunity costs is relevant.
D) the opportunity cost of producing each product is constant.

Answer: C

Production possibilities (alternatives)						
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	5	9	12	14	15

126) Refer to the above table. If the economy is producing at production alternative C, the opportunity cost of the tenth unit of consumer goods will be: 126) ______

A) 3 units of capital goods.
B) 2 units of capital goods.
C) 4 units of capital goods.
D) $^{1}/_{3}$ of a unit of capital goods.

Answer: D

127) Refer to the above table. For these data the law of increasing opportunity costs is reflected in the fact that: 127) ______

A) the amount of consumer goods which must be sacrificed to get more capital goods diminishes beyond a point.
B) larger and larger amounts of capital goods must be sacrificed to get additional units of consumer goods.
C) the economy's resources are presumed not to be scarce.
D) the production possibilities data would graph as a straight downsloping line.

Answer: B

128) Refer to the table below. In moving from possibility A to F, the cost of a unit of steel in terms of a unit of wheat: 128) ______

(The following economy produces two products.)
Production Possibilities

Product	A	B	C	D	E	F
Steel	0	1	2	3	4	5
Wheat	100	90	75	55	30	0

A) remains constant.
B) decreases.
C) increases.
D) increases from A to B, and decreases from B to F.

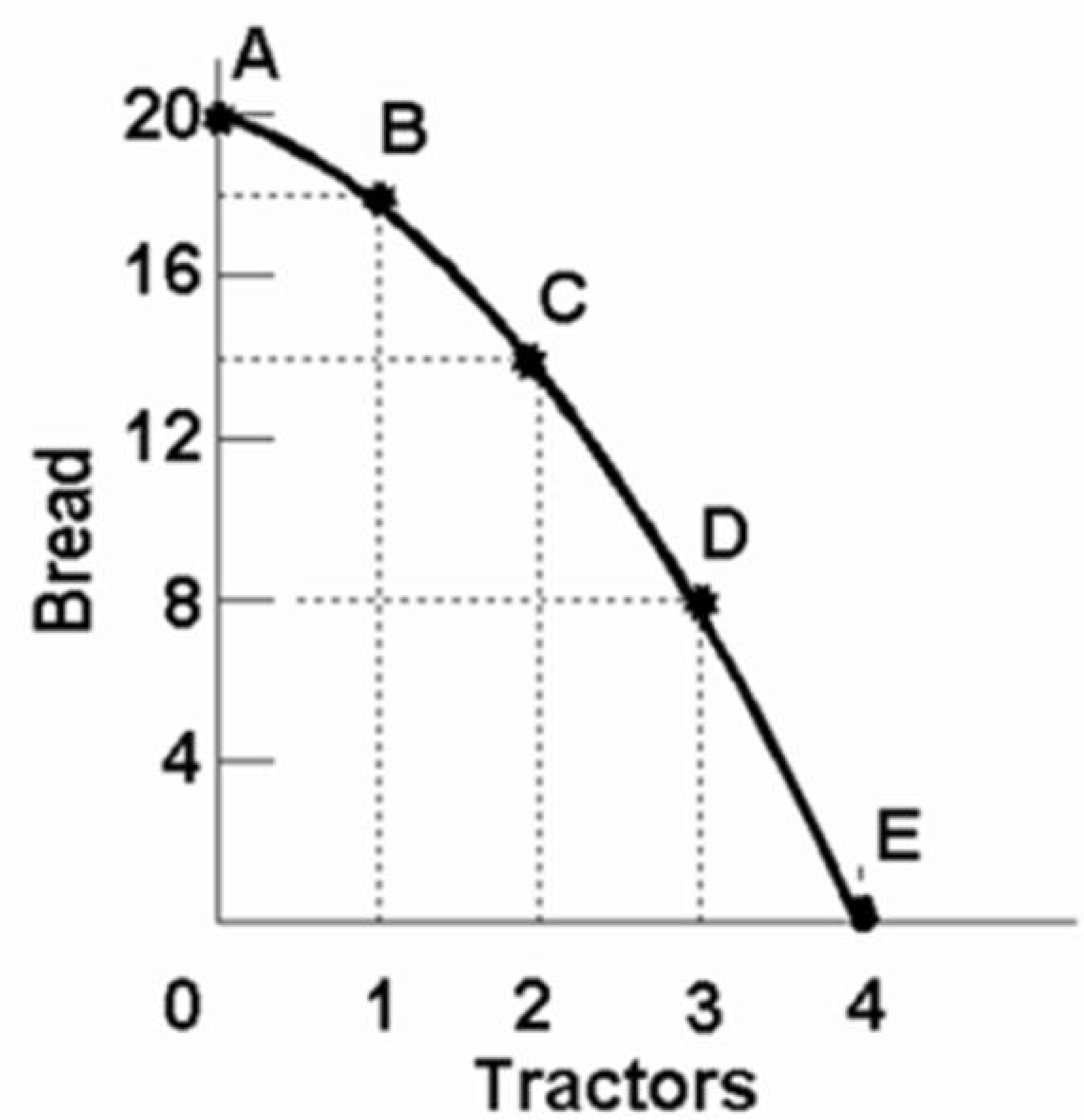
Answer: C

129) A typical concave production possibilities curve implies: 129) ______

A) increasing opportunity costs.
B) that economic resources are scarce.
C) that society must choose among various attainable combinations of goods.
D) all of the above.

Answer: D

130) Refer to the diagram below. This production possibilities curve is constructed such that: 130) ______



A) the opportunity cost of tractors diminishes as more bread is produced.
B) the opportunity cost of both bread and tractors in terms of each other increases as more of each is produced.
C) the opportunity cost of bread diminishes as more bread is produced.
D) resources are presumed to be perfectly shiftable between bread and tractors.

Answer: B

131) The law of increasing opportunity costs exists because: 131) ______
A) resources are not equally efficient in producing various goods.
B) consumers tend to value any good more highly when they have little of it.
C) wage rates invariably rise as the economy approaches full employment.
D) the value of the dollar has diminished historically because of persistent inflation.

Answer: A

132) The law of increasing opportunity costs is reflected in a production possibilities curve which is: 132) ______
A) a downward sloping straight line.
B) an upward sloping straight line.
C) concave to the origin.
D) convex to the origin.

Answer: C

The production possibilities curve below shows the hypothetical relationship between the production of capital goods and consumer goods in an economy.

	Production Alternatives				
Products	A	B	C	D	E
Capital goods	0	1	2	3	4
Consumer goods	22	18	13	7	0

133) Refer to the above table. What is the opportunity cost of producing the third unit of capital goods? 133) ______

A) 6 units of consumer goods
B) 7 units of consumer goods
C) 5 units of consumer goods
D) 4 units of consumer goods

Answer: A

134) Refer to the above table. What is the total opportunity cost of producing two units of capital goods? 134) ______

A) 5 units of consumer goods
B) 4 units of consumer goods
C) 13 units of consumer goods
D) 9 units of consumer goods

Answer: D

135) Refer to the above table. What is the opportunity cost of producing the fourth unit of capital goods? 135) ______

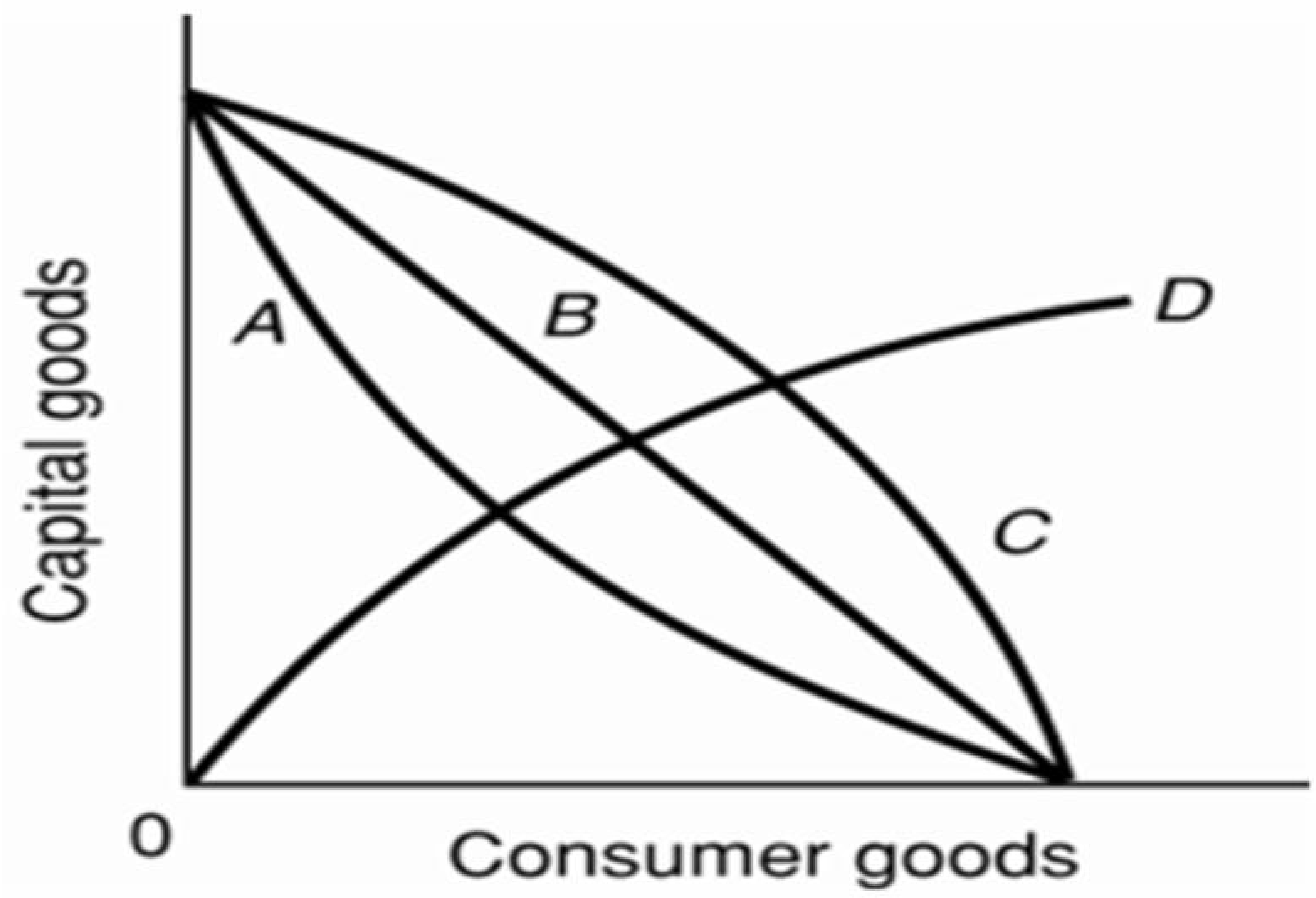
A) 22 units of consumer goods
B) 7 units of consumer goods
C) 6 units of consumer goods
D) 15 units of consumer goods

Answer: B

136) Refer to the above table. What is the total opportunity cost of producing three units of capital goods? 136) ______

A) 15 units of consumer goods
B) 7 units of consumer goods
C) 22 units of consumer goods
D) 6 units of consumer goods

Answer: A



137) Refer to the above diagram. As it relates to production possibilities analysis, the law of increasing opportunity cost is reflected in curve: 137) ______

A) A. B) B. C) C. D) D.

Answer: C

138) Refer to the above diagram. Curve B is a: 138) ______

A) production possibilities curve indicating constant opportunity costs.
B) technology frontier curve.
C) demand curve indicating that the quantity of consumer goods demanded increases as the price of capital falls.
D) production possibilities curve indicating increasing opportunity costs.

Answer: A

139) If the production possibilities curve is a straight line: 139) ______

A) the two products will sell at the same market prices.
B) economic resources are perfectly shiftable between the production of the two products.
C) equal quantities of the two products will be produced at each possible point on the curve.
D) the two products are equally important to consumers.

Answer: B

140) A nation's production possibilities curve is "bowed out" from the origin because: 140) ______

A) wants are virtually unlimited.
B) resources are not equally efficient in producing every good.
C) resources are scarce.
D) the originator of the idea drew it this way and modern economists follow this convention.

