

In perfect competition, no single buyer or seller has a large enough part of the total market to affect price.	A. True	B. False		
1) Specialization results in a net gain to both trading partners.	A. True	B. False		
2) Most U.S. trade is with countries that produce entirely different goods than are produced domestically.	A. True	B. False		
3) Gains from trade can be based on either comparative or absolute advantage.	A. True	B. False		
4) Organizing production is one of the four economic functions of a business firm.	A. True	B. False		
5) A firm cannot remain in business if it is earning zero economic profits.	A. True	B. False		
6) Firms are motivated to enter or leave competitive industries by the level of profits.	A. True	B. False		
7) One example of the free rider problem is the person who rides the bus without paying full fare.	A. True	B. False		
8) One opportunity cost of a cleaner environment is more expensive goods and services.	A. True	B. False		
9) Borrowing from a bank increases the supply of money by increasing demand deposits.	A. True	B. False		
10) The money supply can change only if the government borrows money.	A. True	B. False		
11) The federal government employs more people and purchases more goods and services than all state and local governments combined.	A. True	B. False		
12) The principal reason for government taxing and spending is to provide public goods and services.	A. True	B. False		
13) The impact lag is the time it actually takes a policy change to affect the economy.	A. True	B. False		
14) Social Security is financed through the sale of U.S. government bonds.	A. True	B. False		
15) The law of demand is that for most goods, consumers are generally willing to purchase less at a lower price.	A. True	B. False		
16) If there is no pressure for prices to change, the quantity demanded equals quantity supplied.	A. True	B. False		
17) The difference between short run and long run is defined in terms of government classification.	A. True	B. False		
18) If the price of oranges is below the equilibrium price, there will be a shortage of oranges and the price of oranges will increase.	A. True	B. False		

19) One major disadvantage of corporations is the high personal liability of the owners.	A. True	B. False		
20) Individuals can become part owners of a proprietorship, a partnership, or a corporation by buying stock in the company on a stock exchange.	A. True	B. False		
21) A certificate that states the amount of money the corporation has borrowed from the holder and the term of repayment is a bond.	A. True	B. False		
22) If the price of beef is above the equilibrium price, then there will be a surplus of beef and the price of beef will fall.	A. True	B. False		
23) In a freely competitive market, prices will adjust to remove surpluses and shortages.	A. True	B. False		
24) A demand curve shows the graphic relationship between the price of a good and a consumer's income.	A. True	B. False		
25) One of the major problems stemming from increased market concentrations is	A. declining productivity due to less human capital investment.	B. less R&D and consequently less competition.	C. higher prices resulting from less competition.	D. increasing share of domestic markets being dominated by foreign products.
26) Which of the following would most likely be classified as a natural monopoly?	A. Generation of electricity	B. Delivery of electricity to consumers' homes	C. Manufacture of electric meters	D. Installing and maintaining electric power lines
27) Which of the following is a principal reason for the recent trend toward deregulation?	A. Regulation is expensive to enforce.	B. Regulation is unable to prevent monopolistic pricing by public utilities.	C. The profits of regulated industries have been increasing in recent years.	D. Deregulation often results in a more efficient allocation of resources.
28) Deregulation in the airline, trucking, and railroad industries accomplished which of the following?	A. It increased economies of scale.	B. It led to increases in concentration ratios.	C. It led to the breakup of many natural monopolies.	D. It increased the variety of products and services available to consumers.
29) Why is pure competition beneficial to consumers and society in general?	A. Each firm produces a variety of different products.	B. Firms produce and sell goods at the lowest possible prices.	C. More output is produced than in other market structures.	D. Democracy flourishes in that market structure.
30) What is the direct result of diminishing returns?	A. Higher total fixed costs	B. Reduced output levels	C. Higher costs per unit of output	D. Reduced total revenue
31) What attracts new firms to competitive industries that have experienced an increase in demand for their products?	A. Normal rate of return	B. Lower costs	C. Economic profits	D. Marginal revenue
32) Which of the following industries would most likely have differentiated products?	A. Steel	B. Diamonds	C. Breakfast cereals	D. Cans

