

## Economics - 2006 SLC

- 1) The minimum wage is an example of
  - A) a shortage of workers.
  - B) a price ceiling.
  - C) a price floor.
  - D) a surplus of jobs.
  
- 2) As supply decreases and demand decreases, what effect does this have on equilibrium price and quantity?
  - A) Price decreases, quantity decreases
  - B) Price indeterminant, quantity increases
  - C) Price indeterminant, quantity decreases
  - D) Price increases, quantity decreases
  
- 3) Expectations of a shortage will have what effect on demand?
  - A) Decrease it
  - B) Have no effect
  - C) Increase it
  - D) Cannot be determined
  
- 4) When demand decreases
  - A) supply increases.
  - B) shortages increase.
  - C) equilibrium quantity increases.
  - D) equilibrium quantity decreases.
  
- 5) A decrease in supply will usually result in a decrease in market equilibrium quantity.
  - A) True
  - B) False
  
- 6) When supply increases, the equilibrium quantity will
  - A) decrease.
  - B) be an unknown.
  - C) stay the same.
  - D) increase.
  
- 7) Increased demand will result in a decrease in supply.
  - A) True
  - B) False
  
- 8) Which of the following would all decrease supply?
  - A) Lower business taxes, higher resource costs, fewer suppliers
  - B) Higher business subsidies, lower resource costs, more suppliers
  - C) Higher business taxes, higher resource costs, fewer suppliers
  - D) Higher business subsidies, higher resource costs, fewer suppliers
  
- 9) Suppose a price floor is placed on wheat, what is the likely effect?
  - A) A lower price
  - B) A surplus
  - C) Less quantity available
  - D) A shortage
  
- 10) Suppose a binding price ceiling is placed on gasoline, what is the likely effect?
  - A) A shortage
  - B) A surplus
  - C) A higher price
  - D) More quantity available
  
- 11) 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.

- 12) A supply increase will  
A) increase equilibrium price.  
B) decrease equilibrium price.  
C) decrease equilibrium quantity.  
D) decrease demand.
- 13) Suppose crude oil prices rise, what is the likely effect on gasoline a product made from crude oil?  
A) Supply of gasoline increases  
B) Gasoline prices decrease  
C) Supply of gasoline decreases  
D) No effect on gasoline prices
- 14) An equal increase in demand and supply will always result in an increase in the market price.  
A) True  
B) False
- 15) Which of the following protectionist arguments is considered a valid economic argument that does not violate the comparative advantage principle?  
A) Trade barriers will keep markets from specializing.  
B) Trade barriers will mean more interdependence.  
C) Trade barriers will keep jobs from being outsourced and will make America wealthier.  
D) Trade barriers will mean more good jobs and better pay for Americans.
- 16) A quota is  
A) a limit on quantity of imports crossing the border.  
B) a limit on price imports can charge.  
C) a tax on imports.  
D) a tax on exports.
- 17) A tariff is  
A) a limit on price imports can charge.  
B) a tax on exports.  
C) a limit on quantity of imports crossing the border.  
D) a tax on imports.
- 18) Most trade occurs between  
A) poor countries and industrializing countries.  
B) rich countries and poor countries.  
C) poor countries and other poor countries.  
D) rich countries and other rich countries.
- 19) The depreciation of the dollar versus the yen means U.S. exports are  
A) cannot be determined.  
B) cost the same.  
C) cheaper.  
D) more expensive.
- 20) Comparative advantage argues that if two countries specialize and engage in free trade  
A) they will both gain.  
B) who gains or loses cannot be determined.  
C) they will both lose.  
D) one gains, one loses.
- 21) Suppose country A can produce at most 100 of good x or at most 50 of good y. Suppose country B can produce at most 50 of good x or at most 10 of good y. In which goods do countries A and B have a comparative advantage in?  
A) Country A has a comparative advantage in both, country B has a comparative advantage in none  
B) Country A has a comparative advantage in y, country B has a comparative advantage in x  
C) Country A has a comparative advantage in x, country B has a comparative advantage in y  
D) Country A has a comparative advantage in producing x and y, country B has a comparative advantage in y
- 22) The United States is the world's smallest exporter, which causes large trade deficits.