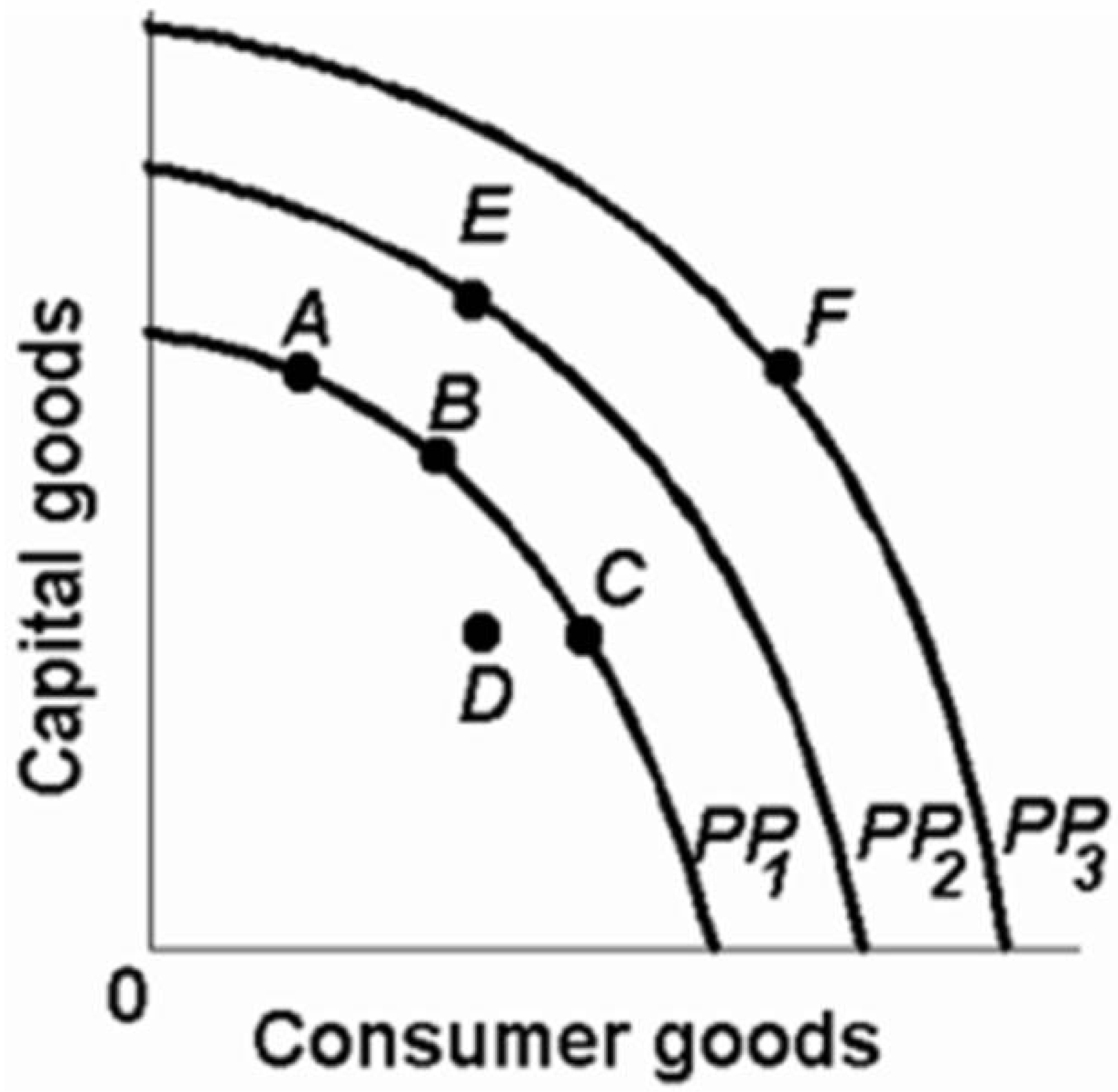
Answer: B

141) If the production possibilities curve were a straight downsloping line, this would suggest that: 141) ______

A) resources are perfectly substitutable between the production of these two goods.
B) it is possible to produce more of both products.
C) the two products have identical prices.
D) both products are equally capable of satisfying consumer wants.

Answer: A

142) Refer to the diagram below. The concave shape of each production possibilities curve indicates that: 142) ______



A) prices are constant.
B) resources are perfectly substitutable.
C) wants are virtually unlimited.
D) resources are not equally suited for alternative uses.

Answer: D

143) The marginal benefit curve is: 143) ______

A) upward sloping because of increasing marginal opportunity costs.
B) downward sloping because of increasing marginal opportunity costs.
C) upward sloping because successive units of a specific product yield less and less extra utility.
D) downward sloping because successive units of a specific product yield less and less extra utility.

Answer: D

144) The marginal cost curve is: 144) ______

A) downsloping because of increasing marginal opportunity costs.
B) upsloping because of increasing marginal opportunity costs.
C) downsloping because successive units of a specific product yield less and less extra utility.
D) upsloping because successive units of a specific product yield less and less extra utility.

Answer: B

145) The output of blu ray players should be: 145) ______

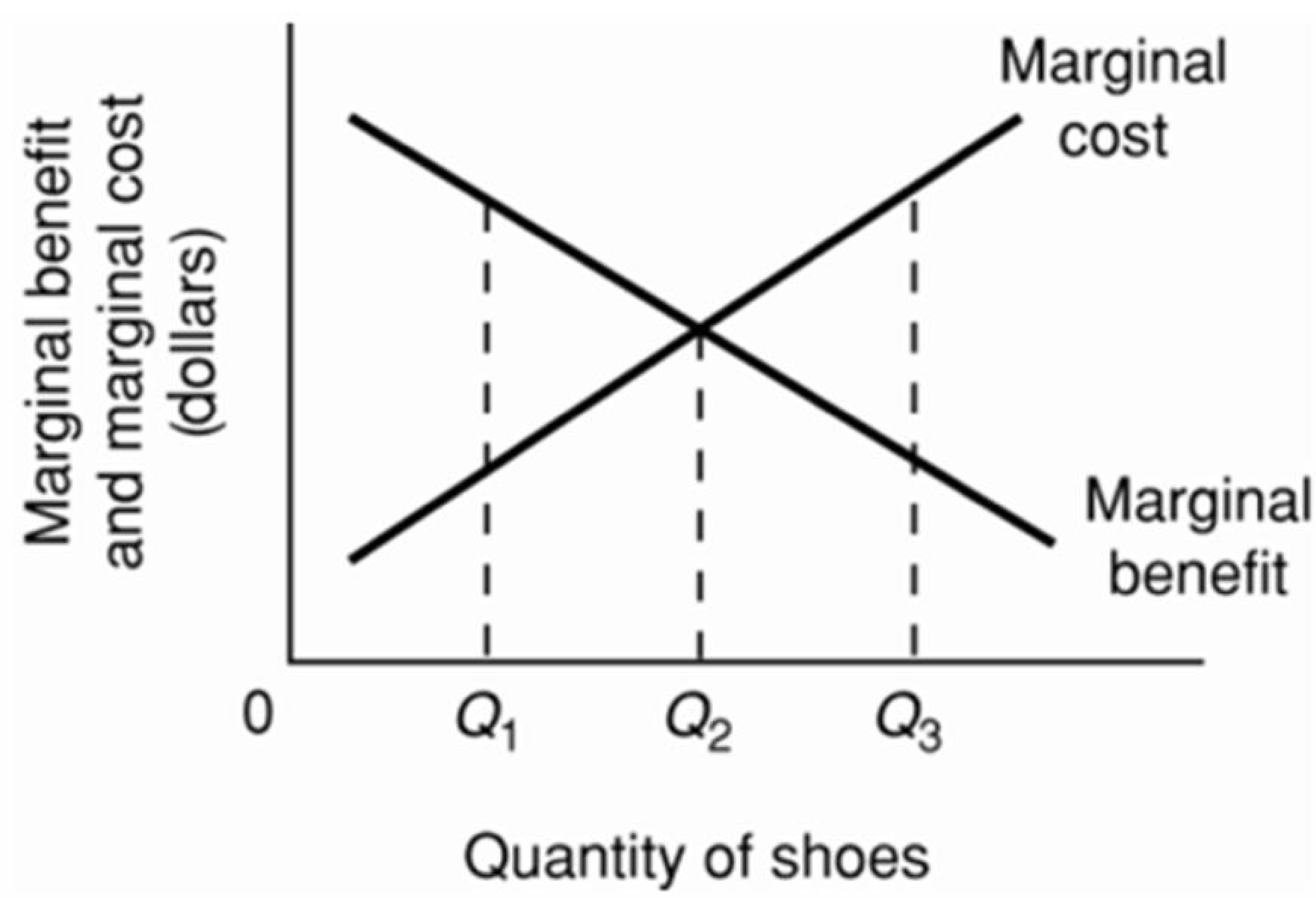
A) reduced to zero if their unit costs exceed the unit costs of alternative products.
B) increased if marginal costs exceed marginal benefits.
C) reduced if marginal benefits exceed marginal costs.
D) reduced if marginal costs exceed marginal benefits.

Answer: D

146) If the output of product X is such that marginal benefit equals marginal cost: 146) ______

A) the value of producing X and the value of producing alternative products with available resources is the same.
B) there can be no net gain to society by allocating either more or less resources to producing X.
C) the correct amount of resources is being allocated to X's production.
D) all of the above are true.

Answer: D



147) Refer to the above diagram for athletic shoes. The optimal output of shoes: 147) ______

A) is Q_1.
B) is Q_2.
C) is Q_3.
D) is greater than Q_3.

Answer: B

148) Refer to the above diagram for athletic shoes. If the current output of shoes is Q_1, then: 148) ______

A) resources are being allocated efficiently to the production of shoes.
B) society would consider additional units of shoes to be less valuable than alternative products.
C) society would experience a net loss by producing more shoes.
D) society would consider additional units of shoes to be more valuable than alternative products.

Answer: D

149) Refer to the above diagram for athletic shoes. If the current output of shoes is Q_3, then: 149) ______

A) society would experience a net gain by producing more shoes.
B) resources are being allocated efficiently to the production of shoes.
C) society would consider additional units of shoes to be less valuable than alternative products.
D) society would consider additional units of shoes to be more valuable than alternative products.

Answer: C

150) Recessions are typically characterised by points: 150) ______

A) inside the production possibilities curve.
B) outside the production possibilities curve.
C) that are not attainable on the production possibilities curve.
D) on the production possibilities curve.

Answer: A

Production possibilities (alternatives)	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	5	9	12	14	15

151) Refer to the above table. As compared to production alternative D, the choice of alternative C would: 151) ______

A) tend to generate a more rapid growth rate.
B) tend to generate a slower growth rate.
C) be unattainable.
D) entail unemployment.

Answer: A

152) Refer to the above table. A total output of 3 units of capital goods and 4 units of consumer goods: 152) ______

A) is unobtainable in this economy.
B) will result in the maximum rate of growth available to this economy.
C) would involve an inefficient use of the economy's scarce resources.
D) is irrelevant because the economy is capable of producing a larger total output.

Answer: C

153) Refer to the above table. For this economy to produce a total output of 3 units of capital goods and 13 units of consumer goods it must: 153) ______

A) allocate its available resources most efficiently among alternative uses.
B) achieve the full employment of available resources.
C) achieve economic growth.
D) use its resources more efficiently than the data in the table now indicate.

Answer: C

Production possibilities tables for two countries, North Cantina and South Cantina:

North Cantina Production possibilities (alternatives)

	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	10	18	24	28	30

South Cantina Production possibilities (alternatives)

	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	8	15	21	25	27

154) Refer to the above tables. Suppose that North Cantina is producing 2 units of capital goods and 17 units of consumer goods while South Cantina is producing 2 units of capital goods and 21 units of consumer goods. We can conclude that: 154) ______

A) both South Cantina and North Cantina are fully and efficiently using their resources.
B) neither South Cantina nor North Cantina are fully and efficiently using their resources.
C) South Cantina is fully and efficiently using its resources, but North Cantina is not.
D) North Cantina is fully and efficiently using its resources, but South Cantina is not.

Answer: C

155) Refer to the above tables. Suppose that resources in North Cantina and South Cantina are identical in quantity and quality. We can conclude that: 155) ______

A) North Cantina has better technology than South Cantina in producing consumer goods.
B) North Cantina has better technology than South Cantina in producing both capital and consumer goods.
C) North Cantina is growing more rapidly than South Cantina.
D) South Cantina has better technology than North Cantina in producing both capital and consumer goods.

Answer: A

156) Refer to the table below. According to the production possibilities schedule for the economy which produces two products, a combination of four tanks and 650 autos is: Production Possibilities 156) ______

Product	A	B	C	D	E	F
Tanks	0	1	2	3	4	5
Autos	1000	950	850	650	350	0

A) attainable, but involves an efficient use of society's resources.
B) not attainable because society does not have sufficient resources to produce this combination.
C) attainable, but would not be in the best interests of a strong national defence.
D) not attainable because it is not listed in the schedule.

Answer: B

157) Assume that a change in government policy results in the increased production of both consumer goods and investment goods. It can be concluded that: 157) ______

A) this economy's production possibilities curve is convex (bowed inward) as viewed from the origin.
B) the law of increasing opportunity costs does not apply in this society.
C) the economy was suffering from unemployment and/or the inefficient use of resources before the policy change.
D) the economy's production possibilities curve has been shifted to the left as a result of the policy decision.

