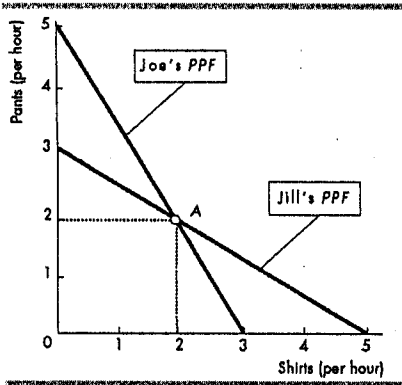


Multiple Choice Questions: (2.5 points each, 100 points total)



- 1) In the figure above, both Joe and Jill initially produce at point A. If Joe and Jill realize that they each possess a comparative advantage, which outcome can we expect?
 - A) Joe will specialize in shirts, and Jill will specialize in pants.
 - B) Joe and Jill each will be able to consume more than 2 shirts and 2 pairs of pants.
 - C) Joe will specialize in pants, and Jill will specialize in shirts.
 - D) Both answers B and C are true.

- 2) Dave can produce 10 pairs of shoes or 5 shirts each day. Judy can produce 9 pairs of shoes or 3 shirts each day. We can say that
 - A) Dave has an absolute advantage in the production of shoes and shirts.
 - B) Judy is not operating on her PPF.
 - C) Judy has an absolute advantage in the production of only shirts.
 - D) Dave has a comparative advantage in the production of shoes.

- 3) Once a country has a comparative advantage in the production of a good
 - A) other countries might be able to gain the comparative advantage in that good through a process called learning-by-doing.
 - B) the country loses its absolute advantage in the production of the good.
 - C) other countries can equal but not gain a comparative advantage in the production of the good.
 - D) None of the above answers are correct.

- 4) Every spring, motorists do more driving than during the winter months. Every spring, the price of gasoline increases and the motorists buy more gasoline. This experience suggests that
 - A) the law of supply does not always hold for necessities like gasoline.
 - B) the laws of supply and demand are both contradicted for gasoline, though only during the spring driving season.
 - C) the law of demand does not always hold for necessities like gasoline.
 - D) None of the above.

- 5) During the last decade, the price of a computer fell every year and the quantity sold increased every year. This experience suggests that

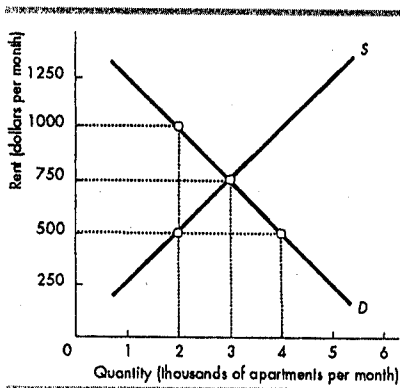
A) the law of demand was definitely contradicted.	B) the law of supply was definitely contradicted.
C) the supply curve shifted rightward.	D) the demand curve shifted rightward.

- 6) If the demand curve for tacos is a downward sloping straight line, at which of the following prices is the demand the most elastic?
 - A) A price of \$1.50 per taco.
 - B) A price of \$1.00 per taco.
 - C) There is not enough information given to determine at which price the demand is most elastic.
 - D) A price of \$0.50 per taco.

7) Which of the following can prevent markets from reaching efficiency?

- I. price ceiling
- II. increasing marginal cost
- III. monopoly

- A) I and II. B) I only. C) I and III. D) II and III.

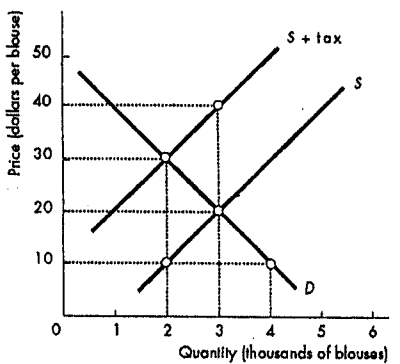


8) The above figure shows the apartment rental market in Bigtown. If there is a shortage of 200,000 apartments in the Bigtown rental market, it may be because the Bigtown Housing Authority has imposed

- A) a rent floor of \$500.00 monthly. B) a rent floor of \$750.00 monthly.
 C) a rent ceiling of \$750.00 monthly. D) a rent ceiling of \$500.00 monthly.

