

Economics Practice Test

True/False

Decide whether the sentence or statement is true or false.

1. In terms of number, most firms are corporations.
A) True
B) False
2. Pollution is an example of an externality benefit.
A) True
B) False
3. Increased regulation of air pollution has decreased the cost of producing in the United States.
A) True
B) False
4. Most air pollution is in lower developed countries which do not have pollution control laws.
A) True
B) False
5. The United States has its largest trade deficit with Japan.
A) True
B) False
6. The Law of Demand states that as an individual's income rises, the individual will buy more.
A) True
B) False
7. In competitive market structures, economic profits are always greater than zero in the long run.
A) True
B) False
8. Corporations have limited liability advantages over other legal forms of business.
A) True
B) False
9. A government set price ceiling below market prices will create a shortage.
A) True
B) False
10. A higher price indicates to buyers that the product is relatively scarcer.
A) True
B) False

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

11. What happens when there are excessive increases in the money supply?

- A) deflation
- B) inflation
- C) stable prices
- D) an increase in the value of the dollar

12. In the short run, purely competitive firms will maximize profits where:

- A) $AFC=AVC$
- B) $ATC=AVC$
- C) $MC=MR$
- D) $AFC=ATC$

13. Consumers expect a surplus for a product to develop in a market. What is the likely effect on consumers' demand for this product today?

- A) Decrease
- B) Stay the same
- C) Fluctuate
- D) Increase

14. A supply increase will

- A) increase equilibrium price.
- B) decrease equilibrium price.
- C) decrease equilibrium quantity.
- D) decrease demand.

15. If the demand for a product is low and the supply is high, the price will soon be

- A) lower.
- B) higher.
- C) unaffected.
- D) double the amount.

16. If the dollar loses value in comparison to other world currencies, this will cause which one of the following?

- A) the demand for the dollar to decline and encourage investment in the U. S. economy
- B) the demand for the dollar to increase and encourage investment in the U. S. economy
- C) the demand for the dollar to increase and discourage investment in the U. S. economy
- D) the demand for the dollar to decline and discourage investment in the U. S. economy

17. The biggest portion of local government spending is:

- A) education
- B) prisons
- C) airports
- D) highways

18. Expansionary fiscal policy will likely cause a

- A) budget surplus.
- B) balanced budget.
- C) budget deficit.
- D) trade surplus.

19. Normal profits are

- A) a payment that covers the opportunity cost of entrepreneurship.
- B) unnecessary payments to entrepreneurs.
- C) equal to zero in the long run.
- D) a rent extracted from workers.

20. The purpose of a strike is to

- A) inconvenience people.
- B) stop production.
- C) unify consumers
- D) hire more workers.

21. If the price of plastic used to make printers decreases, this will cause a(n):

- A) increase in the supply of printers
- B) decrease in the demand for printers
- C) increase in the demand for printers
- D) decrease in the supply of printers

22. A monopoly price is:

- A) lower than a competitive price and is where average cost equals price
- B) the highest price possible
- C) equal to the competitive price
- D) higher than a competitive price and is where marginal revenue equals marginal cost

23. The Federal Government collects most of its tax revenue from

- A) corporate income tax.
- B) excise tax.
- C) payroll tax.
- D) personal income tax.

24. The Federal Government's biggest expenditure is on

- A) pensions and income security.
- B) health.
- C) interest on the debt.
- D) national defense.

25. Local Government collects most of its tax revenue from

- A) state income taxes.
- B) sales taxes.
- C) estate taxes.
- D) property taxes.

26. State Government collects most of its tax revenue from

- A) state income tax.
- B) estate tax.
- C) property tax.
- D) sales tax.

27. A federal deficit will have what effect on the national debt?

- A) Decrease it
- B) Have no effect
- C) Increase it
- D) Cause it to fluctuate

28. What is the most true statement about poverty?

- A) People below the poverty level are lazy.
- B) It is a relative term.
- C) Poverty is the same all over.
- D) People can always climb out of poverty through hard work.

