1. Suppose you find $20. If you choose to use the $20 to go to the football game, your opportunity cost of going to the game is most accurately measured as

a. nothing, because you gave up nothing when you found the money.
b. $20 of other goods and services.
c. $20 of other goods and services plus the value of your time spent at the game.
d. the value of your time spent at the game.
e. $20 of other goods and services, plus the value of your time spent at the game, plus the food you bought for dinner at the game.

2. Stan buys a 1965 Mustang, which he plans to restore and sell. He estimates that the cost of the car, repairs, and restoration will be $10,000, and he anticipates selling it for $13,000. After he has spent $10,000, he discovers that the car needs a new engine, which will cost $4000 to purchase and install. He can sell the car as is, without the new engine, for $9000. As a rational decision maker, Stan would

a. complete the repairs and sell the car for $13,000.
b. cut his losses and sell the car for now $9000.
c. be indifferent between completing the project and selling the car now.
d. not to try to compete with professionals in the restoration market again.

3. Which of the following does not result when seat belt laws alter a driver’s cost-benefit calculation?

a. Fewer drivers are killed.
b. More pedestrians are killed.
c. Drivers drive faster.
d. Drivers run more red lights.
e. More accidents occur.

4. Which of the following is a normative statement?

a. Imposing a living wage requirement in Bloomington would raise unemployment among young and unskilled workers.
b. An increase in unemployment is worse for society than an increase in inflation.
c. If interest rates increase, investment spending will decrease.
d. Consumer incomes and demand for automobiles are positively correlated.
e. An equal reduction in the income tax rate will benefit all taxpayers.

5. Which of the following would not properly belong on the axes of a Production
Possibilities Frontier?

a. A forklift
b. The skills and knowledge of workers
c. Cheese
d. Coal reserves
e. A cell phone

6. The prairie dog has long been considered a nuisance for American cattle ranchers; they dig holes that cattle can step in and they eat grass that is supposed to feed the cattle. Recently, ranchers have discovered that there is a market demand for prairie dogs as pets. In some areas, prairie dogs can sell for as much as $150 each. Cattlemen are now fencing off prairie dog towns on their land so they won‘t be disturbed by cattle. On the Production Possibilities Frontier above, the initial output combination is Point A. Then suppose the government announces that gray wolves will be introduced back into the wild, and ranchers protest this reintroduction of wolves by idling 25% of their available grazing land. The new prairie dog/cattle output combination is best illustrated by Point

a. E
b. B
c. C
d. D

7. Which of the following statements about trade is true?
a. Unrestricted international trade benefits every person in a country equally.
b. Persons that are skilled at all activities cannot benefit from trade.
c. Trade can benefit everyone in a society because it allows people to specialize in activities in which they have an absolute advantage.
d. Trade can benefit everyone in a society because it allows people to specialize in activities in which they have a comparative advantage.

8. During an hour, Alex can produce 8 pounds of cookies or 4 quarts of ice cream; Sydney can produce 6 pounds of cookies or 2 quarts of ice cream. The opportunity cost of 1 quart of ice cream for Alex is

a. 1/2 pound of cookies.
b. 2 pounds of cookies.
c. 1/4 pound of cookies.
d. 1/8 pound of cookies.
e. 1/3 pound of cookies.

9. According to the data in question (8) above, Sydney has the comparative advantage in

a. ice cream and Alex has the comparative advantage in cookies.
b. cookies and Alex has the comparative advantage in ice cream.
c. neither good, and Alex has the comparative advantage in both goods.
d. both goods, and Alex has the comparative advantage in neither good.

10. According to the data in question (8) above, a mutually beneficial rate of trade would be

a. 1 pound of cookies for 5/2 quarts of ice cream.
b. 1 pound of cookies for 3/2 quarts of ice cream.
c. 1 quart of ice cream for 2/3 pound of cookies.
d. 1 quart of ice cream for 4/3 pounds of cookies.
e. 1 pound of cookies for 2/5 quart of ice cream.
11. According to the graph above, the opportunity cost of moving from Point A to Point B is
   a. 8 bathtubs.
   b. 20 barrels.
   c. the difference between the 8 bathtubs you get and the 20 barrels you give up.
   d. the difference between the 20 bathtubs you get and the 8 barrels you give up.

