Multiple choice: On your answer sheet, darken the letter of the choice that best completes the statement or answers the question.

1. Opportunity costs are important mostly because
   1) opportunity costs are the main expenditure on most companies' balance sheets
   2) the costs to society of some activities are greater than the costs to private individuals
   3) opportunity costs represent the costs of previous decisions that cannot be reversed
   4) individuals should consider the true costs of each alternative when making decisions

2. The need for individuals to make trade-offs results primarily from
   1) marginal cost
   2) scarcity
   3) abundance
   4) free enterprise

3. A basic assumption of economics is that
   1) wants are unlimited
   2) incentives are irrelevant
   3) consumers are irrational
   4) means are unlimited

4. An opportunity cost is best defined as
   1) an economic cost whose value is independent of the number of goods produced
   2) the value of the best alternative use to which a resource, such as land or time, could be put
   3) an expenditure that cannot be recovered and is thus irrelevant to rational decision-making
   4) an economic cost whose value is dependent upon the number of goods produced

5. Scarcity is the situation results from
   1) a gap between imports and exports
   2) the irrationality of modern consumers
   3) an excessively large labor force
   4) limited resources and unlimited wants

6. The situation that results from the gap between wants and resources is known as
   1) utility
   2) capital
   3) scarcity
   4) abundance

7. An economy that has both market and command characteristics is best described as a
   1) free enterprise economy
   2) closed economy
   3) mixed economy
   4) dual economy

8. Which of the following questions is NOT part of the production decision?
   1) Why to produce
   2) How to produce
   3) What to produce
   4) For whom to produce

9. In a command economy, the decisions of what, how, and for whom to produce are made by
   1) historical customs
   2) the government
   3) private companies
   4) consumers

10. In a market economy,
    1) the price and quantity of traded goods are determined by the interaction of supply and demand
    2) the central government runs the economy according to a strict plan to ensure efficient production
    3) the price and quantity of traded goods are based on longstanding customs and traditions
    4) economic decisions are made collectively by groups of people for the good of the community

11. An economic system in which the decisions of what, how, and for whom to produce are based on historical customs is known as a
    1) capitalist economy
    2) market economy
    3) traditional economy
    4) command economy

12. The United States is best described as a
    1) barter economy
    2) market economy
    3) traditional economy
    4) command economy

13. The factor of production known as land includes
    1) office buildings
    2) human capital
    3) natural resources
    4) business experience

14. Land, labor, capital, and entrepreneurship are referred to as
    1) costs and benefits
    2) coincidence of wants
    3) factors of production
    4) goods and services

15. The basic factors of production are
    1) money, interest, rent, and inflation
    2) value, exchange, account, and fiat
    3) land, labor, capital, and entrepreneurship
    4) cost, revenue, benefit, and profit

16. A major opportunity cost of going to college is
    1) a fixed cost
    2) a sunk cost
    3) an opportunity cost
    4) an external cost

17. The amount of money that could be made by working instead of going to college is best described as
    1) a fixed cost
    2) a sunk cost
    3) an opportunity cost
    4) an external cost

18. Communist countries in which the government controls the means of production are best described as
    1) market economies
    2) traditional economies
    3) command economies
    4) free enterprise economies
19. Which of the following countries are best described as command economies?

1) the Soviet Union and Cuba
2) Canada and Australia
3) the United States and Japan
4) the United Kingdom and Taiwan

20. A mixed economy is best described as an economic system in which the decisions of what, how, and for whom to produce are made by

1) the government only
2) both the government and private companies
3) both proprietorships and corporations
4) private companies only

21. An economic system in which the government decides what goods are produced, how they are produced, and for whom they are produced is known as

1) traditional economy
2) anarchist economy
3) market economy
4) command economy

22. Entrepreneurs are considered a factor of production because they

1) own the land on which a factory or office is located
2) create new companies and foster business innovation
3) provide financial capital by investing in various stocks
4) produce goods and services as wage laborers

23. Natural resources, such as animals and minerals, are included in the factor of production known as

1) entrepreneurship
2) land
3) capital
4) labor

24. Which of the following is NOT considered one of the basic factors of production?

1) revenue
2) labor
3) land
4) capital

25. The output of production is generally divided into

1) interest and liability
2) land and labor
3) goods and services
4) inflation and unemployment

