

**1. An individual decides to pay \$8 to see a movie instead of buying an \$8 meal. What is the opportunity cost of the movie?**

- A. the satisfaction missed by not eating the meal
- B. the \$8 paid to see the movie
- C. the time spent watching the movie
- D. the satisfaction received by going to the movie

**3. The idea that producers make goods that consumers like and are willing to pay for is a principle of which of the following economic systems?**

- A. traditional
- B. command
- C. market
- D. socialism

**2. Armand is a skilled carpenter who lives in Minnesota. He builds homes from April to November. Which of the following has the greatest impact on why Armand's company shuts down for the winter?**

- A. economic slowdown from December to March
- B. extreme weather conditions
- C. cost of building materials
- D. shortage of labor

**4. What basic economic problem do both higher-income nations and lower-income nations have in common?**

- A. too many unskilled laborers
- B. lack of capital goods
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**7. In which economic system does the government own the means of production?**

- A. traditional
- B. mixed
- C. market
- D. command

**6. Country X is currently investing heavily in research and development (R&D), mainly in the areas of information and communications technologies. All of the following are predictable results of these investments EXCEPT**

- A. future economic growth
- B. future increases in labor productivity
- C. the creation of labor-intensive industries
- D. the creation of advanced capital goods

**8. A market economy has an advantage over a traditional economy in that the market economy**

- A. controls prices and wages
- B. fixes incomes of consumers
- C. limits the profits of large corporations
- D. adjusts to consumer demands over time

**9. The payments for land, labor, capital, and entrepreneurial ability respectively are**

- A. rent, profit, wages, and interest
- B. profits, wages, interest, and rent
- C. rent, wages, interest, and profit
- D. wages, rent, profit, and interest

**11. Which form of business organization is easiest to organize but is LEAST able to benefit from specialization?**

- A. sole proprietorship
- B. partnership
- C. limited partnership
- D. corporation

**10. When economists refer to “demand,” they mean which of the following?**

- A. how much satisfaction buyers receive from a purchase
- B. how much consumers will purchase at different prices
- C. how much sellers will supply at a particular price
- D. how much people want the product if it is free

**12. What is the unit of study in microeconomics?**

- A. individual businesses and households
- B. inflation and recession
- C. national consumption and expenditures
- D. imports and exports

**13. Kim works on an automobile assembly line. Kim's job illustrates a production process that relies on**

- A. autonomous work groups
- B. team decision making
- C. quality circles
- D. division of labor

**15. The minimum wage is a type of**

- A. price floor
- B. comparable worth
- C. price ceiling
- D. marginal price

**14. What would you conclude about an economy characterized by increasing real gross domestic product (GDP), low unemployment, and increasing inflationary pressures?**

- A. This economy is in a slowdown.
- B. The government needs to address the unemployment problem.
- C. This economy is in the expansion phase of a business cycle.
- D. The Federal Reserve should expand the money supply.

**16. Prices act as signals in the market because**

- A. prices indicate to sellers the types of goods and services to offer for sale
- B. prices can determine dividends for businesses
- C. high prices for goods and services signal a healthy economy
- D. entrepreneurs become motivated as prices rise

**17. Which of the following is MOST important for economic growth?**

- A. efficient use of resources
- B. ample tax revenues
- C. availability of resources
- D. a large labor force

**19. Which of these is MOST likely to lead to inflation?**

- A. an increase in the costs of production
- B. reduced prices for goods and services
- C. an increase in the aggregate supply of goods and services
- D. the application of price ceilings

**21. Which of the following is MOST likely to cause wages to increase for United States workers?**

- A. an increase in interest rates
- B. an increase in the value of the dollar
- C. an increase in worker productivity
- D. an increase in retirement rate among United States workers

**18. Which of the following is primarily responsible for the control of the money supply?**

- A. the United States Treasury
- B. the Federal Reserve System
- C. the Federal Deposit Insurance Corporation
- D. the Comptroller of the Currency

**20. When the U.S. government purchases a submarine from a company, the government has made a major transaction in the**

- A. factor market
- B. public market
- C. product market
- D. foreign exchange market

**22. Which of the following is an example of an investment in human capital?**

- A. A company builds a new factory.
- B. A state puts in a new highway.
- C. A person goes to college.
- D. A country builds new schools.

**24. The Federal Reserve System conducts its business directly with**

- A. the government and banks
- B. stock markets and bond markets
- C. individuals and firms
- D. product markets and factor markets

**25. When the value of money was based on its silver content, new discoveries of silver were frequently followed by periods of**

- A. recession
- B. recovery
- C. shortage
- D. inflation

**23. Firm X has developed a new mechanical device and has patented all of the key components used in its production. As the sole producer of this device, Firm X is a**

- A. geographic monopoly
- B. natural monopoly
- C. technological monopoly
- D. government monopoly

**26. In the U.S., how are public goods paid for?**

- A. Private firms collect fees from their employees.
- B. Non-profit organizations collect charitable donations from people.
- C. The government collects tax revenues from individuals and firms.
- D. Corporations make profits from selling goods and services.