33) Workers who have employable skills but are either between jobs or have not yet started their first job after completing their training are part of _____.	A. functional unemployment	B. seasonal unemployment	C. cyclical unemployment	D. structural unemployment
34) The civilian labor force includes _____.	A. all nonmilitary persons who are looking for work.	B. all members of society who are over 16.	C. all nonmilitary employed persons and all those over 16 who are looking for work but are not yet employed.	D. all nonmilitary persons who have either full-time or part-time jobs.
35) Structural unemployment occurs when _____.	A. aggregate demand is too low.	B. the jobs that are available require skills that people looking for work don't have.	C. lifeguards lose their jobs when summer is over.	D. None of these
36) The effects of unemployment are most seriously felt _____.	A. in the social costs.	B. in the cost to the economy.	C. on the personal level in the family.	D. in government.
37) The percentage of the total civilian labor force that is unemployed is called _____.	A. employment rate	B. full employment rate	C. unemployment rate	D. per capita unemployment rate
38) A country that has a comparative advantage in the production of a good _____.	A. has a higher capital/output ration in the production of the good than its trading partners.	B. has a lower opportunity cost of producing that good than its trading partners.	C. has a greater labor force participation rate in the production of that good than its trading partners.	D. will have a greater standard of living than its trading partners.
39) A country's comparative advantage in the production of a good is more influenced by which of the following?	A. Its systems of tariffs and quotas.	B. The kind of resources that the country has.	C. The kind of goods that it exports and imports.	D. Who benefits and who gains by foreign trade.
40) A country that justifies tariffs on an imported good by appealing to infant industry arguments is trying to _____.	A. avoid the problems of increasing costs.	B. gain an absolute advantage in the production of that good.	C. gain time to become efficient and competitive.	D. increase its imports of that good.
41) The prohibition of exports to another country is called _____.	A. an embargo	B. a boycott	C. a filter	D. a quota
42) Which of the following is an example of a nontariff import barrier?	A. Raising taxes on imported products	B. Requiring special safety checks on all imported products	C. An import tax levied on a service instead of a product	D. An embargo
43) The part of a trade agreement that extends the benefits of tariff reductions negotiated with one country to all other countries is called _____ clause.	A. universal nation	B. nondiscrimination	C. most-favored-nation	D. multilateral trade
44) The argument that import restrictions are necessary to protect American workers from cheap foreign labor incorrectly overlooks the issue of _____.	A. the size of tariffs and other barriers.	B. comparative advantage.	C. the degree of specialization in different countries.	D. differences in worker productivity.
45) Which of the following is the return earned by the owners of financial capital who lend their assets to business?	A. Rent	B. Implicit wages	C. Profits	D. Interest

46) A bakery has fixed costs of \$5,000 per month and variable costs of \$1.00 per loaf of bread. How much profit will the bakery earn if it sells 5,000 loaves of bread per month at \$2.00 per loaf?	A. \$1,000 per month	B. \$500 per month	C. \$0 per month	D. -\$1,000 per month
47) What is the difference between accounting profits and economic profit?	A. There is no difference between accounting profit and economic profit.	B. Implicit costs are subtracted from accounting profit to give economic profit.	C. Implicit costs are added to accounting profit to give economic profit.	D. Implicit costs and nominal profit are subtracted from accounting profit to give economic profit.
48) What is the "normal rate of return"?	A. The amount that invested capital would earn, on average, in a similar but different investment.	B. The economic profits owners gain from invested capital.	C. The amount that invested capital earns in its present use.	D. The actual after-tax returns on invested capital.
49) Which of the following is most likely NOT a monopolist?	A. The only gas station in an isolated, desert town.	B. A large soft-drink firm such as Coca-Cola.	C. The local telephone company.	D. A water company in your area.
50) Profits are _____.	A. equal to total revenue	B. 10 percent higher than equal costs	C. always higher than total revenue	D. equal to total revenue minus total cost
51) Which of these statements is NOT true about fixed costs?	A. Fixed costs remain the same regardless of the quality of goods produced.	B. There are no such things as fixed costs.	C. Fixed costs are part of the total cost of production.	D. Every business incurs fixed costs when it decides to open.
52) In the absence of law, not all recipients of the benefit of a public good will contribute to the cost of the public good. An economist refers to this as _____.	A. the free rider problem	B. the public goods rationale	C. freedom of choice	D. None of these
53) If owners of private automobiles were taxed in proportion to their exhaust emissions, which of the following is most likely to occur?	A. Automobile buyers would insist on truly effective smog-control devices, no matter what the cost.	B. Air pollution would be efficiently reduced.	C. The private cost of operating automobiles would fall.	D. The external cost of operating automobiles will rise.
54) Pollution control activity should be expanded _____.	A. until the total cost equals the total benefit of the activity.	B. as long as the benefits of removing pollutants exceeds the cost of removing them.	C. until pollution is eliminated.	D. until total benefits reaches its maximum.
55) Which of the following statements is an accurate definition of the M_1 money supply?	A. The M_1 money supply consists of saving deposits, certificates of deposit, and money market mutual funds.	B. The M_1 money supply consists of all near monies.	C. The M_1 money supply consists of currency, traveler's checks, demand deposits, and other checkable deposits.	D. The M_1 money supply consists of demand deposits and money market mutual funds.