9) The above figure shows the apartment rental market in Bigtown. If the Bigtown Housing Authority imposes a rent ceiling of \$500.00 per apartment, the deadweight loss will be

- A) \$500,000.00 B) \$125,000.00 C) \$1,000,000.00 D) \$250,000.00

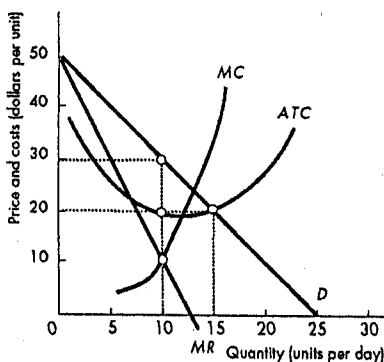


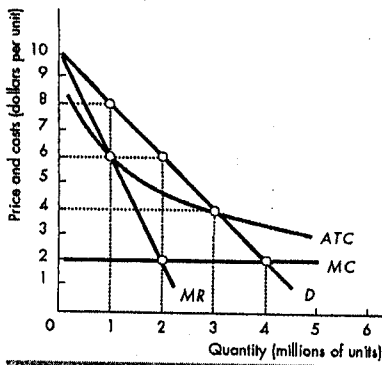
10) The above figure shows the market for blouses. The government decides to impose a sales tax on blouses. Using the figure, what is the tax per blouse?

- A) \$40 per blouse. B) \$20 per blouse. C) \$10 per blouse. D) \$30 per blouse.

11) The above figure shows the market for blouses. The government decides to impose a sales tax on blouses. Using the figure, how much tax revenue does the government raise?

- A) \$40,000. B) \$80,000. C) \$60,000. D) \$20,000.





- 21) The figure above shows the costs and demand curves for the Bigshow Cable Company. If the regulator of Bigshow Cable Company set its rate at \$4, the company would
- A) enjoy a producer surplus equal to \$18 million.
 - B) incur an economic loss of \$7 million.
 - C) earn a normal profit.
 - D) None of the above.
- 22) The figure above shows the costs and demand curves for the Bigshow Cable Company. If the firm is required to set its price according to the efficient rule, the price is _____ and the quantity produced is _____ million.
- A) \$6; 2
 - B) \$4; 2
 - C) \$4; 3
 - D) \$8; 1
- 23) Rate of return regulation, as currently applied to many public utilities,
- A) gives the firms an incentive to cut their costs as much as possible.
 - B) generally keeps their prices higher than if they were unregulated monopolists.
 - C) gives the firms an incentive to inflate their costs.
 - D) generally involves the use of price caps.

	Market basket quantity	1998 price	1999 price
CDs	10 discs	\$16 per disc	\$12 per disc
Gasoline	200 gallons	\$1.00 per gallon	\$1.25 per gallon

- 24) If 1998 is the base year, what is the price index for a market basket of goods for 1999 in the above table?
- A) 97.3.
 - B) 128.0.
 - C) 102.8.
 - D) Zero because the price of CDs fell and the price of gasoline increased.
- 25) The GDP deflator is
- A) the least used price index because it is so costly to calculate.
 - B) an index that measures real production.
 - C) an index used to calculate inflation at the wholesale level.
 - D) a measure of the average level of prices of all goods and services included in GDP.
- 26) Which of the following is TRUE regarding a chain-weighted output index?
- I. It is the method used to measure the growth rate of nominal GDP.
 - II. It uses data from the current year and from the previous year.
 - III. It is a method of measuring the growth rate of real GDP.
- A) I and III.
 - B) I and II.
 - C) I, II and III.
 - D) II and III.

- 27) Using the definition of unemployment, which of the following individuals would be unemployed?
- A) Because of the increased level of automobile imports, an employee of General Motors is laid off but expects to be called back to work soon.
 - B) Because of a reduction in the military budget, your next door neighbor loses her job in a plant where nuclear warheads are made and must look for a new job.
 - C) A full-time student quits school, enters the labor market for the first time, and searches for employment.
 - D) All of these individuals are unemployed.
- 28) Which of the following is TRUE regarding the labor force participation rate?
- I. The labor force participation rate has gradually trended higher over the last thirty years.
 - II. Discouraged workers can affect the labor force participation rate.
 - III. Adding the labor force participation rate plus the unemployment rate equals the employment-to-population ratio.
- A) I and II. B) II and III. C) I only. D) I and III.
- 29) Which of the following individuals is the best example of a structurally unemployed worker?
- A) A recent college graduate who has entered the labor force.
 - B) An individual who quits one job in the hope of finding a better job.
 - C) An automobile worker who has lost her job because of an increase in automobile imports and does not have the skills currently needed by businesses.
 - D) An individual who has been laid off from his job because of a business cycle recession.