29. Which one of the following is the best example of a factor of production?

- A) a sports car
- B) a cheeseburger
- C) a hammer
- D) a college textbook

30. A rightward shift of the demand curve for some product Q might be caused by:

- A) a decrease in the price of a product that is a complement good to product Q
- B) a decrease in income if Q is a normal good
- C) a decrease in the price of a product that is a close substitute good to product Q
- D) an increase in income if product Q is an inferior good

31. Fiscal policy tools include:

- A) changing the level of taxes only
- B) changing the level of government spending only
- C) changing the rate of growth in the money supply
- D) changing the levels of taxes and government spending

32. A government subsidy to producers of a product:

- A) increases product demand
- B) increases product supply
- C) reduces product demand
- D) reduces product supply

33. An unusually large crop of corn might:

- A) increase the price of wheat
- B) increase the supply of corn
- C) decrease the supply of corn
- D) decrease the amount of corn consumed

34. The United States' four largest trading partners are:

- A) Canada, China, Japan, and Mexico.
- B) Canada, China, Saudi Arabia, and Korea.
- C) Canada, Italy, Germany, and France.
- D) Canada, China, Germany, and Japan.

35. Trade barriers will

- A) provide more goods and services for consumers.
- B) increase domestic efficiency.
- C) decrease world prices for products.
- D) increase domestic prices.

36. The Law of Supply says the following about price and quantity:

- A) when price increases, quantity supplied increases.
- B) when price increases, quantity supplied decreases.
- C) when price increases, quantity supplied stays the same.
- D) when price decreases, quantity supplied increases.

37. Suppose two countries trade. Country A produces wheat and trades with Country B for corn. What is the likely outcome?

- A) Both countries gain
- B) Country A gains, country B loses
- C) Country A loses, country B gains
- D) Both countries lose

38. A lower price most likely indicates

- A) more scarcity.
- B) less scarcity.
- C) no scarcity.
- D) a shortage.

39. When supply decreases, the equilibrium price and quantity will

- A) increase in price, decrease in quantity.
- B) decrease in price, increase in quantity.
- C) both increase.
- D) both decrease.

40. A supply increase will

- A) increase equilibrium price.
- B) decrease equilibrium price.
- C) decrease equilibrium quantity.
- D) decrease demand.

41. Most union members work in

- A) service industries.
- B) manufacturing.
- C) retail industries.
- D) government.

42. The economic principle that states that individuals or nations can gain by specializing in the production of goods where they have the lowest opportunity cost is called:

- A) law of unintended consequences
- B) law of absolute advantage
- C) law of comparative advantage
- D) law of production possibilities

43. A firm in perfect competition has a demand curve that is:

- A) horizontal at the market price
- B) downward sloping
- C) upward sloping
- D) equal to the firm's total revenue curve

44. A merger of two firms with unrelated products is called a:

- A) horizontal merger
- B) conglomerate merger
- C) vertical merger
- D) multinational merger

45. Which one of the following is a public good?

- A) an aircraft carrier
- B) a television
- C) a concert
- D) a movie

46. Many countries have argued that their young industries need protection from more mature foreign competition. This argument for trade barriers is called the:

- A) save domestic employment argument
- B) infant industry argument
- C) mature industry argument
- D) self-sufficiency argument

47. Which one of the following is the best example of a public good?

- A) a toll road
- B) Disneyworld
- C) a restroom in a public park
- D) national defense

48. Which of the following describes a tariff?

- A) Bureaucratic regulations which make it more difficult for imports to cross borders.
- B) Taxes placed on imports.
- C) Limits on the number of imports crossing the borders.
- D) Subsidies on exports.

