ECON 202
EXAMPLE TEST #1
INTRODUCTION TO ECONOMICS

PART I: CONCEPTS OF ECONOMICS

1. All economic questions arise because we
   A) want more than we can get.
   B) want more than we need.
   C) have an abundance of resources.
   D) have limited wants that need to be satisfied.

2. As a student of economics, when you speak of scarcity, you are referring to
   A) the ability of society to employ all of its resources.
   B) the ability of society to consume all that it produces.
   C) the inability of society to satisfy all human wants because of limited resources.
   D) the ability of society to continually make technological breakthroughs and increase production.

3. In every economic system, choices must be made because resources
   A) are unlimited, but our wants are limited.
   B) are limited, but our wants are unlimited.
   C) are unlimited, and so are our wants.
   D) are limited, and so are our wants.

4. Which of the following best defines the subject of economics?
   A) The science that studies unemployment, inflation, and economic stability.
   B) The art of making money.
   C) The study of choices that businesses make to maximize profit.
   D) The study of choices made to cope with scarcity.

5. An example of a question that might be explored in microeconomics is to determine
   A) employment at General Motors.
   B) savings by the household sector.
   C) why the U.S. economy has grown more rapidly than the Japanese economy.
   D) the total employment within the U.S. economy.

6. Macroeconomics is concerned with
   A) individual consumers.
   B) government decision making concerning farm price supports.
   C) economy-wide variables.
   D) the effects on a corporation of a strike by the United Auto Workers.

7. Joe likes to sleep late in the mornings and play tennis in the afternoons. The opportunity cost of Joe attending his morning class for one hour is
   A) an hour of tennis given up.
   B) an hour of sleep given up.
   C) both the tennis given up and the sleep given up.
   D) nothing because he is paying for his class.

8. The opportunity cost of attending college is
   A) the cost of the tuition.
   B) the cost of the highest valued alternative to attending college.
   C) the cost of the highest valued alternative to attending college plus the cost of tuition.
   D) the cost of tuition, books, and the lost wages for the hours spent studying.

9. A student is studying for an exam 2 hours a day and is debating whether to study an extra hour. The student’s marginal benefit
   A) depends on the grade the student earns on the exam.
   B) is the benefit the student receives from studying all 3 hours.
   C) is the benefit the student receives from studying the extra hour.
   D) is greater than the student’s marginal cost.

10. Positive economic statements
   A) prescribe what should be.
   B) are related only to microeconomics.
   C) can be tested against the facts.
   D) cannot be tested against the facts.

11. A normative statement concerns
   A) what is provable.
   B) what is correct.
   C) what is incorrect.
   D) a value judgment.

12. Which of the following statements about economic models is true?
   A) Economic models are not empirically testable.
   B) The predictive power of models is not important.
   C) Economic models are designed so that every detail of the real world can be analyzed.
   D) Every economic model is based on a set of assumptions.

13. An economic model is
   A) a generalization that summarizes what we think we understand about the economic choices that people make and the performance of industries and entire economies.
   B) a description of some aspect of the economic world that includes only those features of the world that are needed for the purpose at hand.
   C) a statement that describes how the world should be.
   D) a collection of facts that describe the real world.

14. Every time Joe washes his car, it rains the next day. If Joe concludes his car washing causes it to rain, he would be
   A) making the fallacy of composition mistake.
   B) making the *post hoc* fallacy.
   C) comparing marginal cost to marginal benefit.
   D) calculating incentives.

15. The statement that “peach ice cream is better than chocolate ice cream”
   A) can be tested using the scientific approach.
   B) is a normative statement.
   C) is a statement of fact.
   D) provides a basis for predicting which type of ice cream will exhibit the most sales.

PART II: MACROECONOMICS

16. Modern macroeconomics emerged from
  A) the Great Depression
  B) the productivity growth slowdown
  C) hyperinflation
  D) the budget and current account deficits

17. John Maynard Keynes
  A) wrote about macroeconomics in the 1700s
  B) is known for his recommendations for increasing long-run economic growth
  C) believed the Great Depression was caused by insufficient private spending
  D) recommended that government decrease its spending

18. John Maynard Keynes was the author of ____, which was published in 1936.
  A) *Explanations of the Great Depression*
  B) *The Wealth of Nations*
  C) *The General Theory of Employment, Interest and Money*
  D) the first macroeconomics textbook.

19. John Maynard Keynes' work focused on
  A) short-term economic problems.
  B) solutions for long-term economic growth.
  C) the long-term consequences of inflation.
  D) collecting better statistics to better understand the Great Depression.

20. Economic growth is measured by increases in
  A) resource use.
  B) real GDP.
  C) satisfaction.
  D) employment and unemployment.

21. Potential GDP
  A) measures the actual production from year to year.
  B) measures the output that could be produced if the economy was fully employed.
  C) is cyclical.
  D) Both answers A and C are correct

22. In any year, the real GDP of an economy
  A) must always be less than potential GDP.
  B) may be greater or less than potential GDP.
  C) will always be greater than potential GDP because of the tendency of developed nations to incur inflation.
  D) always equals potential GDP.

23. The business cycle refers to
  A) fluctuations in the level of real GDP around potential GDP.
  B) changes in the level of nominal GDP.
  C) changes in the level of the stock market.
  D) changes in the level of employment.