

1. The **fundamental economic problem** faced by all societies is:
 - a. unemployment
 - b. inequality
 - c. poverty
 - d. scarcity

2. "**Capitalism**" refers to:
 - a. the use of markets
 - b. government ownership of capital goods
 - c. private ownership of capital goods
 - d. private ownership of homes & cars

3. There are **three fundamental questions** every society must answer. Which of the following is/are one of these questions?
 - a. What goods and services are to be produced?
 - b. How are the goods and services to be produced?
 - c. Who will get the goods and services that are produced?
 - d. All of the above

4. If you were working full-time now, you could earn \$20,000 per year. Instead, you are working part-time while going to school. In your current part-time job, you earn \$5,000 per year. At your school, the annual cost of tuition, books, and other fees is \$2,000. The **opportunity cost** of completing your education is:
 - a. \$2,000
 - b. \$5,000
 - c. \$17,000
 - d. \$20,000
 - e. \$22,000

5. The bowed shape of the **production possibilities** curve illustrates:
 - a. the law of increasing marginal cost
 - b. that production is inefficient
 - c. that production is unattainable
 - d. the demand is relatively inelastic

6. You have taken this quiz and received a grade of 3 out of a possible 10 points (F). You are allowed to take a second version of this quiz. If you score 7 or more, you can raise your score to a 7 (C). You will need to study for the second version. In making a **rational decision** as to whether or not to retake the test, you should
 - a. always retake the quiz
 - b. consider only the marginal benefits from of retaking the quiz (four extra points)
 - c. consider only the marginal opportunity costs from taking the quiz (the time spent studying and taking the quiz)
 - d. consider both the marginal benefits and the marginal opportunity costs of retaking the quiz

7. The **law of demand** states that:
 - a. as the quantity demanded rises, the price rises
 - b. as the price rises, the quantity demanded rises
 - c. as the price rises, the quantity demanded falls
 - d. as supply rises, the demand rises

Please Turn Over

8. The **price elasticity of demand** is the:
- a. percentage change in quantity demanded divided by the percentage change in price
 - b. percentage change in price divided by the percentage change in quantity demanded
 - c. dollar change in quantity demanded divided by the dollar change in price
 - d. percentage change in quantity demanded divided by the percentage change in quantity supplied
9. Community Colleges desired to increase revenues. They decided to raise fees paid by students with Bachelors degrees to \$50 per unit because they believed this would result in greater revenues. But in reality, total revenues fell. Therefore, the demand for Community College courses by people with Bachelors degrees must have actually been:
- a. relatively inelastic
 - b. unit elastic
 - c. relatively elastic
 - d. perfectly elastic
10. The demand for a product would be **more inelastic**:
- a. the greater is the time under consideration
 - b. the greater is the number of substitutes available to buyers
 - c. the less expensive is the product in relation to incomes
 - d. all of the above

Answers: D C D C A D C A C C

1. In the case of agriculture,
 - a. the demand has shifted to the right more than the supply has shifted to the right
 - b. the demand has shifted to the right less than the supply has shifted to the right
 - c. the demand has shifted to the left more than the supply has shifted to the left
 - d. the demand has shifted to the left less than the supply has shifted to the left
2. The **agricultural price support program** is an example of
 - a. a price ceiling
 - b. a price floor
 - c. equilibrium pricing
3. If there is a **price floor**, there will be
 - a. shortages
 - b. surpluses
 - c. equilibrium
4. If there is a **price ceiling**, there will be
 - a. shortages
 - b. surpluses
 - c. equilibrium
5. If there is a price ceiling, which of the following is NOT likely to occur?
 - a. rationing by first-come, first-served
 - b. black markets
 - c. gray markets
 - d. sellers providing goods for free that were formerly not free
6. The goal of a pure market economy is to best meet the desires of
 - a. consumers
 - b. companies
 - c. workers
 - d. the government
7. In a pure market economy, which of the following is a **function of the price**?
 - I. provide information to sellers and buyers
 - II. provide incentives to sellers and buyers
 - a. I only
 - b. II only
 - c. both I and II
 - d. neither I nor II
8. In a market system, sellers act in _____ interest , but this leads to behaviors in _____ interest.
 - a. self; self
 - b. self; society's
 - c. society's; society's
 - d. society's; self
9. The **law of diminishing (marginal) returns** states that as more of a variable factor is added to a certain amount of a fixed factor, beyond some point:
 - a. Total physical product begins to fall
 - b. The marginal physical product rises
 - c. The marginal physical product falls
 - d. The average physical product falls
10. Why is the law of diminishing marginal returns true?
 - a. specialization and division of labor
 - b. spreading the average fixed cost
 - c. limited capital
 - d. all factors being variable in the long-run