Answer: C

158) Refer to the diagram. This economy will experience unemployment if it produces at point: 158) ______

A) A. B) B. C) C. D) D.

Answer: D

159) Refer to the above production possibilities curve. At the onset of World War II Canada had large amounts of idle human and property resources. Its economic adjustment from peacetime to wartime can best be described by the movement from point: 159) ______

A) b to point c. B) c to point b. C) c to point d. D) a to point b.

Answer: D

160) Refer to the above production possibilities curve. At the onset of World War II the Soviet Union's economy was already at full employment. Its economic adjustment from peacetime to wartime can best be described by the movement from point: 160) ______

A) b to point c. B) c to point b. C) c to point d. D) a to point b.

Answer: B

161) Any point inside the production possibilities curve indicates: 161) ______

A) that more output could be produced with available resources.
B) the realization of allocative efficiency.
C) the presence of inflationary pressures.
D) that resources are imperfectly shiftable among alternative uses.

Answer: A

162) Unemployment and/or productive inefficiencies: 162) ______

A) can both be illustrated by a point inside the production possibilities curve.
B) can exist at any point on a production possibilities curve.
C) can both be illustrated by a point outside the production possibilities curve.
D) cause the production possibilities curve to shift outward.

Answer: A

163) A point inside a production possibilities curve may indicate: 163) ______

A) failure to use the best available technology.
B) unemployment.
C) the inefficient use of resources.
D) all of the above.

Answer: D

164) Assume an economy is incurring unemployment and failing to realize least-cost production. The immediate effect of resolving these problems will be to: 164) ______

A) move the level of actual output closer to the economy's production possibilities curve.
B) shift its production possibilities curve to the right.
C) create a less equal distribution of income.
D) shift its production possibilities curve to the left.

Answer: A

165) If an economy is operating inside its production possibilities curve for consumer goods and capital goods, this means that it: 165) ______

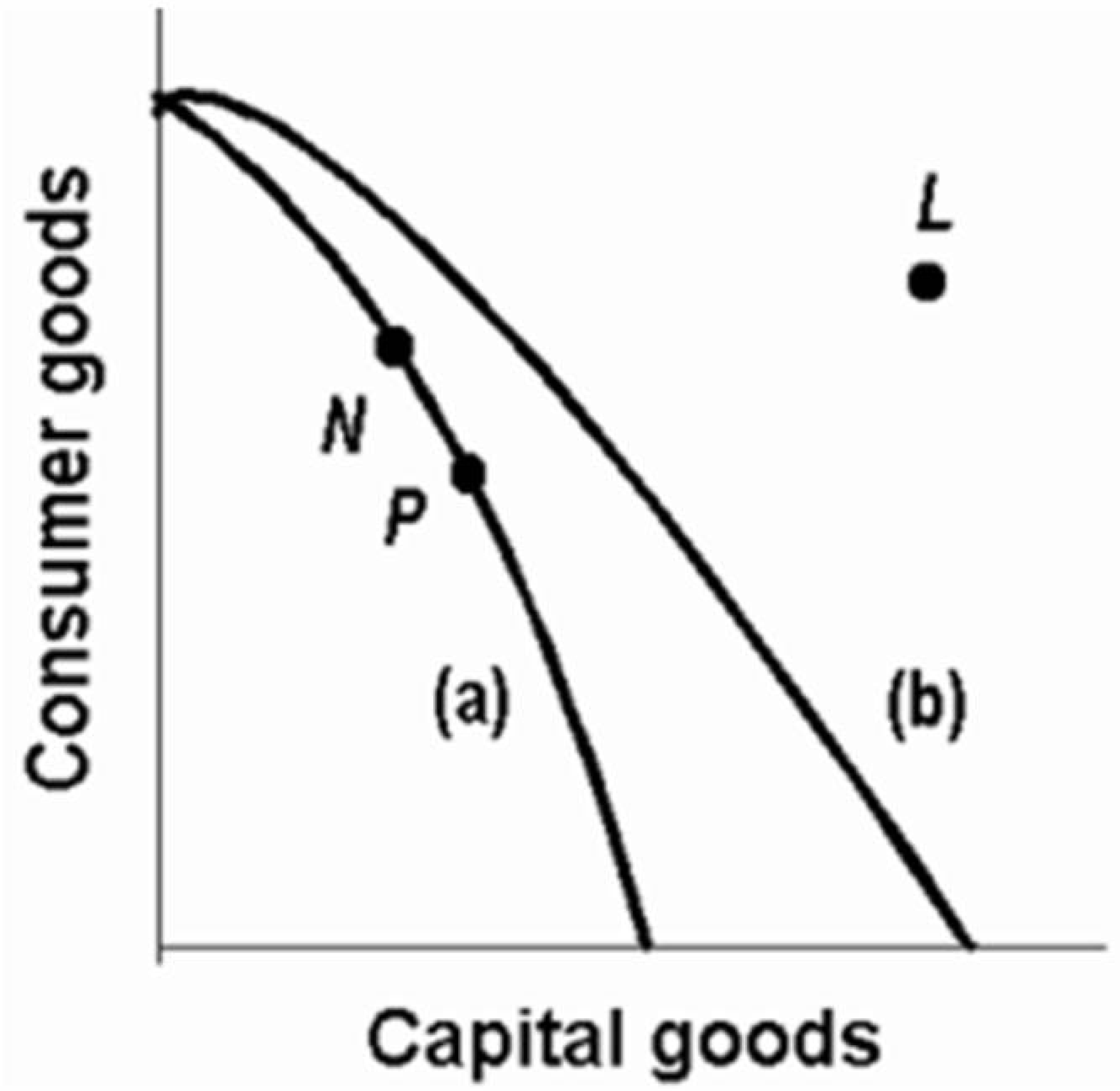
A) can only produce more capital goods by producing fewer consumer goods.
B) can produce more of both consumer goods and capital goods by using its resources more efficiently.
C) can only produce more consumer goods by producing fewer capital goods.
D) must improve its technology to produce more output.

Answer: B

166) Which of the following will not require an outward shift of the production possibilities curve? 166) ______

A) an upgrading of the quality of a nation's human resources
B) the improvement of a society's technological knowledge
C) an increase in the quantity of a society's labour force
D) the reduction of unemployment

Answer: D



167) Refer to the above production possibilities curves. Curve (a) is the current curve for the economy. The movement from curve (a) to curve (b) suggests: 167) ______

A) an improvement in consumer goods technology but not in capital goods technology.
B) an improvement in capital goods technology but not in consumer goods technology.
C) a decline in the total output of this society.
D) a movement from unemployment to full employment.

Answer: B

168) Refer to the above production possibilities curves. Curve (a) is the current curve for the economy. Other things being equal, society's current choice of point P on curve (a) will: 168) ______

A) entail a slower rate of economic growth than would the choice of point N.
B) allow it to achieve more rapid economic growth than would the choice of point N.
C) be unobtainable because it exceeds the productive capacity of the economy.
D) entail the same rate of growth as would the choice of point N.

Answer: B

169) The basic difference between consumer goods and capital goods is that: 169) ______

A) the production of capital goods is not subject to the law of increasing opportunity costs.
B) consumer goods satisfy wants directly while capital goods satisfy wants indirectly.
C) consumer goods are produced in the private sector and capital goods are produced in the public sector.
D) an economy that commits a relatively large proportion of its resources to capital goods must accept a lower growth rate.

Answer: B

170) Which of the following would be most likely to shift the production possibilities curve to the right? 170) ______

A) a decline in the size of the population and labour force
B) shifting resources from butter to gun production
C) a sudden and substantial expansion of consumer wants
D) an improvement in the literacy level and general level of education

Answer: D

171) Which of the following will not shift a nation's production possibilities curve? 171) ______

A) the acquisition of more education and training by its labour force
B) an increase in the rate of unemployment
C) the widespread application of irrigation to its agricultural land
D) the discovery of new super-conductivity materials which makes manufacturing more efficient

Answer: B

172) Which of the following will shift the production possibilities curve to the right? 172) ______

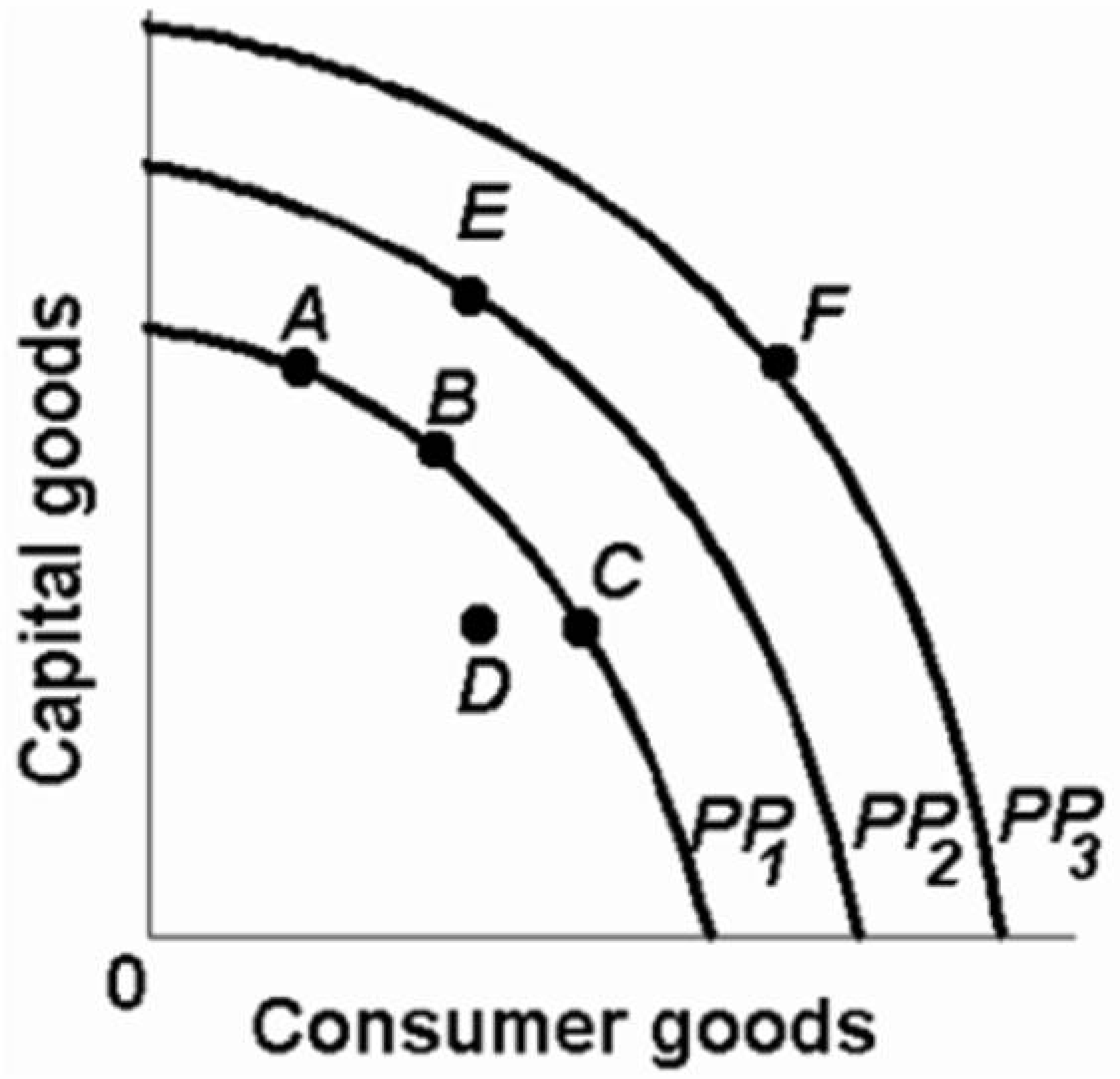
A) an increase in the unemployment rate from 6 to 8 percent
B) a technological advance which allows farmers to produce more output from given inputs
C) a decline in the efficiency with which the present labour force is allocated
D) a decrease in the unemployment rate from 8 to 6 percent

Answer: B

173) Other things equal, which of the following would shift an economy's production possibilities curve to the left? 173) ______

A) the discovery of a low-cost means of generating and storing solar energy
B) a law requiring mandatory retirement from the labour force at age 55
C) an increase in the proportion of total output which consists of capital or investment goods
D) the entrance of more women into the labour force

Answer: B



174) Refer to the above diagram. An improvement in technology will: 174) ______

A) move the economy from A, B, or C on PP_1 to D.

B) move the economy from A to C along PP_1.

C) shift the production possibilities curve from PP_1 to PP_2.

D) shift the production possibilities curve from PP_2 to PP_1.

Answer: C

175) Refer to the above diagram. Which one of the following would shift the production possibilities curve from PP_1 to PP_2 175) ______

A) worsening of the AIDS epidemic

B) immigration of skilled workers into the economy

C) a reduction in the age of retirement.