56) The Federal Reserve System controls the money supply	A. by setting legal reserve requirements, by varying the prime rate, and by limiting the amount of currency printed.	B. by setting legal reserve requirements, by varying the discount rate, and by varying the prime rate.	C. by setting quotas on bank loans, by selling quotas on government printing of currency, and by varying the prime rate.	D. by setting legal reserve requirements, by varying the discount rate, and by buying and selling bonds.
57) If the Fed changes the reserve requirements from 20 percent to 15percent, the effect is to	A. increase excess reserves and increase the money supply.	B. decrease excess reserves and increase the money supply.	C. increase excess reserves and decrease the money supply.	D. decrease excess reserves and decrease the money supply.
58) Federal government spending has the biggest impact on	A. the allocation of resources in an economy.	B. the levels of investment versus consumption in an economy.	C. the distribution of income in an economy.	D. the specific goods and services produced in an economy.
59) Which of the following is the largest federal government transfer program?	A. Medicare	B. grants-in-aid to state and local governments	C. interest on the national debt	D. Social Security benefits
60) An efficient tax would meet which of the following criteria? The tax would _____.	A. be progressive.	B. utilize the benefit principle.	C. be regressive.	D. not interfere with resource allocation nor discourage production.
61) The amount of money available in the economy is the _____.	A. aggregate demand	B. money supply	C. money demand	D. excess reserves
62) The principle that tax should be paid by those who receive the benefits that the tax revenues provide is known as the _____.	A. benefit principle of taxation	B. interest on the principle	C. ability-to-pay principle D. proportional tax principle	
63) Fiscal policy refers to the control of	A. interest rates by the Federal Reserve System.	B. the money supply by Congress.	C. the government budget in order to influence aggregate demand.	D. government spending in order to balance the federal budget.
64) Fiscal policy can directly change the level of aggregate demand by influencing which of the following?	A. Consumption spending	B. The money supply	C. The multiplier	D. The investment/GDP ratio
65) Labor force participation in the United States is	A. higher for women than it is in most industrialized countries.	B. currently decreasing as the average age of the population increases.	C. going to increase dramatically in the coming decade.	D. roughly the same as it was 20 years ago.
66) What is one of the reasons local, state and federal governments tax cigarettes?	A. Demand is elastic, so sales won't decrease very much when the price goes up.	B. Demand is elastic, so revenue will go up when the price goes up.	C. Demand is inelastic, so sales won't decrease very much when the price goes up.	D. Demand is inelastic, so sales will fall when the price goes up.
67) What is the largest source of revenue for the federal government?	A. Corporate income tax	B. Personal property tax	C. Custom duties	D. Personal income tax
68) "Entitlements" are	A. federal revenue given to state and local governments in the form of grants.	B. taxes that only the federal government is allowed to collect; state and local governments may not collect these taxes.	C. new tax revenues that can be used only to pay off old debts; they cannot be used to fund new programs.	D. money that the government is required to give all households that meet eligibility requirements.

69) Which of the following is NOT an example of a federal government transfer payment?	A. Social Security benefits	B. Subsidies to firms to promote business overseas	C. Tax expenditures that result from income tax deductions	D. Employee salaries
70) What is the principal source of investment funds?	A. Taxes	B. Saving	C. Imports	D. Consumer spending
71) What is disposable income?	A. Earned income	B. Income received minus taxes	C. Earned income plus unearned income	D. Earned income minus savings
72) What does GDP measure?	A. Total value of the private & public output of goods and services produced in the United States in a year.	B. The total value of personal consumption expenditures in the United States in a year.	C. The total value of gross private domestic investment in a year.	D. The total value of the private output of goods and services produced in the United States in a year.
73) The Social Security program is facing financial difficulties because	A. the government has made unwise investments in recent years.	B. the ratio between retirees and workers continues to fall.	C. its major recipients live below the poverty level.	D. everyone is entitled to receive benefits.
74) Demand is defined as	A. the amount of satisfaction individuals get from consumption.	B. the measure of consumers' income and attitude.	C. how individuals spend and save their money.	D. the quantities of a good that consumers are willing and able to purchase at various prices during a given period of time.
75) Graphically, an increase in supply will appear as a	A. shift of the supply curve to the left of the original curve.	B. shift outward and to the right of the original curve.	C. move along the same supply curve to a larger quantity.	D. move up the same supply curve to a higher price.
76) In general, if a market system is functioning properly, a decrease in price would produce	A. a decrease in quantity demanded and an increase in quantity supplied.	B. an increase in quantity demanded and an increase in quantity supplied.	C. an increase in quantity demanded and a decrease in quantity supplied.	D. a decrease in quantity supplied and a decrease in quantity demanded.
77) When a quantity supplied is less than the quantity demanded and there is upward pressure on price, there is _____.	A. Shortage	B. surplus	C. insufficient demand	D. None of these
78) A price ceiling	A. is set above the market price to keep prices from falling.	B. is set below the market price to keep prices from rising.	C. results in a surplus of the product.	D. requires a company to increase production.
79) Which of the following is NOT a determinant of demand for tennis balls?	A. Consumer's concerns	B. Price of tennis balls	C. Price of tennis racquets	D. Number of people who play tennis
80) Which of the following are NOT determinant of the supply of peanut butter?	A. Price of peanuts	B. Wages of peanut butter packers	C. Price of peanut butter substitutes	D. Existing peanut butter-making technology
81) How can the production of meals at a fast-food restaurant be increased in the short run?	A. By adding a new dining room at the restaurant	B. By building a new and larger restaurant	C. By hiring a second shift of workers and staying open later	D. By remodeling the old restaurant and expanding the kitchen
82) Which of the following will result in more cassette tapes being bought and sold at a higher price?	A. Decrease in the cost of producing cassettes	B. Decrease in the price of CDs	C. Decrease in consumer incomes	D. Decrease in price of cassette players