12. According to the graph above, an efficient combination of bathtubs and barrels would be
   a. 30 barrels and 6 bathtubs.
   b. 20 barrels and 8 bathtubs.
   c. 25 barrels and 10 bathtubs.
   d. 15 barrels and 12 bathtubs.

13. According to the graph above, if this economy devotes all its resources to the production of bathtubs, it could produce
   a. 20 barrels and 12 bathtubs.
   b. 35 barrels and no bathtubs.
   c. no barrels and 16 bathtubs.
   d. 16 bathtubs, but that would be an inefficient allocation of resources.

14. If sellers of gasoline expect the price to be higher in the future,
   a. the supply of gasoline would increase and the price would rise.
   b. the supply of gasoline would increase and the price would fall.
   c. the supply of gasoline would decrease and the price would fall.
   d. the supply of gasoline would decrease and the price would rise.

15. An increase in the demand for a good will tend to cause
a. an increase in the equilibrium price and quantity.
b. a decrease in the equilibrium price and quantity.
c. an increase in the equilibrium price and a decrease in the equilibrium quantity.
d. a decrease in the equilibrium price and an increase in the equilibrium quantity.
e. an increase in equilibrium price and an increase in supply, followed by a decrease in equilibrium price.

16. Which of the following is true about the impact of an increase in the price of hot dogs?

a. The demand for mustard will decrease.
b. The supply of mustard will decrease.
c. The equilibrium price and quantity of mustard will rise.
d. The equilibrium price of mustard will rise and the quantity of mustard will fall.
e. There would be no predictable effect on the market for mustard.

17. On the graph above, the movement from Point A to Point B is called

a. a decrease in supply.
b. an increase in supply.
c. an increase in the quantity supplied.
d. a decrease in the quantity supplied.

18. On the graph above, the movement from Point A to Point B would be caused by

a. a decrease in the price of the good.
b. an increase in the price of the good.
c. a technological advancement
d. an increase in input prices.

19. Suppose that workers at a bicycle assembly plant currently earn $7.00 an hour. Then a living wage law is passed that requires such workers to earn a minimum of $10.00 an
hour. The effect of this law would include

a. a rightward shift of the demand curve for bicycles.
b. a rightward shift of the supply curve of bicycles.
c. a leftward shift of the supply curve of bicycles.
d. a leftward shift of the demand curve for bicycles.

20. Which of the following demonstrates the law of demand?

a. Jon buys more pretzels at $1.50 each after he receives a pay increase at work of $1.00 per hour.
b. Melissa buys fewer muffins at $.75 each than at $1.00 each.
c. Dave buys more donuts at $.25 each that at $.75 each.
d. Kendra buys fewer Snickers at $.60 each after the price of Milky Ways fell to $.50 each.

21. A higher price of batteries would tend to

a. increase the demand for flashlights.
b. increase the demand for electricity.
c. increase the supply of electricity.
d. increase the demand for batteries.

22. A market demand curve shows

a. how much buyers are willing and able to buy at each possible price.
b. how the quantity demanded changes when the number of consumers changes.
c. the fact that the level of income is inversely related to the quantity demanded.
d. the point at which buyers are willing to buy the most.

23. Suppose that roses are currently selling for $40 per dozen. If the market equilibrium price of roses is $30, we would expect

a. a shortage to exist and the market price of roses to rise.
b. a shortage to exist and the market price of roses to fall.
c. a surplus to exist and the market price of roses to fall.
d. a surplus to exist and the market price of roses to rise.
e. no change in the rose market until some outside event shifts demand or supply.

24. If there is an increase in the price of wool shirts, what would likely occur in the market for cotton shirts?
25. Suppose that music lovers experience an increase in incomes. What will likely happen in the market for compact discs?

a. Price will rise and quantity will rise, if CDs are normal goods.
b. Price will fall and quantity will fall, if CDs are normal goods.
c. Price will rise and quantity will rise, if CDs are inferior goods.
d. Price will rise and quantity will fall, if CDs are inferior goods.
e. Price will rise and quantity will fall, if CDs are normal goods.

ANSWERS
1C
2C
3A
4B
5D
6A
7D
8B
9B
10E
11B
12A
13C
14D
15A
16A
17C
18B
19C
20C
21B
22A
23C
24C
25A