Answers: B B B A D A C B C C

1. Which of the following is a characteristic of pure **monopoly**?
 - a. one seller of the product
 - b. low barriers to entry
 - c. close substitute products
 - d. perfect information

2. In pure monopoly, what is the relation between **the price and the marginal revenue**?
 - a. the price is greater than the marginal revenue
 - b. the price is less than the marginal revenue
 - c. there is no relation
 - d. they are equal

3. In order to maximize profits, a monopoly company will produce that quantity at which the:
 - a. marginal revenue equals average total cost
 - b. price equals marginal revenue
 - c. marginal revenue equals marginal cost
 - d. total revenue equals total cost

4.

Quantity	Price	Total Cost
1	\$100	\$ 60
2	95	130
3	90	210
4	85	300
5	80	400

This **monopolist** should produce:

 - a. 1
 - b. 2
 - c. 3
 - d. 4
 - e. 5

5. Compared to the case of perfect competition, a monopolist is more likely to:
 - a. charge a higher price
 - b. produce a lower quantity of the product
 - c. make a greater amount of economic profit
 - d. all of the above

6. Which of the following is necessary for a **natural monopoly**?
 - a. economies of scale
 - b. a high proportion of the total cost is the cost of capital goods
 - c. the market is very small
 - d. all of the above

7. Which of the following is true about the way by which SDG&E has been regulated by the PUC?
 - a. SDG&E has been allowed to earn very high economic profits
 - b. The profits of SDG&E are calculated as a percent of the value of the capital goods
 - c. When the demand for electricity would fall, the price of electricity would also fall
 - d. All of the above

8. Which of the following best defines **price discrimination**?
 - a. charging different prices on the basis of race
 - b. charging different prices for goods with different costs of production
 - c. charging different prices based on cost-of-service differences
 - d. selling a certain product of given quality and cost per unit at different prices to different buyers

9. In order to practice **price discrimination**, which of the following is needed?
 - a. some degree of monopoly power
 - b. an ability to separate the market
 - c. an ability to prevent reselling
 - d. all of the above

10. In **price discrimination**, which section of the market is charged the higher price?
 - a. the section with the richest people
 - b. the section with the oldest people
 - c. the section with the most inelastic demand
 - d. the section with the most elastic demand

Answers: A A C C D D B D D C

1. Which of the following concepts represents the extra revenue a firm receives from the services of an additional unit of a factor of production?

- a. total revenue c. marginal revenue product
b. marginal physical product d. marginal revenue

2. Workers Quantity Produced

1	15
2	28
3	39
4	48
5	55
6	60

This company is a profit-maximizing firm selling in a competitive product market and hiring in a competitive labor market. It uses semi-skilled labor to produce dampers used in office building ventilation systems. Assume that the current market price per damper is \$50 and that the prevailing weekly salary per semi-skilled worker is \$550. This company should employ _____ workers.

- a. 2 b. 3 c. 4 d. 5 e. 6

1. The **demand for labor** is the same as the

- a. marginal revenue product c. marginal cost
b. marginal physical product d. wage

2. The demand for labor slopes down and to the right because of

- a. the law of demand c. the law of diminishing marginal returns
b. the iron law of wages d. economies of scale

5. The demand for labor will be **more elastic** if:

- a. there are few substitutes for labor
b. there is a short time under consideration
c. labor is a large percent of the total cost of production
d. the demand for the product is relatively inelastic
e. all of the above

6. Skills that **can** be transferred to other employers are called:

- a. general skills c. non-pecuniary skills
b. specific skills d. all of the above