26. Capital goods differ from consumer goods in that

1) capital goods are used directly by people, whereas consumer goods are used to produce other goods and services
2) consumer goods are used directly by people, whereas capital goods are used to produce other goods and services
3) consumer goods are raw materials like rubber and oil, whereas capital goods are finished products
4) capital goods are raw materials like rubber and oil, whereas consumer goods are finished products

27. A company that purchases new computers is investing in which factor of production?

1) Land
2) Labor
3) Entrepreneurship
4) Capital

28. A personal computer

1) is always a consumer good
2) can be either a consumer good or a capital good
3) is always a capital good
4) is neither a consumer good nor a capital good

29. Entrepreneurship refers to the ability to

1) borrow capital successfully and expand existing businesses to meet consumer demands
2) adapt technology efficiently
3) manage other people
4) start new businesses, introduce new products, and improve management techniques

30. Another term for a capitalist system is

1) command economy
2) mixed economy
3) market economy
4) laissez-faire system

31. The production possibilities curve

1) reflects the trade-off between the manufacture of two different goods
2) reflects the trade-off between unemployment and the rate of inflation
3) shows how much of a given good firms will supply at each price
4) shows how much of a given good consumers will demand at each price

32. A situation in which people do not have enough resources to satisfy every desire is known as

1) surplus
2) shortage
3) excess
4) scarcity

33. "So long as mankind lived by raising crops and herding animals, there was not much need for measuring small units of time. The seasons were all important- to know when to expect the rain, the snow, the sun, the cold. Why bother with hours and minutes? Daylight was the only important time, the only time when men could work."

From Daniel J. Boorstin's The Discoverers: A History of Man's Search to Know his World and Himself, 1985.

What type of economic system does this passage describe?

1) mixed
2) command
3) traditional
4) market

34. A major characteristic of a pure market economy is

1) regulated prices
2) strong government planning
3) an oversupply of labor
4) unrestricted competition

35. What goods and services should be produced, how they should be produced and who should share in what is produced are three basic questions addressed by

1) command economies
2) all economies
3) mixed economies
4) market economies
36. Economists build economic models
   1) to be able to use graphs to show how the economy works
   2) to describe how a business should combine the factors of production to produce goods
   **3) to help analyze the way the world works**
   4) to find out how high teenage unemployment is

37. "The study of economic theory is not defensible on aesthetic grounds --- it hardly rivals in elegance the mathematics or physics our sophomores learn. The theory is studied only as an aid to solving real problems, and it is good only in the measure that it performs this function."

According to this author, a good economic theory is one that
   1) includes math
   2) is aesthetically sound
   **3) helps solve real problems**
   4) is as elegant a theory as math or physics

38. Economics is
   1) the study of things we need to survive
   2) the study of how people make choices when they are faced with an unlimited supply of resources
   **3) the study of how people make choices when they are faced with a limited supply of resources**
   4) the study of luxury items we want to make life easier

39. These are examples of needs
   1) a flat screen tv
   2) a Starbucks grande iced caramel macchiato frappuccino
   **3) water and a place to live**
   4) an iPhone and a computer

40. A shortage is
   1) a resource of land, labor, capital, and entrepreneurship used to produce goods and services
   **2) price determined and goes away over time**
   3) an action that can satisfy people's wants and needs
   4) something that always exists - there aren't enough resources in the world to satisfy all wants and needs

41. **Butter**

   **Missiles**

1. On the production possibilities diagram above, identify a point at which this two-good economy would be operating at potential. Label this point "P."
2. Now suppose the economy is operating at point P, and unemployment falls below the natural rate. Identify and label a new point, "U," that shows this change.
3. Now suppose the labor force decreases in size, and that both butter and missile require labor for production. Draw a new curve on the same axes that demonstrates this change.
4. Describe two developments that could cause the production possibilities frontier to shift to the right.
1. [Any point on the curve]
2. [Any point to the right of the curve]
3. [The student's curve should lie completely inside the original.]
4. Students should offer two of the following three major causes of expansionary PPF shifts: growth in the labor force (NOT a decrease in the unemployment rate), increase in the capital stock, technological innovation.