83) Which of the following causes competitive markets to move toward an equilibrium price?	A. Supply changing to meet demand	B. Consumers switching to complements and substitutes in reaction to price changes	C. Government price controls	D. Buyers and sellers reacting to shortages and surpluses
84) The largest number of business firms in the United States fall into which category of business organization?	A. Proprietorships	B. Partnerships	C. Corporations	D. Cooperatives
85) Which of the following is a disadvantage of organizing business as a partnership?	A. Taxes are higher than on proprietorships.	B. Each partnership is responsible for business actions taken by the other partners.	C. If one partner dies, the remaining partners are responsible for continuing the business.	D. It is easier to raise investment capital when the business is a proprietorship.
86) Which of the following is a major advantage of the corporate form of business organization?	A. Lower taxes	B. Fewer regulations	C. The limited liability of the owner	D. Being inexpensive to start
87) Deciding which mix of land, labor and capital to use in a business is which of the following economic functions of the firm?	A. Allocating revenue	B. Organizing production	C. Identifying business wants	D. Identifying consumer wants
88) Of the following, the one that is NOT an advantage of the proprietorship form of business is that _____.	A. it is easy to start	B. there is usually pride of ownership	C. the owner has complete control	D. it is relatively easy to raise large amounts of capital
89) Unlimited liability means that _____.	A. the owners can expect unlimited profits	B. insurance premiums are paid by all employees	C. the owner's personal and business assets are risked	D. business assets are privately owned
90) When two or more firms are completely separate industries and combine to form a single firm, they have formed _____.	A. a vertical partnership	B. a corporate charter	C. a conglomerate	D. a horizontal partnership
91) Which of the following will lead to more output at lower prices?	A. A decrease in supply	B. A decrease in demand	C. An increase in supply	D. An increase in demand
92) A decrease in the supply of lemons will result in which of the following?	A. More lemons sold at a higher price	B. More lemons sold at a lower price	C. Fewer lemons sold at a higher price	D. Fewer lemons sold at a lower price
93) Many city governments impose rent controls on apartment owners, keeping the price of an apartment below equilibrium price. Which of the following will result from the policy of rent control?	A. A surplus of apartment	B. A shortage of apartments	C. A decrease in the demand for apartments	D. An increase in the supply of apartments
94) Inflation is defined as	A. a change in the relative price of different goods and services.	B. an increase in the price of consumer goods.	C. an overall increase in the general level of prices.	D. a one-time increase in the price level.
95) The CPI is calculated as	A. the current price of a consumer market basket relative to its price in the previous year.	B. the current price of the consumer market basket relative to its price in the base period.	C. the current price of the consumer market basket relative to the current price of the producer market basket.	D. the current price of the consumer market basket relative to the current level of average wages.

96) Which of the following groups will gain as a result of unanticipated inflation?	A. People who put their money in savings accounts that pay fixed rates of interest	B. People on fixed incomes	C. People who own their homes	D. Lenders
97) What is the foreign exchange rate?	A. An exchange value that expresses the price of one currency in relation to another.	B. An exchange value that expresses the price of currency in relation to the world price of gold.	C. An exchange value that expresses the price of domestic goods in relation to international goods.	D. An exchange value that expresses the value of a country's assets in relation to the value of its merchandise.
98) A market characterized by many sellers, standardized product, and easy entry is _____.	A. a monopoly	B. an oligopoly	C. a perfect competition	D. a cartel
99) A table of the prices of a good and its corresponding demand is called a _____.	A. production scale	B. demand curve	C. supply schedule	D. demand schedule