49. Which of the following describes a quota?

- A) A subsidy for exports
- B) A minimum amount (of an import) allowed to cross a border
- C) A maximum amount (of an import) allowed to cross a border
- D) A tax on imports

50. The following describes a proportional tax:

- A) tax rate stays the same no matter what income level.
- B) tax rate rises as income rises.
- C) tax amount goes down as income rises.
- D) tax amount stays the same no matter what income level.

51. The implicit cost of an entrepreneur is a payment equal to a(n)

- A) normal profit.
- B) monopoly profit.
- C) economic profit.
- D) windfall profit.

52. An economic profit is equal to?

- A) Revenue minus average cost
- B) Price minus average cost
- C) Total revenue minus total cost
- D) Total revenue minus average cost

53. Getting rid of environmental laws will

- A) increase supply in product markets.
- B) decrease pollution.
- C) decrease supply in product markets.
- D) have no effect on pollution or supply.

54. A minimum wage will most likely result in

- A) more employment and a shortage of jobs.
- B) less employment and a shortage of workers.
- C) more employment and a surplus of workers.
- D) less employment and a surplus of workers.

55. Suppose \$200 cash is deposited in a bank and the reserve requirement ratio is 10%. How much can demand deposits expand?

- A) \$2,000
- B) \$ 20
- C) \$ 180
- D) \$1,800

56. Suppose \$200 cash is deposited in a bank and the reserve requirement ratio is 10%. What is considered excess reserves?

- A) \$ 20
- B) \$2,000
- C) \$1,800
- D) \$ 180

57. Suppose \$200 cash is deposited in a bank and the reserve requirement ratio is 10%. What is considered required reserves?

- A) \$ 20
- B) \$1,800
- C) \$2,000
- D) \$ 180

58. Which one of the following best describes monopoly?

- A) barrier to entry, lots of firms
- B) price chooser, one firm
- C) easy entry, one firm
- D) price chooser, lots of firms

59. The median voter theorem suggests:

- A) voters should pick the candidate with better positions than the median candidate
- B) median voters decide elections
- C) voters should pick the candidate closest to the median position
- D) half the voters are liberal and half are conservative

60. Suppose a steel plant pollutes in a river and causes real estate values to decrease. Which one of the following is a judicial solution?

- A) The steel company purchases the right to pollute the river.
- B) The real estate owners sue the steel company.
- C) The EPA shuts down the steel plant and fines the company.
- D) The steel company and the real estate owners negotiate through a mediator and come to an agreement for compensation.

61. Which one of the following would both be expansionary fiscal policy?

- A) decrease government spending and raise taxes
- B) decrease government spending and cut taxes
- C) increase government spending and cut taxes
- D) increase government spending and raise taxes

62. When economic profits increase:

- A) new entry occurs and prices will rise
- B) firms tend to invest less and supply decreases
- C) firms tend to invest more and supply increases
- D) investment increases and firms exit the market

63. A firm in a purely competitive market is:

- A) a price maker
- B) mutually interdependent
- C) a price chooser
- D) a price taker

64. In the short run, a purely competitive firm should produce as long as total revenue covers its:

- A) marginal costs
- B) total fixed costs
- C) total variable costs
- D) accounting costs

65. An economist who favors smaller government would recommend:

- A) tax increases during a recession and reduced government spending during times of inflation
- B) tax cuts during a recession and reduced government spending during times of inflation
- C) tax increases during a recession and increased government spending during times of inflation
- D) tax cuts during a recession and increased government spending during times of inflation

66. Economists would describe the U.S. automobile industry as:

- A) purely competitive
- B) an oligopoly
- C) a monopoly
- D) monopolistically competitive

67. Which one of the following economic concepts provides the basic rationale for international trade?

- A) comparative advantage
- B) absolute advantage
- C) increasing opportunity costs
- D) the law of demand

68. Fiscal policy tools include:

- A) changing the level of taxes only
- B) changing the level of government spending only
- C) changing the rate of growth in the money supply
- D) changing the levels of taxes and government spending

