

True/False – one point each

- T** 1. The most fundamental economic issue is scarcity.
- F** 2. Economics is the study of ways that people can earn more income.
- F** 3. Decisions are best when the decision maker focuses on average benefits and average costs.
- T** 4. Markets are where sellers and buyers interact in an effort to make themselves better off.
- F** 5. Supply is the quantity of a product produced within a specific time period.
- F** 6. Opportunity cost is what we pay for a good minus any coupons or rebates.
- F** 7. A comparative advantage is held by a producer who has the lowest monetary costs to produce a good.
- T** 8. The marginal benefit curve of consuming your favorite good eventually declines as consumption increases.
- T** 9. Increases in income tend to increase our consumption of many but not all goods.
- T** 10. The reduction in the price of automobiles would be expected to increase the number of automobiles purchased.
- T** 11. Demand is a schedule of quantities that consumers will choose at various prices.
- F** 12. Consumers have no impact on the prices they pay for goods at Wal-Mart or other retail stores.
- F** 13. If the price of computers increases, the price of software will also increase, ceteris paribus.
- T** 14. The elasticity of demand is important to sellers but determined by buyers.
- T** 15. The market equilibrium occurs where demand intersects supply.
- F** 16. The increase in plywood prices has reduced our demand for new homes.
- T** 17. We face tradeoffs and must give something up to acquire something else.
- T** 18. An increase in the price of cigarettes makes them a less attractive alternative.
- F** 19. A reduction in the price of soft drinks increases the demand for soft drinks.
- T** 20. Opportunity cost includes both benefits and costs of the foregone alternative.
- T** 21. A supply curve is the lowest opportunity cost facing sellers in terms of prices and quantities made available for sale.
- F** 22. More firms making cloth and clothing will raise the price of clothing.
- T** 23. Prices are measures of relative value as well as signals to potential buyers and sellers.
- F** 24. If I stand up at a football game I can see better, so everyone can see better if we all stand up.
- F** 25. My decision to purchase a coat depends on how many coats are available in Columbia.
- T** 26. Prices indicate scarcity.
- F** 27. A production possibilities frontier will immediately shift outward if demand increases for the two products.
- F** 28. A point under or within the production possibilities curve indicates available resources are fully utilized.
- F** 29. Opportunity cost is only relevant for business decisions.
- F** 30. Outputs are used to produce inputs.

Matching – one point each

<u>S</u>	31.	Demand	A.	Where exchange occurs
<u>G</u>	32.	Scarcity	B.	What could be produced
<u>D</u>	33.	Resource	C.	Rise ÷ Run
<u>H</u>	34.	Capital	D.	Used to produce other goods
<u>E</u>	35.	Opportunity cost	E.	Best foregone alternative
<u>B</u>	36.	Production possibilities	F.	Decision analysis
<u>I</u>	37.	Productivity	G.	Resources < wants
<u>J</u>	38.	Ceteris paribus	H.	Input
<u>T</u>	39.	Scale	I.	Output per input
<u>C</u>	40.	Slope	J.	All else equal
<u>F</u>	41.	Economics	K.	Replacement good
<u>R</u>	42.	Supply	L.	Price times quantity demanded
<u>Q</u>	43.	Equilibrium	M.	Edge or where change occurs
<u>P</u>	44.	Elasticity	N.	Value to an individual
<u>O</u>	45.	Price	O.	Measure of scarcity
<u>N</u>	46.	Utility	P.	Responsiveness
<u>M</u>	47.	Margin	Q.	Current P&Q in market
<u>L</u>	48.	Total revenue	R.	Willingness and ability to sell
<u>K</u>	49.	Substitute	S.	Buyers price-quantity relationship
<u>A</u>	50.	Market	T.	A relative level of measurement

Multiple choice – two points each

- B 51. Consider the market for bread. If the price of wheat rises, then the
- demand curve for bread shifts leftward
 - supply curve of bread shifts leftward
 - price of bread falls
 - equilibrium quantity of bread increases
 - demand curve for bread shifts rightward
- A 52. Consider the market for wheat. If there is an improvement in harvesting technology,
- the supply curve for wheat shifts rightward
 - the demand curve for wheat shifts rightward
 - the equilibrium price rises
 - the demand curve for wheat shifts leftward
- A 53. If producers believe the price of leather shoes will decrease next year, today
- the supply curve for leather shoes shifts rightward
 - the supply curve for leather shoes shifts leftward
 - there is a movement along the supply curve for leather shoes
 - the equilibrium price of leather shoes rises
 - the equilibrium quantity of leather shoes falls

- B 54. In the market for peanut butter, if there is an increase in the price of bread (a complement for peanut butter) along with a drought in peanut growing areas, the
- a.) equilibrium quantity of bread increases
 - b.) equilibrium quantity of peanut butter definitely decreases**
 - c.) equilibrium quantity of peanut butter might increase or might decrease
 - d.) equilibrium price of peanut butter definitely rises
 - e.) equilibrium price of peanut butter definitely falls
- B 55. The price elasticity of demand is a measure of
- a.) the equilibrium price of a product
 - b.) buyers' responsiveness to change in the price of a product**
 - c.) the amount of a product purchased when income increases
 - d.) whether a product is a substitute or a complement
 - e.) how much a change in demand affects the equilibrium price
- A 56. When the percentage change in the quantity demanded is less than the percentage change in price, then demand is
- a.) inelastic**
 - b.) unit elastic
 - c.) elastic
 - d.) irrelevant
 - e.) undefined
- B 57. The price elasticity of demand for wheat is less than one. If a drought caused the supply curve for wheat to shift leftward, then
- a.) wheat farmers' total revenue will decrease
 - b.) wheat farmers' total revenue will increase**
 - c.) wheat farmers' total revenue will not change
 - d.) the demand curve for wheat also will shift leftward
 - e.) all of the above
- B 58. If the demand for insulin is inelastic, an increase in insulin prices leads to
- a.) less total revenue for insulin makers
 - b.) more total revenue for insulin makers**
 - c.) no change in total revenue for insulin makers
 - d.) first a decrease, then an increase in total revenue for insulin makers
 - e.) none of the above
- B 59. If the price elasticity of demand for gasoline equals 0.3, then an increase in the price of a gallon of gasoline from \$3.10 to \$3.30
- a.) decreases total revenue
 - b.) increases total revenue**
 - c.) leads to no change in total revenue
 - d.) makes the demand for gasoline elastic
 - e.) both answers b and d are correct