**27. A tariff can BEST be described as which of the following?**

- A. a tax on an imported good
- B. a limit on the amount of imports
- C. government payments to domestic producers to help them compete in world markets
- D. a law that sets a limit on the amount of a good that can be imported

**29. Countries X and Y will NOT trade shoes and wheat if which of the following is true?**

- A. Country X can produce more shoes and wheat than can country Y.
- B. Country Y can produce enough shoes and wheat to satisfy the demand of its public.
- C. The opportunity costs of producing shoes and wheat are the same in both countries.
- D. The opportunity cost of producing shoes is greater in country X than it is in country Y

**28. What is the primary purpose of the North American Free Trade Agreement (NAFTA)?**

- A. to reduce trade barriers among the United States, Canada, and Mexico
- B. to decrease quotas but increase tariffs among the member countries
- C. to establish trade policy between the member countries and the rest of the world
- D. to counter the establishment of the European Union

**30. Higher demand for U.S. exports will typically result in**

- A. an increase in the international value of the dollar
- B. an increase in the international value of foreign currencies
- C. an increase in the trade deficit of the United States
- D. an increase in the price of foreign-produced goods in U.S. markets

**31. The BEST example of structural unemployment in an economy is someone**

- A. between jobs or entering the work force
- B. out of work due to a change in the business cycle
- C. out of work due to a seasonal downturn in business
- D. whose job skills do not match the economy's needs

**33. In which market structure does a firm have greatest control over its product's price?**

- A. perfect competition
- B. monopoly
- C. oligopoly
- D. monopolistic competition

**32. Which of the following is true about a shareholder in a corporation?**

- A. A shareholder is part owner of that business.
- B. A shareholder may not share in the earnings of that corporation.
- C. A shareholder may not transfer his share to another party without permission.
- D. A shareholder is liable for any debts accumulated by that corporation.

**34. Interdependence and price leadership are characteristics of firms in what kind of market structure?**

- A. monopoly
- B. oligopoly
- C. monopolistic competition
- D. perfect competition



**35. Amanda decided to open a carpet cleaning business. She hired ten employees, rented a small commercial office with storage, and took out a business loan to buy three vans and carpet cleaning equipment. Two of Amanda's employees ordered supplies and processed the paperwork; one employee was responsible for marketing and the rest actually cleaned carpets. After one year, Amanda's Carpet Cleaning cleared \$40,000 after expenses. Which of the following BEST represents capital investment?**

- A. renting commercial office space
- B. marketing the business
- C. purchasing carpet cleaning equipment
- D. hiring ten employees

**37. The BEST example of a progressive tax in the United States is**

- A. the federal excise tax on gasoline
- B. the Social Security tax
- C. the federal personal income tax
- D. state sales taxes

**36. Sharon decided to open a dry-cleaning business. She borrowed some money from her sister and took a loan from a bank. She hired one helper. What is a disadvantage of Sharon's business as described?**

- A. no separation of ownership and control
- B. ease of organizing the firm
- C. unlimited liability
- D. double taxation

**38. Brandon had \$5,000 in his saving account when his bank declared bankruptcy. Which of the following is true?**

- A. Brandon's savings will be transferred to an Individual Retirement Account.
- B. Some of Brandon's savings will be returned to him after the bank's assets are sold off.
- C. Brandon's savings will be lost due to the bankruptcy.
- D. Brandon's savings will be protected by the FDIC.

**39. People against raising the minimum wage argue that when a legal minimum wage is established above the equilibrium wage in the labor market**

- A. there will be an increase in unemployment
- B. the quantity of labor demanded by firms will increase
- C. the quantity of labor supplied will decrease
- D. employers will have an incentive to use more labor and less capital

**41. Which of the following is an attempt by a firm to increase the demand for its product?**

- A. the imposition of a price ceiling on the product
- B. an advertising strategy designed to change consumer tastes and preferences
- C. a marketing strategy to make the good scarce and therefore more expensive
- D. a production strategy to flood the market with the good or service

**40. The MOST important factor affecting consumer spending is**

- A. the level of current consumer debt
- B. the amount of assets held by consumers such as homes, cars, stocks, or bonds
- C. the expectations of consumers of what the economy will be in the future
- D. the level of current consumer income

**42. Eric received a \$2,000 bonus from his employer. He deposited the entire amount in a one-year certificate of deposit with a simple interest rate of 5%. When the CD matured, how much interest had Eric earned?**

- A. \$10
- B. \$20
- C. \$50
- D. \$100