- A) True  
B) False
- 23) The appreciation of the yen versus the dollar means a vacation for Japanese tourists coming to the United States is  
A) more expensive.  
B) cannot be determined.  
C) costs the same.  
D) cheaper.
- 24) The appreciation of the yen versus the dollar means the value of the dollar has  
A) cannot be determined.  
B) appreciated.  
C) depreciated.  
D) stayed the same.
- 25) Monetary policy to fight demand pull inflation would  
A) increase reserve requirement, raise discount rate, and buy government securities.  
B) increase reserve requirement, raise discount rate, and sell government securities.  
C) increase reserve requirement, lower discount rate, and buy government securities.  
D) decrease reserve requirement, lower discount rate, and sell government securities.
- 26) Government borrowing that leads to less private borrowing and investing is called  
A) time lags.  
B) net exports effect.  
C) crowding out effect.  
D) balloon debts.
- 27) The organization in charge of monetary policy is  
A) the Federal Reserve System.  
B) the Security Exchange Commission.  
C) the Federal Government.  
D) the Federal Bureau of Investigation.
- 28) A fiscal policy to fight demand-pull inflation would  
A) raise the discount rate.  
B) raise the reserve requirement ratio.  
C) raise government spending.  
D) raise taxes.
- 29) Contractionary fiscal policy will  
A) lower the reserve requirement ratio.  
B) raise taxes and raise government spending.  
C) lower taxes and lower government spending.  
D) raise taxes and lower government spending.
- 30) A recession caused by too little aggregate demand would require which of the following policies?  
A) Environmental policy  
B) Expansionary fiscal policy  
C) Contractionary monetary policy  
D) Protectionist policy
- 31) Expansionary fiscal policy usually results in  
A) budget surpluses.  
B) trade surpluses.  
C) budget deficits.  
D) debt reduction.
- 32) 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

- 33) 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
- 34) 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
- 35) The Federal Reserve Chairman in November 2004 was  
A) Alan Greenspan.  
B) George W. Bush.  
C) John Snow.  
D) Alice Rivlin.
- 36) In competitive markets, the long-run economic profit is  
A) zero.  
B) less than zero.  
C) greater than zero.  
D) equal to average cost.
- 37) If maintenance costs rise for industry, what effect will this have on expected return?  
A) Expected return increases  
B) Expected return decreases  
C) Expected return stays the same  
D) Expected return fluctuates
- 38) If the expected return rises and interest rates remain constant, what happens to investment spending?  
A) Investment spending does not change  
B) Gross investment increases  
C) Investment demand decreases  
D) Net investment decreases
- 39) Accounting profits include the entrepreneur's implicit costs of doing business.  
A) True  
B) False
- 40) An economic profit is equal to  
A) accounting profit-implicit costs.  
B) total revenue-implicit costs.  
C) total revenue-explicit costs.  
D) accounting profit+implicit costs.
- 41) Suppose John has implicit costs of \$10,000, explicit cost of \$20,000, and revenues of \$100,000. What is his economic profit?  
A) \$ 70,000  
B) \$100,000  
C) \$ 80,000  
D) \$ 90,000
- 42) 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.
- 43) Barriers to entry mean long-run economic profits  
A) are competed away.  
B) are sometimes greater than zero.