D) an increase in consumer prices

Answer: B

176) Which situation would most likely shift the production possibilities curve for a nation in an outward direction? 176) ______

A) an increase in the amount of discrimination

B) a decrease in the quality of products

C) a decrease in the state of technology

D) an increase in the supply of resources

Answer: D

177) Which situation would most likely cause a nation's production possibilities curve to shift inward? 177) ______

A) the construction of more capital goods

B) an increase in the number of skilled immigrant workers

C) the destruction from bombing and warfare in a losing military conflict

D) a decrease in discrimination based on race

Answer: C

178) All of the following could immediately or eventually lead to an inward shift of a nation's production possibilities curve, except: 178) ______

A) an increase in the amount of discrimination.
B) a decline in the birth rate.
C) depletion and reduced availability of major energy resources.
D) an increase in the average skill level of all occupational groups.

Answer: D

179) Some agricultural sub-Saharan nations of Africa have over-farmed and overgrazed their land to the extent that significant portions of it have turned into desert. This suggests that: 179) ______

A) these nations are operating at some point outside of their production possibilities curves.
B) the production possibilities curves of such nations have shifted outward.
C) the concavity of the production possibilities curves of such nations has increased.
D) the production possibilities curves of such nations have shifted inward.

Answer: D

180) Which of the following statements, if any, is correct for a nation which is producing only consumption and capital goods? 180) ______

A) Other things equal, the more capital goods a nation produces, the greater will be its future growth rate.
B) Other things equal, the more consumer goods a nation produces, the greater will be its future growth rate.
C) There is no general relationship between the current division of output between consumer and capital goods and the future growth rate.
D) None of the above statements is correct.

Answer: A

181) If country A has been investing a larger proportion of its domestic output than Canada has, then, we would expect: 181) ______

A) greater rightward shifts in country A's production possibilities curve as compared to Canada.
B) a higher rate of growth of domestic output in country A than in Canada.
C) that in the long run living standards would rise more rapidly in country A than in Canada.
D) all of the above to happen.

Answer: D

182) Deltonia produces both consumer and capital goods. If it reduces the percentage of its output devoted to capital goods, then: 182) ______

A) its rate of growth will tend to decline.
B) its rate of growth will tend to increase.
C) its production possibilities curve will necessarily shift to the left.
D) it must also reduce the percentage of its output devoted to consumer goods.

Answer: A

183) Refer to the diagram below. Other things equal, this economy will achieve the most rapid rate of growth if: 183) ______

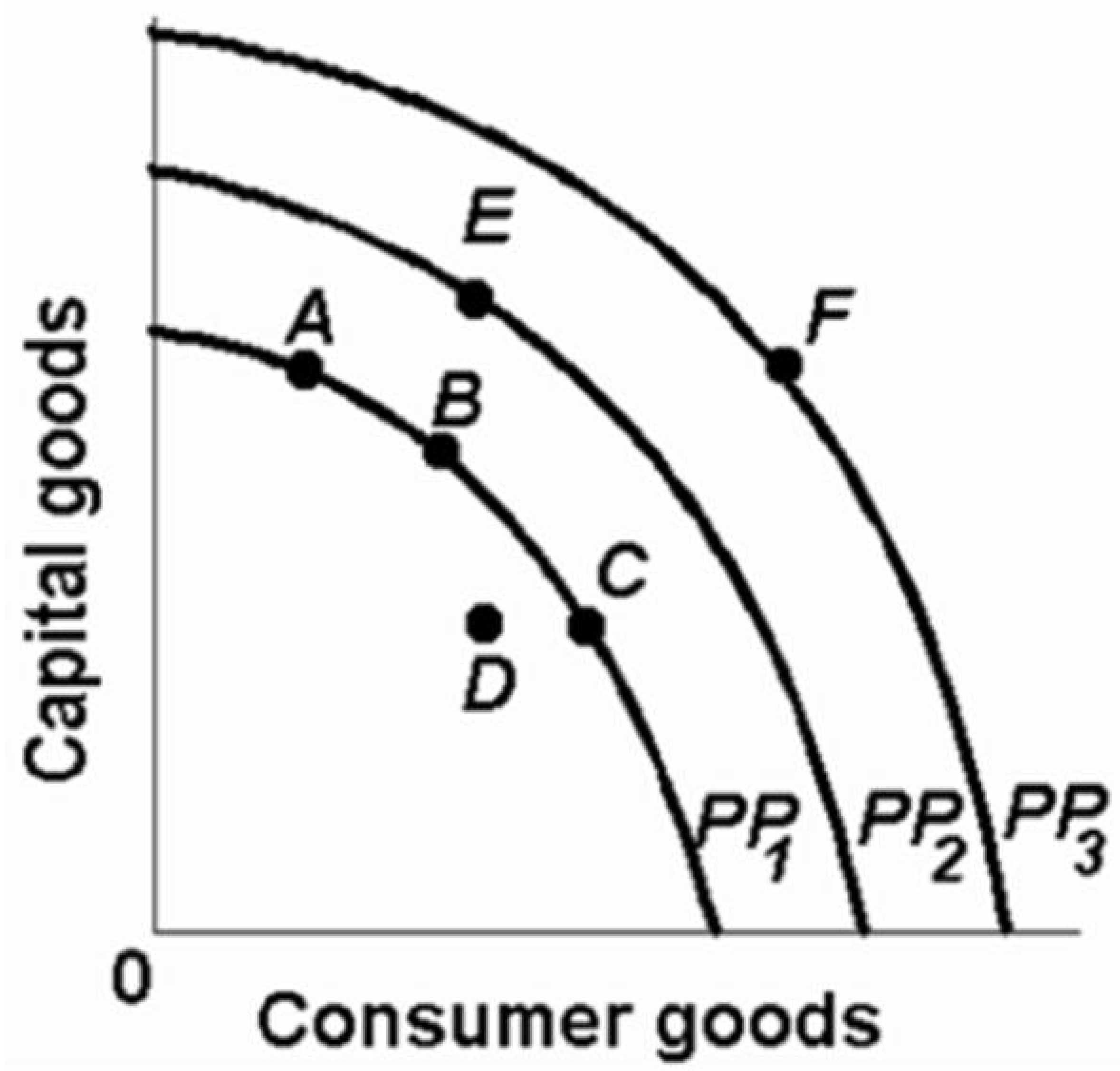
A) it chooses point C.
B) the ratio of capital to consumer goods is minimized.
C) it chooses point B.
D) it chooses point A.

Answer: D

184) The future location of the economy's production possibilities curve will be affected by: 184) ______
A) the growth of the economy's supplies of resources.
B) the rate of technological progress.
C) the current division of domestic output between consumption and capital goods.
D) all of the above.

Answer: D

185) Refer to the diagram below. Which of the following positions relative to PP_1 would be the most likely to result in a future production possibilities curve of PP_3, rather than PP_2? 185) ______



A) A. B) B. C) C. D) D.

Answer: A

186) Through specialization and international trade a nation: 186) ______

A) can move from a high consumption-low investment to a high investment-low consumption point on its production possibilities curve.
B) will achieve some combination of goods lying within its production possibilities curve.
C) will cause its production possibilities curve to shift leftward.
D) can achieve some combination of goods lying outside its production possibilities curve.

Answer: D

187) A country can achieve some combination of goods outside its production possibilities curve by: 187) ______

A) idling some of its resources.
B) producing more consumption goods and fewer capital goods.
C) buying the debt (bonds and stocks) of foreign nations.
D) specializing and engaging in international trade.

Answer: D

188) International specialization and trade: 188) ______

A) Has the same effect as having more and better resources.
B) allow a nation to get more of a desired good at less sacrifice of some other good.
C) can allow an economy to circumvent the output limits imposed by its domestic production possibilities curve.
D) All of the above.

Answer: D

189) Economists: 189) ______

A) measure the slope of a line differently than do mathematicians.
B) always put the independent variable on the horizontal axis and the dependent variable on the vertical axis.
C) are somewhat arbitrary in assigning independent and dependent variables to the horizontal and vertical axes.
D) always put the dependent variable on the horizontal axis and the independent variable on the vertical axis.

Answer: C

190) If we say that two variables are directly related, this means that: 190) ______

A) an increase in one variable is associated with an increase in the other variable.
B) an increase in one variable is associated with a decrease in the other variable.
C) the relationship between the two is purely random.
D) the two graph as a downsloping line.

Answer: A

191) If we say that two variables are inversely related, this means that: 191) ______

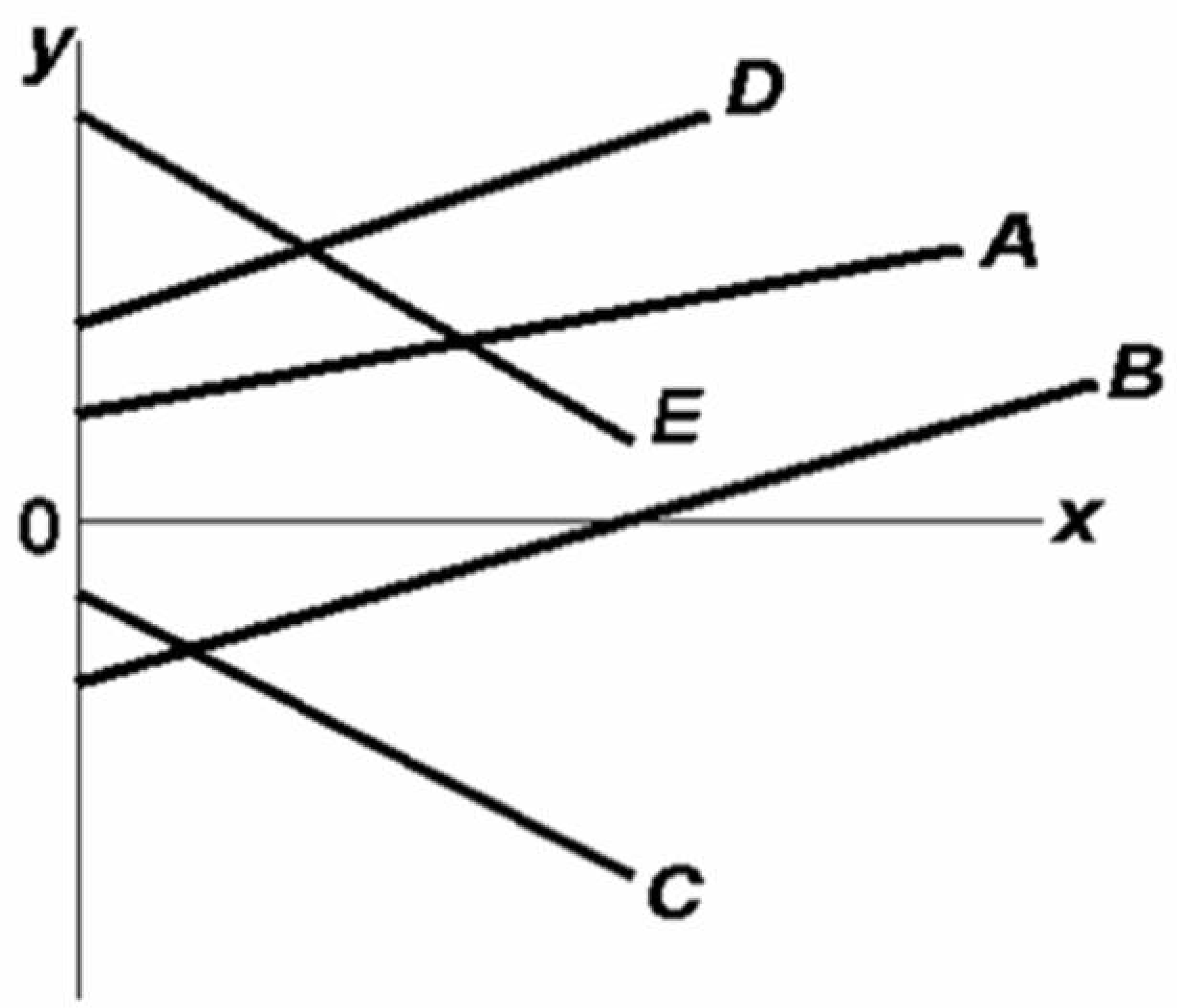
A) the two graph as an upsloping line.
B) an increase in one variable is associated with an increase in the other.
C) the resulting relationship can be portrayed by a straight line parallel to the horizontal axis.
D) an increase in one variable is associated with a decrease in the other.

Answer: D

192) Which of the following statements is correct? 192) ______

A) The value of the dependent variable is determined by the value of the independent variable.
B) The value of the independent variable is determined by the value of the dependent variable.
C) Dependent variables graph as upsloping lines; independent variables graph as downward sloping lines.
D) The dependent variable designates the "cause" and the independent variable the "effect."