7. Which skills are most likely to be paid for by the **employer**?

- a. General skills b. Specific skills c. Educational skills

8. If worker A earns more in wages than worker B, it could be because:

- a. The product made by worker A sells for a higher price than that made by worker B
b. Worker A uses more capital per worker than worker B
c. Worker A has more natural ability than worker B
d. All of the above

9. Skills that embodied in a person are called

- a. Human capital b. Embodied skills c. Physical capital d. Experience skills

10. "**Treating an individual as typical of a group**" is the definition of

- a. pure discrimination b. statistical discrimination c. human capital d. specific skills

Answers: C B A C C A B D A B

1. If there are 50 firms in a industry, each selling 2% of the total sales, the **concentration ratio** is:
a. 50% b. 2% c. 100% d. 8%
2. When Daimler Benz, maker of the Mercedes, bought Chrysler, the merger was
a. horizontal b. vertical c. conglomerate

Questions 3 through 10 involve the functions of the government in a world of laissez faire. The functions are the following:

- A. Create and Enforce the "Rules"
- B. Promote or Maintain Competition
- C. Provide Information
- D. Provide Public Goods
- E. Reduce Negative Externalities (External Costs) through regulations or through taxes
- F. Subsidize Positive Externalities (External Benefits)
- G. Provide Merit Goods
- H. Redistribute Income on the Basis of Need

For each of the following, choose the letter that best describes the function of government.

3. The government provides anti-trust laws.
4. The government subsidizes the building of new stadiums and arenas.
5. The government provides for military defense.
6. The government has a program of social security to provide a pension for the elderly.
7. The government requires that all gasoline stations post their prices in signs large enough to be seen by a reasonable person from the street.
8. The government requires people to have a smog control device in their cars.
9. The government makes the beach free for everyone
10. The government makes laws that determine certain behaviors that a corporation must engage in and other behaviors that a corporation cannot engage in.

Answers: D A B F D H C E G A

1. The largest source of tax revenue for the **federal government** is:
 - a. the personal income tax
 - b. the social security tax
 - c. the property tax
 - d. the sales tax
2. When my income was \$100,000, I paid \$10,000 in taxes. When my income became \$200,000, I paid \$40,000 in taxes. My **marginal tax rate** is:
 - a. 10%
 - b. 20%
 - c. 30%
 - d. 40%
3. The tax in question #2 is:
 - a. progressive
 - b. regressive
 - c. proportional
4. Which of the following taxes is **regressive**?
 - a. the federal income tax
 - b. the state income tax
 - c. the sales tax
 - d. the Medicare tax
5. Assume that there are two goods, A and B. In 1996, Americans produced 10 units of A at a price of \$10 and 20 units of B at a price of \$20. In 2002, Americans produced 20 units of A at a price of \$20 and 30 units of B at a price of \$30. The **Nominal GDP** for 2002 is:
 - a. \$100
 - b. \$400
 - c. \$500
 - d. \$900
 - e. \$1300
6. Using the numbers in question 5, the **Real GDP** for 2002 is:
 - a. \$400
 - b. \$500
 - c. \$800
 - d. \$900
 - e. \$1,300
7. Which of the following statements is/are true?
 - a. **Business Investment Spending** occurs when individuals buy stock in the stock market
 - b. **Productivity** in the United States grew very slowly between 1973 and 1996
 - c. Because of **discouraged workers**, the official unemployment rate is too high
 - d. "**Full employment**" occurs when there is no frictional unemployment
8. Immediately **after a trough**, we would expect to have a/an
 - a. peak
 - b. recession
 - c. recovery
 - d. another trough
9. Last week, Martha spent one day cleaning a house. For this, she was paid \$50. The rest of the week, she spent looking for a job. Martha would be classified as
 - a. employed
 - b. unemployed
 - c. not in the labor force
10. John lost his accounting job when Montgomery Wards closed its stores in San Diego. He looked for a similar job for ten months before finding an accounting job at Sears. During the month John was unemployed, he was
 - a. frictionally unemployed
 - b. seasonally unemployed
 - c. cyclically unemployed
 - d. structurally unemployed

Answers: A C A C E C B C A D

Economics 100 Makeup for Quiz 6

1. Define average tax rate:

Define marginal tax rate

2. Define progressive tax

Define regressive tax

Define proportional tax

3. Define indexation

4. Define Nominal Gross Domestic Product (GDP)

Define Real Gross Domestic Product (GDP)