- C) are negative.  
D) are always greater than zero.
- 44) At break even, the entrepreneur's normal profit is zero.  
A) True  
B) False
- 45) Monopolies will always have economic profits.  
A) True  
B) False
- 46) Pollution is an example of  
A) externality benefit.  
B) externality cost.  
C) taxes.  
D) spillover benefit.
- 47) A pollution market for externality rights would  
A) buy and sell political power.  
B) buy and sell pollution.  
C) buy and sell rights to pollute.  
D) buy and sell externality benefits.
- 48) Increased environmental regulations will likely  
A) have no effect on pollution and increase criminal activity.  
B) decrease pollution and increase costs of production.  
C) decrease pollution and increase production in regulated industries.  
D) decrease pollution and increase aggregate supply.
- 49) The optimal amount of pollution is  
A) the amount that maximizes production.  
B) the amount where the marginal benefits equal the marginal costs of pollution.  
C) the amount that maximizes resource use.  
D) zero.
- 50) Pollution is an externality benefit.  
A) True  
B) False
- 51) Most union members work in  
A) service industries.  
B) manufacturing.  
C) retail industries.  
D) government.
- 52) Monopsonistic firms pay a higher wage than would competitive firms.  
A) True  
B) False
- 53) An effective union will have the following effect on its labor market:  
A) Decrease the union wage, increase number employed in industry  
B) Increase the union wage, number employed in industry stays the same  
C) Increase the union wage, increase number employed in industry  
D) Increase the union wage, decrease number employed in industry
- 54) Immigration will have the following effect on wages and jobs:  
A) It will create new jobs.  
B) It will lower the wage and increase jobs.  
C) Create a shortage of jobs.  
D) Its effect on the wage cannot be determined.
- 55) Industrial unions like the United Auto Workers are examples of

- A) inclusive unions.
  - B) government organizations.
  - C) competitive firms.
  - D) exclusive unions.
- 56) Which of the following does not describe perfect competition?
- A) It is easy to enter the market.
  - B) It is an efficient market.
  - C) Produces a standardized product identical to its competitors.
  - D) Is a price maker.
- 57) Perfect competition results in long-run market outcomes that are efficient.
- A) True
  - B) False
- 58) Firms in perfect competition have easy entry to the market but face barriers to exit the market.
- A) True
  - B) False
- 59) Which best describes the monopoly market structure?
- A) Many firms, price taker, easy entry
  - B) One firm, unique product, barrier to entry
  - C) One firm, price maker, standardized or homogeneous product
  - D) One firm, easy entry, price maker
- 60) Monopolistic competition has a monopoly in its market.
- A) True
  - B) False
- 61) Monopolistic competitors are best described as
- A) having total control over price.
  - B) having some control over price.
  - C) being price takers.
  - D) being mutually interdependent.
- 62) Oligopolies avoid price competition because
- A) firms outside the industry are more likely to enter.
  - B) it lowers barriers to entry.
  - C) it increases costs of production.
  - D) firms suffer from mutual interdependence.
- 63) Which of the following describes the oligopoly market structure best?
- A) One firm, barrier to entry, perfectly differentiated product
  - B) Few large firms, barriers to entry, mutual interdependence
  - C) Many firms, barriers to entry, price maker
  - D) Few large firms, easy entry, price taker
- 64) Monopolistic competition is like a monopoly in that it has which of the following characteristics?
- A) Has a differentiable product
  - B) Easy entry and exit
  - C) Controls the market
  - D) Lots of competitors
- 65) Assuming economies of scale is a barrier to competition, a monopoly would likely
- A) produce at lower per unit cost.
  - B) produce at higher per unit cost.
  - C) produce less quantity.
  - D) produce at the same per unit cost.
- 66) If government spending is greater than tax receipts, then
- A) the government has a budget surplus and will have to cut taxes.
  - B) the government has a budget surplus and uses the surplus to pay off the debt.

- C) the government has a budget deficit, which will decrease the national debt.  
D) the government has a budget deficit and will have to borrow money.
- 67) Most local government expenditures go to  
A) hospitals.  
B) schools.  
C) parks.  
D) streets and highways.
- 68) In comparing the federal expenditures on discretionary spending with nondiscretionary spending, nondiscretionary spending is  
A) shrinking.  
B) smaller.  
C) about the same size.  
D) larger.
- 69) The primary source of tax revenues for most states is  
A) sales and excise taxes.  
B) property taxes.  
C) corporate income taxes.  
D) state personal income taxes.
- 70) When prices increase consumers buy less. This is called  
A) consumer economics.  
B) the Law of Supply.  
C) the Law of Quantity Demanded  
D) the Law of Demand.
- 71) The biggest expenditure for state governments is  
A) welfare.  
B) hospitals.  
C) education.  
D) public safety.
- 72) A proportional or flat tax will result in  
A) a higher tax rate paid as a person's income rises.  
B) the same tax paid as a person's income rises.  
C) a higher tax paid as a person's income rises.  
D) a lower tax paid as a person's income rises.
- 73) The biggest portion of federal tax revenue comes from  
A) payroll taxes.  
B) corporate income tax.  
C) personal income tax.  
D) excise tax.
- 74) Most local government tax revenues come from  
A) property taxes.  
B) excise taxes.  
C) income taxes.  
D) sales taxes.
- 75) 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
- 76) The biggest portion of federal expenditures is  
A) NASA.  
B) social security.  
C) transportation.