Answer: A



193) Refer to the above diagram. Which line(s) show(s) a positive relationship between x and y? 193) ______

A) A only B) both C and E C) A, B, and D D) both A and D

Answer: C

194) Refer to the above diagram. Which line(s) show(s) a negative relationship between x and y? 194) ______

A) both C and E B) both A and D C) A, B, and D D) A only

Answer: A

195) Refer to the above diagram. Which line(s) show(s) a positive vertical intercept? 195) ______

A) A, D, and B B) A and D only C) A, D, and E D) B and C only

Answer: C

196) Refer to the above diagram. Which line(s) show(s) a negative vertical intercept? 196) ______

A) both B and C B) both C and E C) B, C, and E D) C only

Answer: A

197) If two variables are inversely related, then as the value of one variable: 197) ______

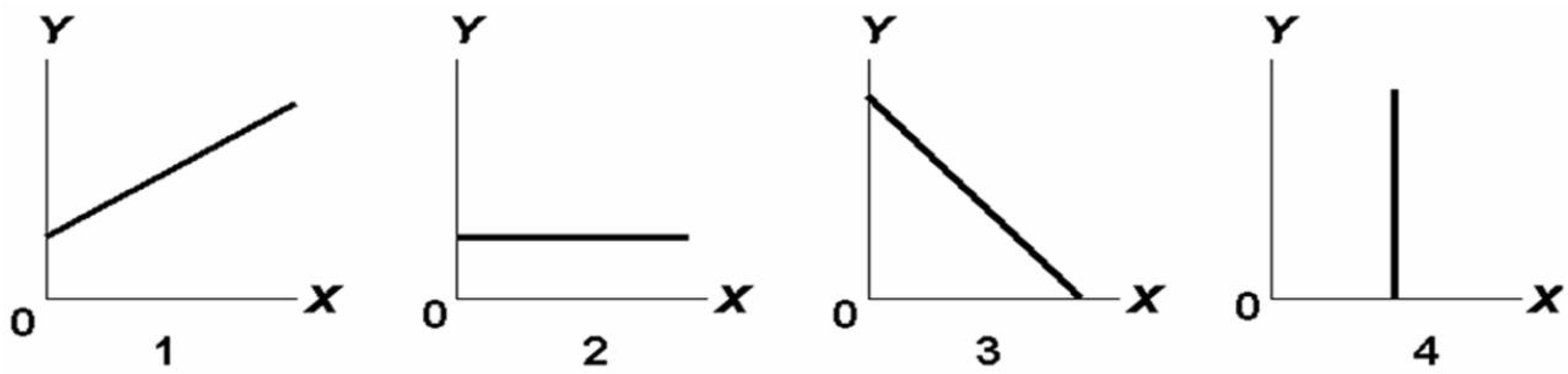
A) increases, the value of the other decreases.
B) increases, the value of the other increases.
C) increases, the value of the other may either increase or decrease.
D) decreases, the value of the other decreases.

Answer: A

198) If a positive relationship exists between x and y: 198) ______

A) the vertical intercept must be positive.
B) the relationship will graph as an upsloping line.
C) an increase in x will cause y to decrease.
D) a decrease in x will cause y to increase.

Answer: B



199) Answer on the basis of the relationships shown in the above four figures. The amount of Y is directly related to the amount of X in: 199) ______

A) both 1 and 2. B) 2 only. C) both 1 and 3. D) l only.

Answer: D

200) Answer on the basis of the relationships shown in the above four figures. The amount of Y is inversely related to the amount of X in: 200) ______

A) both 1 and 3. B) 2 only. C) 1 only. D) 3 only.

Answer: D

201) Answer on the basis of the relationships shown in the above four figures. The amount of Y is unrelated to the amount of X in: 201) ______

A) 3 only. B) 1 C) both 2 and 4. D) 2 only.

Answer: D

202) If price (P) and quantity (Q) are directly related, this means that: 202) ______

A) an increase in P will cause Q to change, but the direction in which Q changes cannot be predicted.
B) if P increases, Q will decrease.
C) a change in Q will alter P, but a change in P will not alter Q.
D) if P increases, Q will also increase.

Answer: D

Assume that if the interest rate that businesses must pay to borrow funds were 20 percent, it would be unprofitable for businesses to invest in new machinery and equipment so that investment would be zero. But if the interest rate were 16 percent, businesses would find it profitable to invest $10 billion. If the interest rate were 12 percent, $20 billion would be invested. Assume that total investment continues to increase by $10 billion for each successive 4 percentage point decline in the interest rate.

203) Refer to the above information. Which of the following is an accurate verbal statement of the described relationship? 203) ______

A) There is no regular or dependable relationship between business investment and the interest rate.
B) Investment spending by businesses varies directly with the interest rate.
C) Investment spending by businesses varies inversely with the interest rate.
D) The amount of business investment is unaffected by changes in the interest rate.

Answer: C

204) Refer to the above information. Using i and I to indicate the interest rate and investment (in billions of dollars) respectively, which of the following is the correct tabular presentation of the described relationship? 204) ______

(A)		(B)		(C)		(D)	
i	I	i	I	i	I	i	I
20	$50	24	$10	20	$0	20	$10
16	40	20	20	16	10	16	20
12	30	16	30	12	20	12	30
8	20	12	40	8	30	8	40
4	10	8	50	4	40	4	50
0	0	4	60	0	50	0	60

A) column (A) B) column (B) C) column (C) D) column (D)

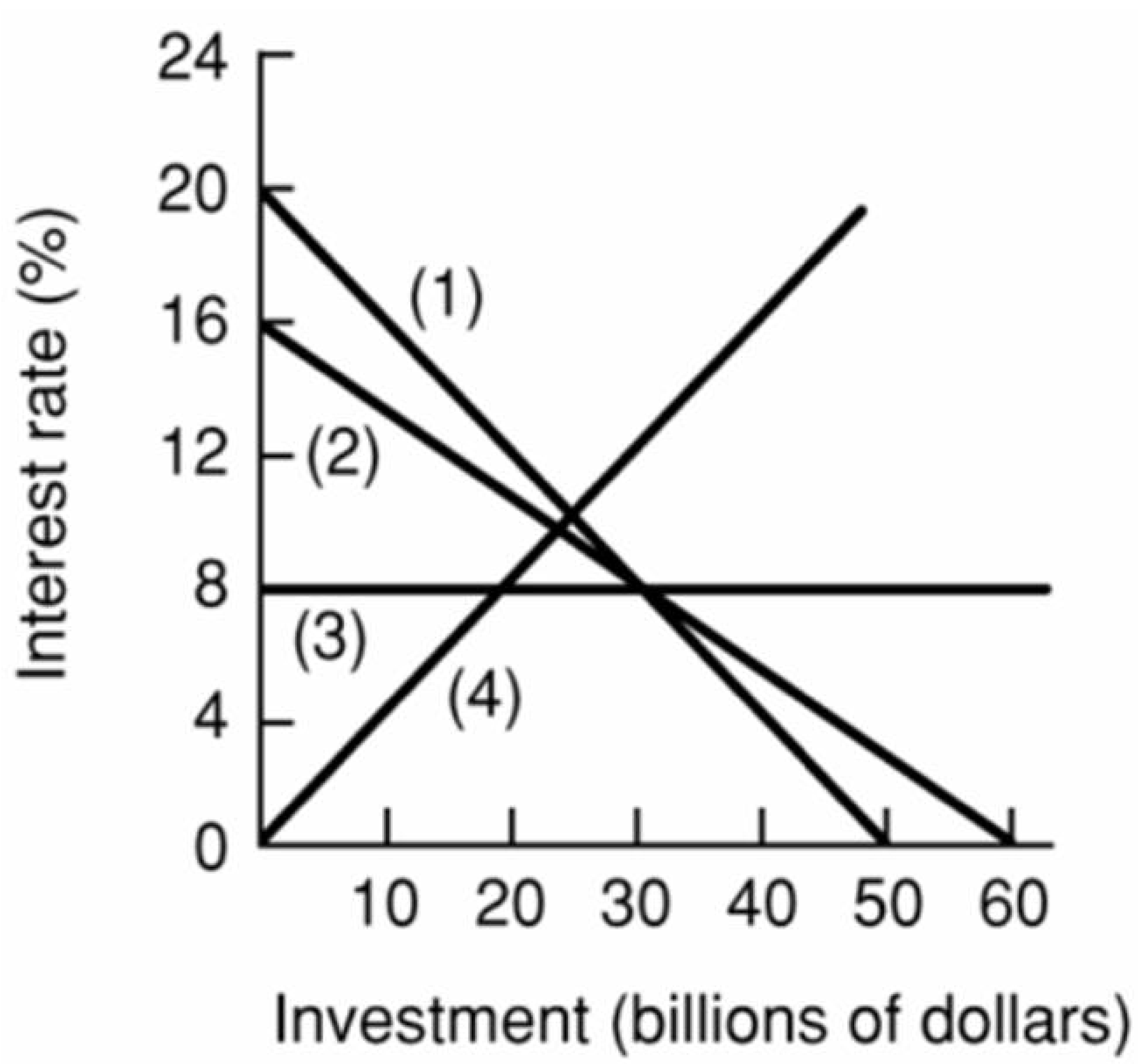
Answer: C

205) Refer to the above information. Which of the following correctly expresses the indicated relationship as an equation? 205) ______

A) i = 20 - 10I. B) i = 20 - .4I. C) i = 20 - 4I. D) i = 24 - .4I.

Answer: B

206) Refer to the above information. Which of the following is the correct graphical presentation of the indicated relationship? 206) ______



A) line 2 B) line 3 C) line 1 D) line 4

Answer: C

After-tax income	Consumption
$1000	$900
2000	1800
3000	2700
4000	3600
5000	4500

207) The above data suggest that: 207) ______

A) consumption varies directly with after-tax income.
B) consumption varies inversely with after-tax income.
C) a tax increase will increase consumption.
D) consumption and after-tax income are unrelated.

Answer: A

208) The above data indicates that: 208) ______

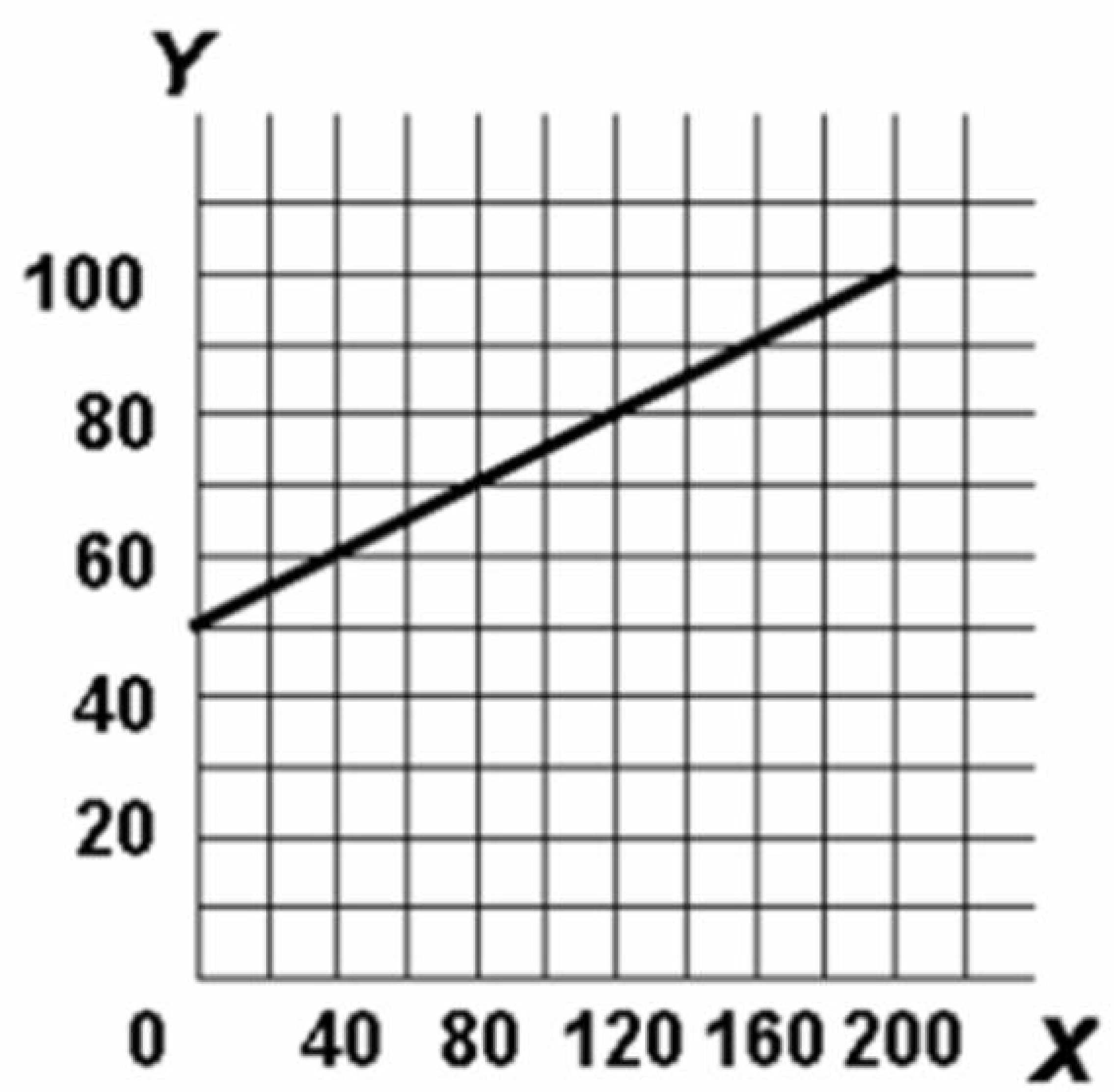
A) a tax reduction will reduce consumption.
B) consumers spend 80 percent of their after-tax incomes.
C) consumers spend 90 percent of their after-tax incomes.
D) the relationship between consumption and after-tax income is random.