5. Define business investment spending

6. Briefly explain how the official unemployment rate is calculated.

7. Define frictional unemployment

Define cyclical unemployment

Define structural unemployment

Define “full employment”

1. Assume that there are only two goods: A and B

In the base year,	Quantity	Price
A	10	\$1
B	10	\$4
In the current year,	Quantity	Price
A	20	\$5
B	25	\$20

The **Consumer Price Index (CPI)** for the current year is:

- a. 50 b. 100 c. 200 d. 500 e. 600
2. Which of the following groups is **most** hurt by unexpected inflation?
- workers with cost of living adjustments in their labor contracts
 - homeowners
 - people with large debts to pay for their homes and cars
 - people with large retirement savings held in savings accounts
3. If the nominal interest rate is 5% and the inflation rate is 2%, the **real interest rate** is:
- 2% b. 3% c. 5% d. 7% e. 2 ½%
4. For which of the following reasons might inflation cause **Real GDP to grow slower** than it otherwise would?
- Inflation makes everyone poorer
 - Inflation reduces the value of consumer debt
 - Inflation increases business investment spending
 - Inflation decreases savings in financial form
5. **Disposable Income** is equal to:
- National Income
 - Real GDP
 - National Income Minus Taxes
 - National Income Minus Taxes Plus Transfers
6. Assume that Potential Real GDP equals \$10,000. National Income is therefore \$10,000. Of this, consumers will pay \$2,000 in taxes, save \$1,000, and spend \$7,000 on consumer goods. Business Investment spending is \$2000. In order to avoid recessions and inflation (to have equilibrium), the government should have a:
- balanced budget
 - budget deficit of \$1000
 - budget surplus of \$1000
 - budget deficit of \$2000
7. According to **Keynes**, when the Great Depression started, the government should have:
- done nothing
 - decreased the money supply
 - had a large increase in government spending
 - enacted high tariffs, such as the Smoot-Hawley Tariff
8. If the government lowers taxes by \$10 billion, the Real GDP will rise by
- more than \$10 billion
 - less than \$10 billion
 - exactly \$10 billion
9. Which of the following is an **automatic stabilizer**?
- unemployment benefits
 - spending on education
 - defense spending
 - net interest
10. **“Crowding out”** means that
- a government budget deficit lowers interest rates and causes investment spending to rise
 - an increase in marginal tax rates lowers production
 - a government budget deficit raises interest rates and causes investment spending to fall
 - a government budget deficit raises American exports and lowers American imports

Answers: D D B D D C C A A C

Economics 100 Quiz 8

1. Which of the following IS a **function of money**?
a. medium of exchange b. store of value c. unit of accounting d. all of the above
2. Which of the following **is** a component of **M-1**?
a. savings deposits b. credit card c. checkable deposits d. gold
3. Which of the following is a **NOT** component of **M-2**?
a. small time deposits c. stocks
b. money market mutual funds d. checkable deposits
4. Which of the following is true about the **Federal Reserve System (Fed)**?
a. it is a system of 12 central banks
b. its Board of Governors is elected by a vote of the people
c. its main policy-making body is the FDIC
d. it accepts deposits from the public and makes loans to businesses
e. all of the above
5. An **IOU of the Federal Reserve Bank of San Francisco to Bank of America** is called:
a. discounts b. federal funds c. reserves d. collateral
6. Which of the following is the most **liquid**?
a. a savings account c. a home
b. a 6 month CD d. water
7. The **monetary base** is composed of:
a. gold and silver c. currency and reserves
b. currency only d. currency and checkable deposits
8. If the monetary base is increased by \$1,000 and the reserve requirement is 10% (1/10), by how much will the money supply be increased?
a. \$100 b. \$1,000 c. \$5,000 d. \$10,000
9. If the Federal Reserve wishes to **increase** the money supply, it should:
a. raise the reserve requirement c. buy Treasury securities in the open market
b. raise the discount rate d. all of the above
10. An increase in the money supply will cause interest rates to
a. rise b. fall c. remain unchanged

Answers: D C C A C A C D C B