Disposable income (billions of dollars)	Consumption expenditure (billions of dollars)
400	450
600	600
800	750
1000	900
1200	1050

- 30) Based upon the above table, if disposable income is \$400 billion, saving equals
- A) \$50 billion. B) \$0 billion. C) -\$50 billion. D) \$100 billion.
- 31) Based upon the above table, saving equals \$100 billion when disposable income equals
- A) \$1200 billion.
 - B) \$1000 billion.
 - C) some amount but we need more information to calculate the amount.
 - D) \$800 billion.
- 32) Based upon the above table, the MPC for the consumption function is
- A) constant at 0.75. B) increasing as income rises.
 - C) equal to 1.0 at \$600 billion. D) constant at 0.25.
- 33) If the MPC equals 0.75, then
- A) for every \$100 increase in disposable income, saving increases by \$25.
 - B) consumption expenditure is always more than disposable income.
 - C) for every \$100 increase in disposable income, saving increases by \$75.
 - D) for every \$100 increase in consumption expenditure, disposable income increases by \$75.
- 34) Suppose real GDP increases from \$4 trillion to \$5 trillion: As a result, consumption expenditure increases from \$4 trillion to \$4.75 trillion. This result implies the MPS equals
- A) 0.75.
 - B) 0.
 - C) 0.25.
 - D) some amount that cannot be determined without more information.

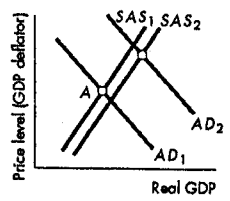


Figure A

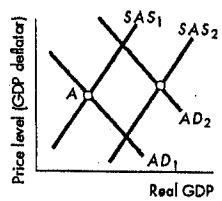
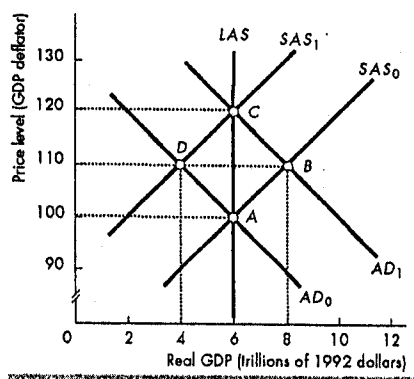


Figure B

- 35) In the above figure, which of the diagrams show the supply-side view rather than the traditional view of an income tax cut?
- A) Figure A. B) Figure B.
 C) Both figures show the supply-side view. D) Neither figure shows the supply-side view.
- 36) Which of the following is true?
- I. Checks are considered money because they can be used as a medium of exchange.
 II. Checks represent a transfer of money.
- A) I only. B) II only. C) Both I and II. D) Neither I nor II.
- 37) Credit cards
- A) are a part of M2 but not a part of M1.
 B) are not a part of the money supply because they are not a means of payment.
 C) are a part of the money supply because they are used to purchase goods and services.
 D) are a part of M1 but not of M2.
- 38) The opportunity cost of holding money refers to
- A) the interest that could have been earned if the money balances had been changed into an interest-bearing asset.
 B) the service fees charged to withdraw currency from an ATM.
 C) the price level.
 D) the pleasure that would have been received if the money balances had been used to buy a good or service.



- 39) In the above figure, suppose the economy is at point D. Which of the following occurs as a result of an open market purchase of bonds?
- A) an increase in investment. B) a decrease in interest rates.
 C) an increase in exports. D) All of the above occur.
- 40) In the above figure, suppose the economy was initially in an equilibrium at point A. In the very short run, where would the economy move if the Fed makes an open market purchase of bonds?
- A) A, that is, the economy would not change its equilibrium.
 B) C.
 C) D.
 D) B.