Answer: C

209) The above data suggest that: 209) ______

A) after-tax income should be lowered to increase consumption.
B) tax changes will have no impact on consumption.
C) a policy of tax increases will increase consumption.
D) a policy of tax reduction will increase consumption.

Answer: D



210) Refer to the above diagram. The variables X and Y are: 210) ______

A) inversely related.
B) negatively related.
C) directly related.
D) unrelated.

Answer: C

211) Refer to the above diagram. The vertical intercept: 211) ______

A) is 60.
B) is 50.
C) is 40.
D) cannot be determined from the information given.

Answer: B

212) Refer to the above diagram. The slope of the line: 212) ______

A) is - $^{1}/_{4}$.
B) is .40.
C) is + $^{1}/_{4}$.
D) cannot be determined from the information given.

Answer: C

213) Refer to the above diagram. The equation which shows the relationship between Y and X is: 213) ______

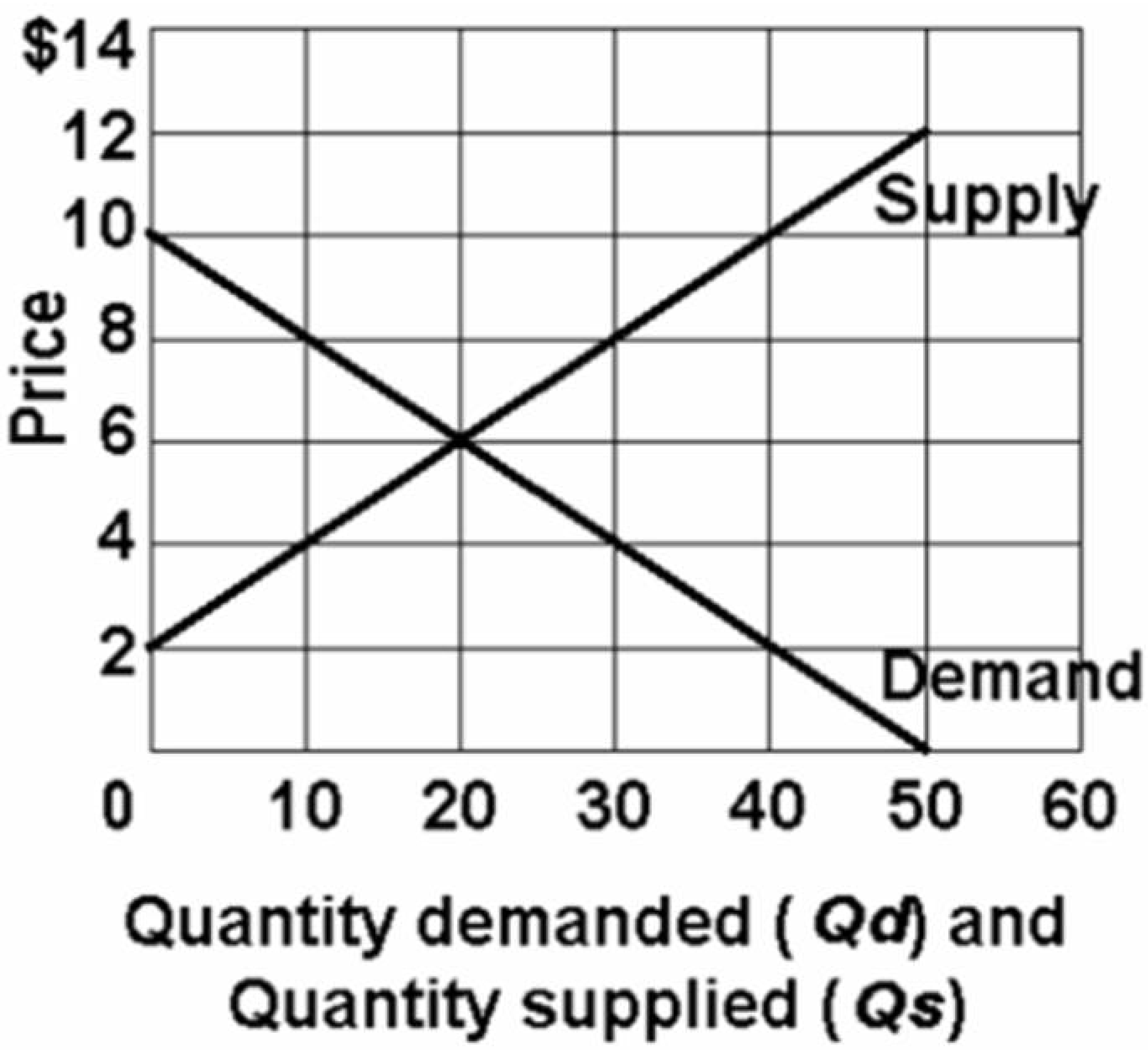
A) Y = .4X.
B) Y = $^{1}/_{4}$ X - 50.
C) Y = 50 + $^{1}/_{4}$ X.
D) X = $^{1}/_{4}$ Y.

Answer: C

214) The slope of a straight line can be determined by: 214) ______

A) comparing the absolute vertical change to the absolute horizontal change between two points on the line.
B) comparing the percentage vertical change to the percentage horizontal change between two points on the line.
C) comparing the absolute horizontal change to the absolute vertical change between two points on the line.
D) taking the reciprocal of the vertical intercept.

Answer: A



215) Refer to the above graph. Which of the following statements is correct? 215) ______

A) Price and quantity supplied are directly related.
B) Quantity demanded and quantity supplied are independent of price.
C) Price and quantity supplied are inversely related.
D) Price and quantity demanded are directly related.

Answer: A

216) Refer to the above graph. Which of the following schedules correctly reflects "demand"? 216) ______

	(A)		(B)		(C)		(D)
P	Qd	P	Qd	P	Qd	P	Qd
$12	0	$14	0	$14	60	$12	0
10	0	12	0	12	50	10	10
8	10	10	20	10	40	8	20
6	20	8	40	8	30	6	30
4	30	6	60	6	20	4	40
2	40	4	80	4	10	2	50

A) schedule (A) B) schedule (B) C) schedule (C) D) schedule (D)

Answer: A

217) Refer to the above graph. Which of the following schedules correctly reflects "supply"? 217) ______

	(A)		(B)		(C)		(D)
P	Qs	P	Qs	P	Qs	P	Qs
$12	50	$14	50	$12	50	$12	0
10	30	12	40	10	40	10	0
8	10	10	30	8	30	8	10
6	0	8	20	6	20	6	20
4	0	6	10	4	10	4	30
2	0	4	0	2	0	2	40

A) schedule (A) B) schedule (B) C) schedule (C) D) schedule (D)

Answer: C

218) Refer to the above graph. Using Q_d for quantity demanded and P for price, which of the following equations correctly states the demand for this product? 218) ______

A) $P = Q_d/10$. B) $P = 50 - P/2$. C) $P = 10 - 2Q_d$. D) $P = 10 - .2Q_d$.

Answer: D

219) Refer to the above graph. Using Q_s for quantity supplied and P for price, which of the following equations correctly states the supply of this product? 219) ______

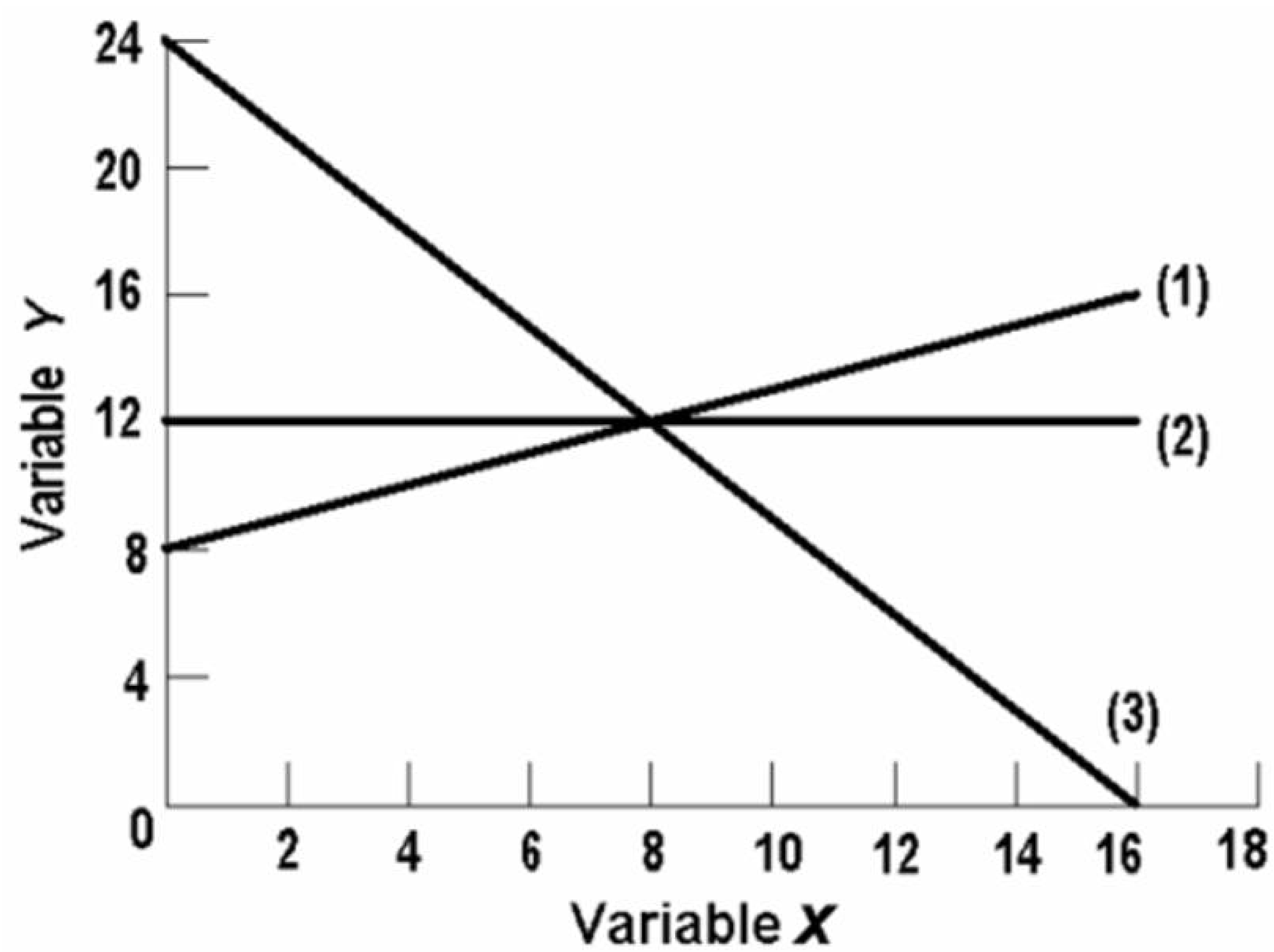
A) $P = 2 + .2Q_s$. B) $P = 60/Q_s$. C) $P = 10Q_s - 2P$. D) $P = 4 + .2Q_s$.

Answer: A

220) Assume a household would consume $100 worth of goods and services per week if its weekly income were zero and would spend an additional $80 per week for each $100 of additional income. Letting C represent consumption and Y represent income, the equation which summarizes this relationship is: 220) ______

A) C = 100 + .8Y.
B) C = 100 + 80Y.
C) C = 80 + 100Y.
D) C = 80 + .1Y.

Answer: A



221) In line (1) on the above graph, the variables x and y are: 221) ______

A) inversely related.
B) negatively related.
C) positively related.
D) nonlinearly related.

Answer: C

222) In line (3) on the above graph, variables x and y are: 222) ______

A) directly related.
B) nonlinearly related.
C) negatively related.
D) positively related.

Answer: C

223) The linear equation for line (1) on the above graph is: 223) ______

A) x = 8 + .5y.
B) y = 8 - 2x.
C) y = 8 + .5x.
D) y = 8 + 2x.