69. An economist who favors smaller government would recommend:

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- C) tax increases during a recession and increased government spending during times of inflation
- D) tax cuts during a recession and increased government spending during times of inflation

70. A country imports goods and services from other countries in order to:

- A) create a trade deficit
- B) participate in domestic trade
- C) create a trade surplus
- D) satisfy domestic wants and needs

71. When price rises on a price-inelastic good, what happens?

- A) quantity demanded decreases, but by a larger percentage
- B) demand decreases
- C) quantity demanded decreases, but by a smaller percentage
- D) quantity demanded decreases

72. Social security and Medicare are examples of the government's role as:

- A) an advocate of free markets
- B) economic stabilizer
- C) the world's only superpower
- D) a safety net for society

73. Industrial equipment is an example of a:

- A) human resource
- B) consignment good
- C) natural resource
- D) capital good

74. Which one of the following is an example of a government regulation that affects a business's working conditions?

- A) minimum wage
- B) food inspection
- C) zoning laws
- D) price supports

75. What type of firm can issue bonds?

- A) Partnerships
- B) Corporations
- C) Privately owned kiosks
- D) Sole proprietorships

76. If restrictive monetary policy is required to address a serious inflationary problem, it is likely that the money supply will:

- A) contract and economic output will be reduced in the short run
- B) contract and economic output will increase in the short run
- C) expand and economic output will be reduced in the short run
- D) expand and economic output will increase in the short run

77. Societies that value equality over efficiency will generally have which one of the following?

- A) a more equal distribution of income
- B) higher rates of economic growth
- C) small public sectors with limited powers
- D) constitutional restrictions on income redistribution policies

78. In 2007 the GDP deflator was 125 and nominal GDP was \$9.9 trillion. In 2008 the GDP deflator was 130 and nominal GDP was \$11.7 trillion. How much did real GDP (expressed in 2007 dollars) increase during this time period?

- A) \$0.75 trillion
- B) \$1.80 trillion
- C) \$2.27 trillion
- D) \$1.35 trillion

79. A business failure resulting in the owners also losing their homes is likely

- A) a partnership.
- B) a limited liability company.
- C) a franchise.
- D) a corporation.

80. Monopolies tend to

- A) be less inefficient.
- B) charge cheaper prices than competitive industries.
- C) restrict output, and charge higher prices than competitive industries.
- D) produce more than competitive industries.

81. The biggest difference between communism and socialism concerns

- A) How they decide what to produce
- B) Their political systems
- C) How they allocate their resources
- D) Their location in the world today

82. An incompetent employee and customers who shoplift are both examples of _____ risks.

- A) Human
- B) Natural
- C) Economic
- D) Capital

83. Which of the following is an important advantage of the corporate form of business organization?

- A) Corporations are easy to organize
- B) Corporations are able to gather large amounts of money
- C) Corporations have unlimited liability
- D) Corporation's maximum tax rate is lower

84. Import permits which nations use to regulate the level of imports by individual businesses are called

- A) Tariffs
- B) Licenses
- C) Quotas
- D) Surcharges

85. The marginal tax rate is the rate on the

- A) First dollar of income
- B) First dollar of spending
- C) Last dollar of income
- D) Last dollar of spending

86. The effects of minimum wage laws are

- A) Always positive
- B) A hindrance to technology development
- C) Both positive and negative
- D) None of the above

87. A firm in capitalism will hire a worker if he or she

- A) Needs a job
- B) Buys the product the firm produces
- C) Increases their profit
- D) Has skills or training

88. Interlocking directorates occur when

- A) Companies charge different buyers different prices for the same product
- B) The majority of members of the boards of directors of competing corporations are the same
- C) Both A and B
- D) None of the above

89. The price of soccer balls is likely to be increased by

- A) New machines and technology reducing the cost of production
- B) More capital investment by producers
- C) A decrease in the demand for soccer balls
- D) A decrease in the supply of soccer balls

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