- D) FBI.
- 77) The FICA tax that pays for social security is a progressive tax.  
A) True  
B) False
- 78) Prices ration scarce resources and products.  
A) True  
B) False
- 79) The long-run price for monopolistic competition is  
A) price=marginal cost.  
B) price=average fixed cost.  
C) price=average variable cost.  
D) price=average total cost.
- 80) If the price increases on a product with a perfectly inelastic demand, what will happen to quantity demanded?  
A) Increases  
B) Decreases  
C) Unknown without more information  
D) Stays the same
- 81) An increase in price will result in less quantity demanded for a normal good.  
A) True  
B) False
- 82) A higher price tells buyers a product is scarcer and signals the buyer to use less. What function of prices is this?  
A) Incentive function  
B) Rationing function  
C) Production function  
D) Conjunction function
- 83) The price for peanut butter rises. Assuming the supply for jam is constant, what will happen to the price of jam?  
A) It will increase.  
B) It cannot be determined.  
C) It will stay the same.  
D) It will decrease.
- 84) A lower price most likely indicates  
A) more scarcity.  
B) less scarcity.  
C) no scarcity.  
D) a shortage.
- 85) Monopolies charge the highest price possible.  
A) True  
B) False
- 86) By number, most firms are corporations and incorporate to avoid unlimited liability.  
A) True  
B) False
- 87) In partnerships, each partner is liable for the partnership debts of his or her partner.  
A) True  
B) False
- 88) Sole proprietorships raise financial capital by issuing stocks and bonds.  
A) True  
B) False
- 89) What type of firm has the biggest percentage of sales?  
A) Corporations



- B) Partnerships
  - C) Limited liability companies
  - D) Sole proprietorships
- 90) Which best describes sole proprietorship?
- A) One owner, unlimited liability, owner does most of the management
  - B) Two or more owners, limited liability, hired management runs most of business
  - C) Owner is a separate legal entity, unlimited liability, hired management runs most of the business
  - D) One owner, limited liability, owner does most of the management
- 91) What type of firm can issue bonds?
- A) Partnerships
  - B) Corporations
  - C) Privately owned kiosks
  - D) Sole proprietorships
- 92) What type of firm has limited liability?
- A) Corporations
  - B) Privately owned kiosks
  - C) Sole proprietorships
  - D) Partnerships
- 93) A company that produces tires and greeting cards is an example of
- A) a diagonally integrated firm.
  - B) a vertically integrated firm.
  - C) a horizontally integrated firm.
  - D) a conglomerate.
- 94) What type of firm has the largest assets in dollar value?
- A) Limited liability companies
  - B) Corporations
  - C) Sole proprietorships
  - D) Partnerships
- 95) If interest rates rise, bond prices will
- A) increase.
  - B) stay the same.
  - C) decrease.
  - D) fluctuate.
- 96) Rising real interest rates will likely
- A) decrease gross investment.
  - B) decrease capital costs
  - C) increase consumption.
  - D) decrease saving.
- 97) Investment spending is unstable because
- A) households view investing as discretionary spending.
  - B) households are uncertain about the future.
  - C) households hold onto money during recessions.
  - D) firms can postpone buying capital because it is durable.
- 98) A share in the ownership of a corporation is called a
- A) mutual fund.
  - B) stock.
  - C) bond.
  - D) REIT.
- 99) Stocks are a form of debt paid back with interest.
- A) True
  - B) False

- 1) C
- 2) C
- 3) C
- 4) D
- 5) A
- 6) D
- 7) B
- 8) C
- 9) B
- 10) A
- 11) A
- 12) B
- 13) C
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- 15) A
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