Answer: C

224) The slope of line (2) on the above graph is: 224) ______

A) .66.
B) .75.
C) 1.50.
D) 0

Answer: D

225) The linear equation for line (3) on the above graph is: 225) ______

A) y = 16 - .5x.
B) y = 24 - 1.5x.
C) y = 24 - .66x.
D) y = 24 - .75x.

Answer: B

226) The vertical intercept of line (2) on the above graph is: 226) ______

A) 24 B) 8 C) 16 D) 12

Answer: D

227) If the equation y = 5 + 6x was graphed, the: 227) ______

A) slope would be +6.
B) slope would be +5.
C) slope would be -5.
D) vertical intercept would be +.6.

Answer: A

228) If the equation y = 15 - 4x was plotted, the: 228) ______

A) vertical intercept would be -4.
B) vertical intercept would be +9.
C) slope would be -4.
D) vertical intercept would be +4.

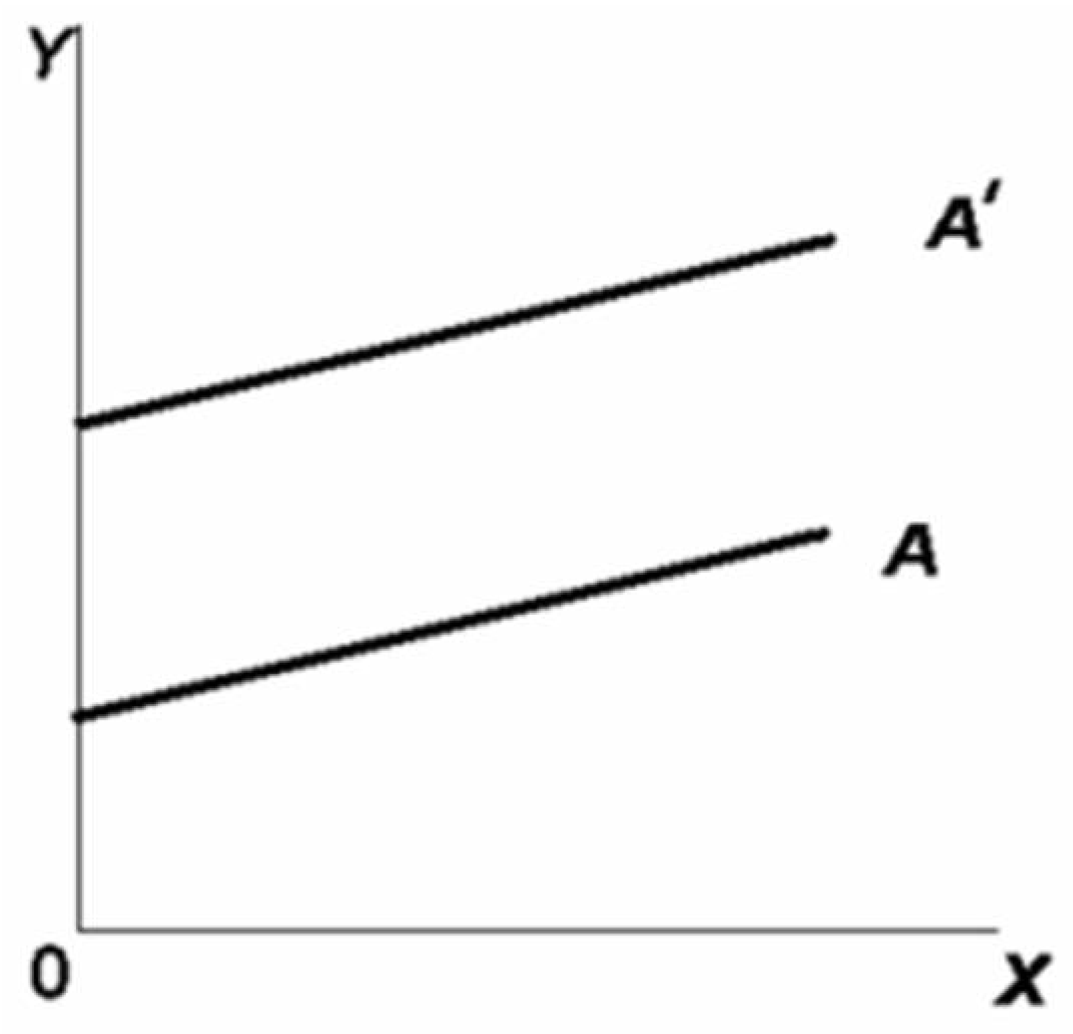
Answer: C

229) If the equation y = -10 + 2.5x was plotted 229) ______

A) the slope would be +2.5.
B) the vertical intercept would be -10.
C) it would graph as an upsloping line.
D) all of the above would be true.

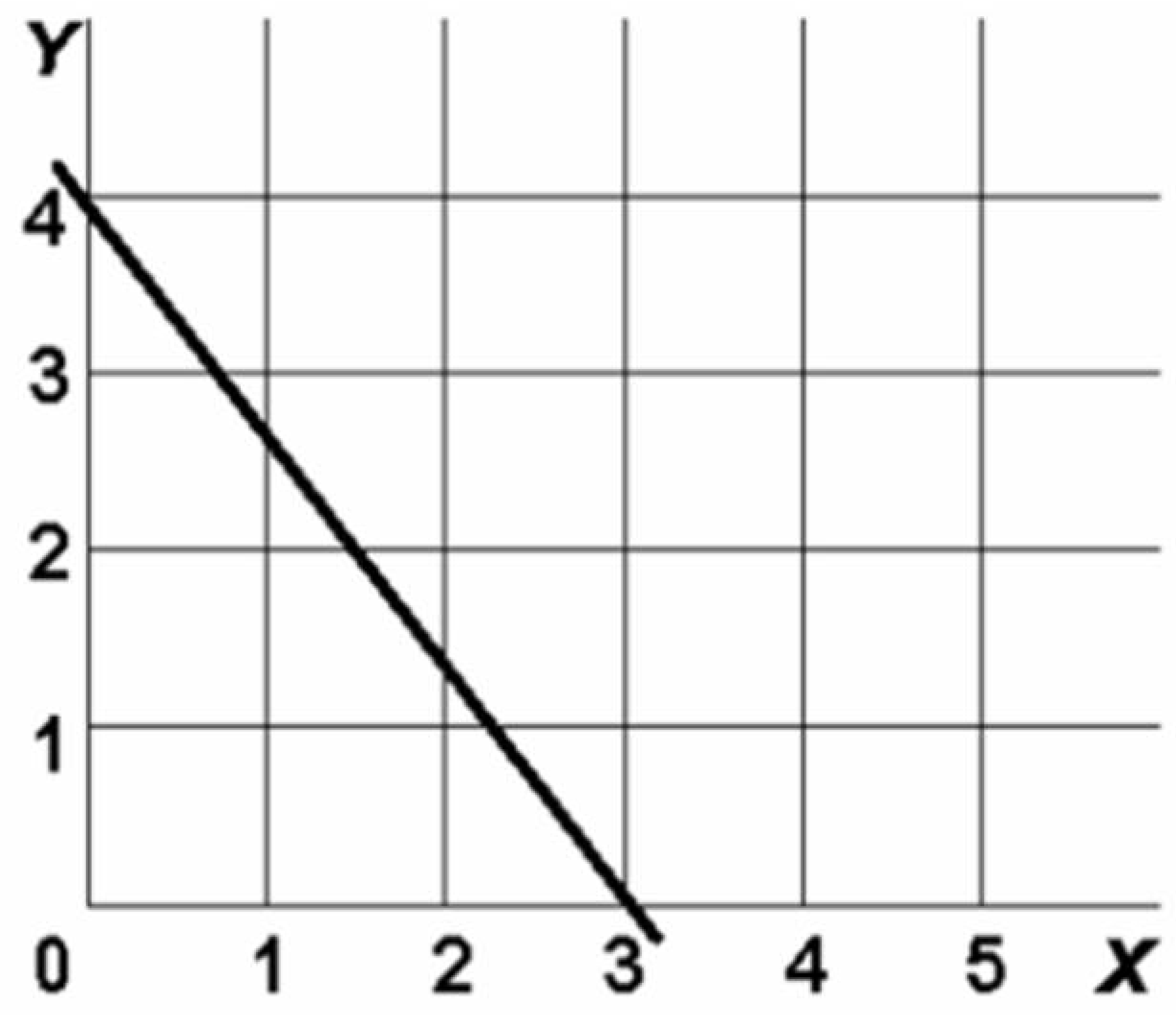
Answer: D

230) Refer to the graph. The movement from line A to line A' represents a change in: 230) ______



A) the slope only.
B) the intercept only.
C) both the slope and the intercept.
D) neither the slope nor the intercept.

Answer: B



231) In the above diagram variables x and y are: 231) ______

A) inversely related.
B) unrelated.
C) both dependent variables.
D) directly related.

Answer: A

232) In the above diagram the vertical intercept and slope are: 232) ______

A) 4 and $-1^1/_3$ respectively.
B) 3 and $+ ^3/_4$ respectively.
C) 3 and $-1^1/_3$ respectively.
D) 4 and $+ ^3/_4$ respectively.

Answer: A

233) In the above diagram the equation for this line is: 233) ______

A) $y = 4 - 1^1/_3\ x$.
B) $y = 4 - ^3/_4\ x$.
C) $y = 3 + ^3/_4\ x$.
D) $y = 4 + 1^1/_3\ x$.

Answer: A

234) If we are considering the relationship between two variables and release the "other things equal" assumption, we would expect: 234) ______

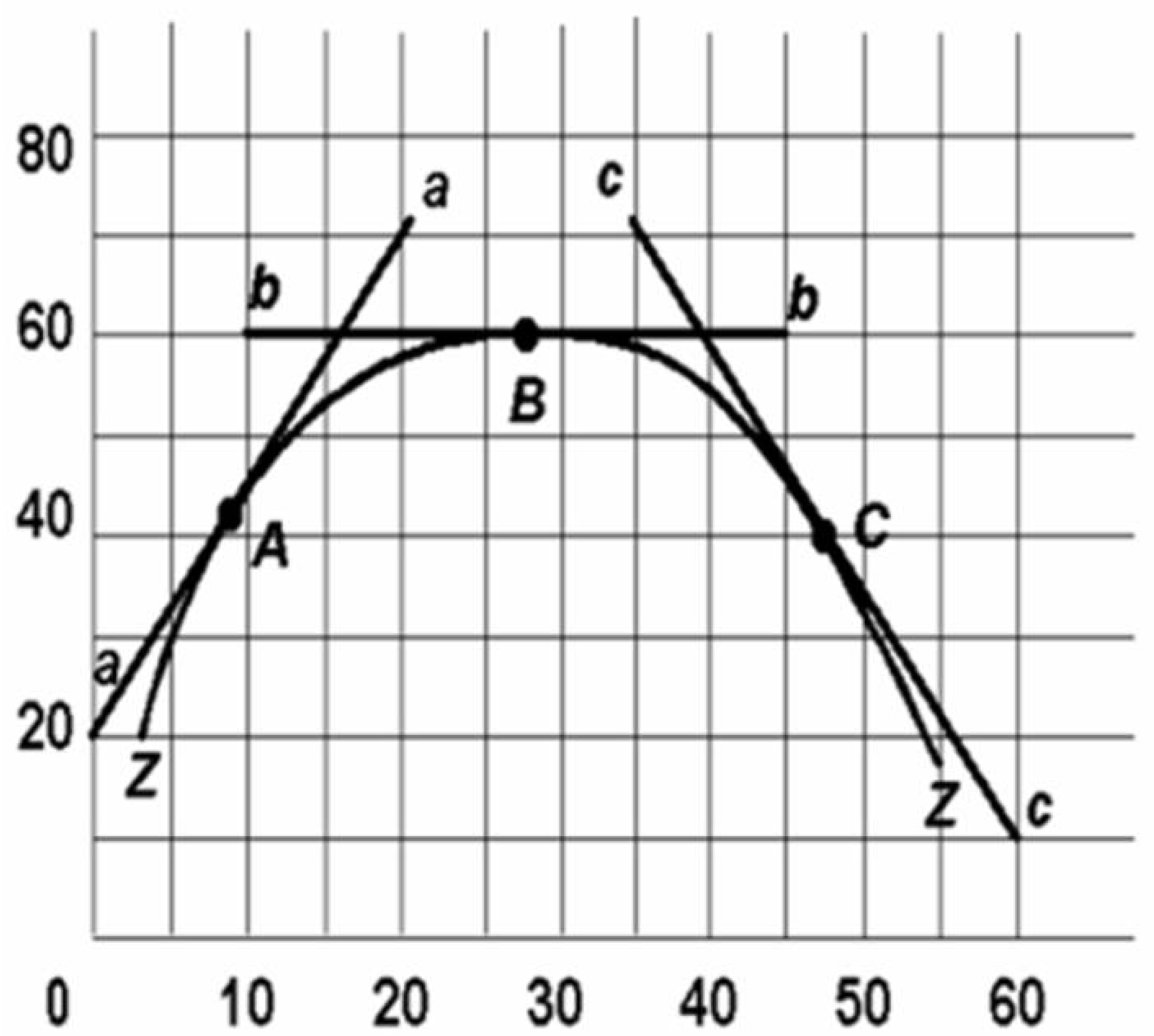
A) the relationship to change from direct to inverse.
B) the line representing that relationship on a graph to change locations.
C) the relationship to change from inverse to direct.
D) the data points representing the relationship to become more randomly scattered.

Answer: B

235) The amount of pizzas that consumers want to buy per week is reflected in the equation $P = 15 - .02Q_d$, where Q_d is the amount of pizzas purchased per week and P is the price of pizzas. On the basis of this information we can say that: 235) ______

A) 50 fewer pizzas will be purchased per week for every $1 increase in price.
B) if the price of pizzas is $6, then 150 will be purchased.
C) more pizzas will be purchased at a high price than at a low price.
D) if pizzas were free, people would consume 800 per week.

Answer: A



236) Refer to the above diagram. The slope of curve ZZ at point B is: 236) ______

A) infinity.
B) one.
C) zero.
D) none of the above.

Answer: C

237) The slope of a line parallel to the vertical axis is: 237) ______

A) one-half.
B) zero.
C) one.
D) infinite.

Answer: D

238) The slope of a line parallel to the horizontal axis is: 238) ______

A) one-half.
B) one.
C) zero.
D) infinite.

Answer: C

239) The measured slope of a line: 239) ______

A) necessarily diminishes as one moves rightward on the line.
B) will be affected by how the two variables are denominated.
C) necessarily increases as one moves rightward on the line.
D) is independent of how the two variables are denominated.

Answer: B

240) Slope of lines are especially important in economics because: 240) ______

A) positive slopes are always preferred to negative slopes.
B) they always relate to resource and output scarcity.
C) they always tell us something about profits.
D) they measure marginal changes.

Answer: D

241) In a linear equation relating income and consumption, you know that the intercept is $1,000 and the slope of the line is .4. If income is $20,000, then consumption is: 241) ______

A) $8,000 B) $11,000 C) $10,000 D) $9,000

Answer: D

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

242) Purposeful behaviour implies that everyone will make identical choices. 242) ______

Answer: True False

243) Rational individuals may make different choices because their information and circumstances differ. 243) ______

Answer: True False

244) Certain inherently desirable products such as education and health care should be produced so long as resources are available. 244) ______

Answer: True False

245) Marginal analysis means that decision-makers compare the extra benefits with the extra costs of a specific choice. 245) ______

Answer: True False

246) Choices entail marginal costs because resources are scarce. 246) ______

Answer: True False

247) If economic theories are solidly based on relevant facts, then there can be no question as to the character of appropriate economic policy. 247) ______

Answer: True False

248) The fact that economic generalizations are abstract renders them impractical and useless. 248) ______

Answer: True False

249) Macroeconomics explains the behaviour of individual households and business firms; microeconomics is concerned with the behaviour of aggregates or the economy as a whole. 249) ______

Answer: True False

250) Positive statements are expressions of value judgments. 250) ______

Answer: True False

251) Normative statements are expressions of facts. 251) ______

Answer: True False

252) Individuals face an economic problem but not the society. 252) ______

Answer: True False

253) The entrepreneur's sole function is to combine other resources (land, labour, and capital) in the production of some good or service. 253) ______

Answer: True ◦ False

254) Products and services are scarce because resources are scarce. 254) ______

Answer: ◦ True False

255) The process by which capital goods are accumulated is known as investment. 255) ______

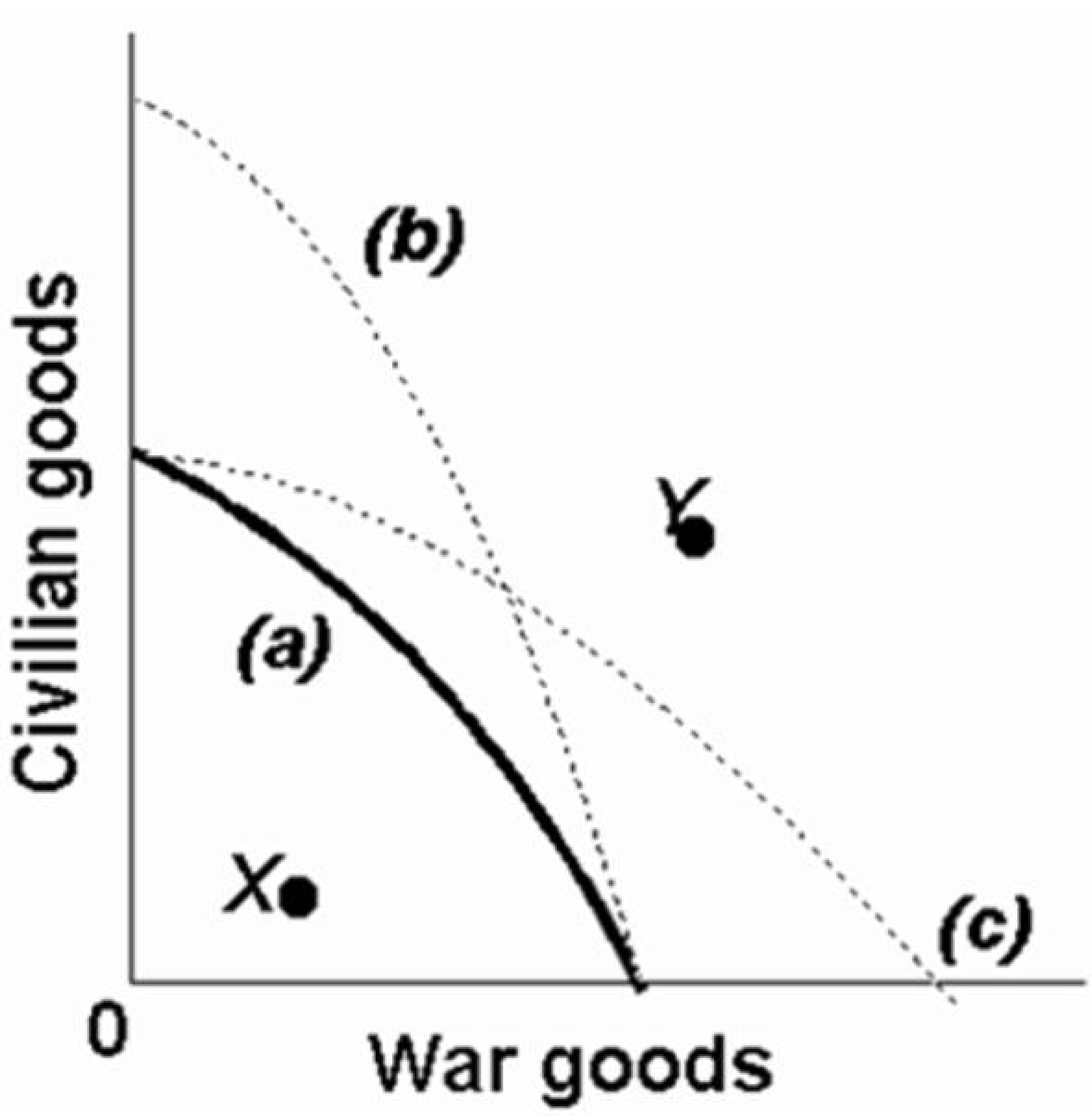
Answer: ◦ True False

256) The production possibilities curve shows various combinations of two products which an economy can produce when achieving full employment and productive efficiency. 256) ______

Answer: ◦ True False

257) An economy will always operate at some point on its production possibilities curve. 257) ______

Answer: True ◦ False



258) Refer to the above production possibilities curves. Given production possibilities curve (a), point Y indicates that society is failing to use available resources efficiently. 258) ______

Answer: True ◦ False

259) Refer to the above production possibilities curves. The movement from curve (a) to curve (b) implies an increase in the quantity and/or quality of society's productive resources. 259) ______

Answer: ◦ True False

260) Refer to the above production possibilities curves. Given production possibilities curve (a), the combination of civilian and war goods indicated by point X is unattainable to this economy. 260) ______

Answer: True ◦ False

261) An economy cannot produce at a point outside of its production possibilities curve because human material wants are insatiable. 261) ______

Answer: True False

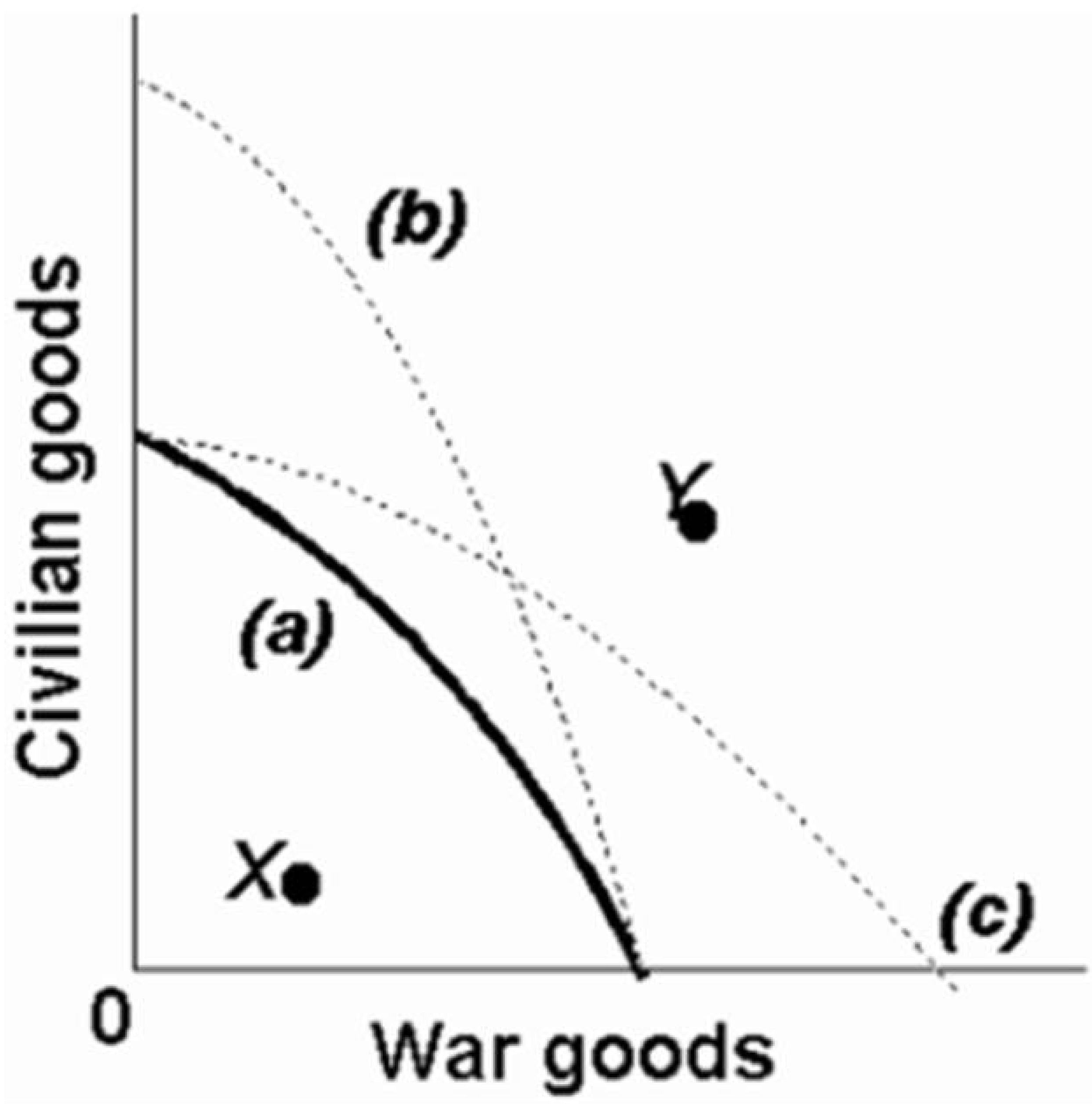
262) Although sleeping in on a work day or school day has an opportunity cost, sleeping late on the weekend does not. 262) ______

Answer: True False

263) Recessions are characterised by points that are not attainable on the production possibilities curve. 263) ______

Answer: True False

264) Refer to the production possibilities curves. The movement from curve (a) to curve (c) indicates an improvement in civilian goods technology but not in war goods technology. 264) ______



Answer: True False

265) The present choice of position on the production possibilities curve will not influence the future location of the curve. 265) ______

Answer: True False