ECO 5003, Quiz A Sample Items

True/False

1. Economics studies how decision makers use scarce resources to satisfy unlimited wants.
   a. True
   b. False

2. An economist would classify 100 shares of Apple Computer stock as capital.
   a. True
   b. False

3. A rational economic actor would make charitable contributions only if such contributions receive favorable tax treatment.
   a. True
   b. False

4. Economic decision makers will continue to acquire information only as long as the expected additional benefit exceeds the expected additional cost of the information.
   a. True
   b. False

5. Economic theory allows us to predict the behavior of a specific person or firm.
   a. True
   b. False

6. Opportunity cost is defined as the difference between the benefits and the costs of your choice.
   a. True
   b. False

7. If people specialize in producing those goods for which they possess a comparative advantage, then the economy as a whole can produce a greater quantity of goods.
   a. True
   b. False

8. A rightward shift in a demand curve represents a decrease in demand.
   a. True
   b. False

9. If income rises and a good is inferior, then demand for that good will decrease.
   a. True
   b. False

10. A major disadvantage of the corporate form of business is limited liability.
    a. True
    b. False

11. When externalities are present, market prices do not reflect all the social costs or benefits of the activity.
    a. True
    b. False
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Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

D 1. Which of the following would an economist classify as capital?
   a. 100 shares of Microsoft stock
   b. a $50 bill
   c. a credit card
   d. a lawyer's personal computer
   e. a bauxite mine in Jamaica

A 2. Goods and services are exchanged in
   a. product markets
   b. resource markets
   c. inventory markets
   d. classified markets
   e. government markets

C 3. Macroeconomics is best described as the study of
   a. the behavior of large firms in the marketplace
   b. the economic behavior of individual decision makers
   c. the behavior of the economy as a whole
   d. how to use the fewest natural resources to produce goods and services
   e. government's role as a stabilizing influence on the economy

A 4. In economics, the term "marginal" usually refers to
   a. a small change in an economic variable
   b. a low quality product or resource
   c. an unimportant and irrelevant economic variable
   d. all-or-nothing economic decisions
   e. a footnote or minor point

C 5. The opportunity cost of an activity is
   a. zero if you choose the activity voluntarily
   b. the amount of money spent on the activity
   c. the value of the best alternative not chosen
   d. the sum of benefits from all of the sacrificed alternatives
   e. the difference between the benefits and the costs of that activity

D 6. If Jason can wash a car in 20 minutes and wash the dog in 10 minutes, and Megan can wash the car in 15 minutes and wash the dog in 15 minutes, which of the following statements is true?
   a. The opportunity cost of washing the car is greater for Megan.
   b. The opportunity cost of washing the car is one dog bath for Jason.
   c. Megan could wash two cars in the time it takes to wash the dog.
   d. Jason has both a comparative and an absolute advantage in washing the dog.
   e. The opportunity cost of washing the dog is greater for Jason.
7. The division of labor
   a. allows more people to be employed
   b. allows tasks to be performed more efficiently
   c. makes people happier on the job
   d. means that less management is required
   e. means that less equipment will be used

8. On a given production possibilities frontier, which of the following is not assumed to be fixed?
   a. the amount of labor available
   b. the amount of capital available
   c. the level of technology
   d. the amount of land and natural resources available
   e. production of each item

9. The demand for a product is the amount that
   a. buyers purchase in the market
   b. buyers are willing to purchase at a given price
   c. sellers are willing to sell at a particular price
   d. buyers are willing and able to purchase at alternative prices
   e. buyers are able to purchase at a specific price

10. Movements along a demand curve are called changes in
    a. demand
    b. opportunity costs
    c. quantity demanded
    d. the substitution effect
    e. preferences

11. Households are referred to as suppliers when they supply
    a. goods and services to firms and governments
    b. resources to firms and governments
    c. tax payments to governments
    d. the demand for only what firms supply or make available
    e. money to firms in exchange for goods and services

12. Luigi owns and operates a small restaurant. The income he receives from the restaurant is
    a. savings
    b. proprietor's income
    c. wages and salaries
    d. rental income
    e. dividends
ECO 5003 Quiz A
Sample Problems.

**Problem A.**

The quarterly demand curve for mountain bikes in a large metro area is estimated to be 
\[ Q = 9000 - 20P. \]
1. What quantity demanded occurs when \( P = 0 \)?
2. What is the price axis intercept of the demand curve?
3. How many bicycles will be buyers be willing to buy and able to afford if \( P = 350 \)?
4. If the supply curve of bicycle sellers is \( Q = -800 + 15P \), what will be the equilibrium quantity traded and the equilibrium price?

**Answer:**
1. \( Q = 9000 \)
2. \( P = 450 \)
3. \( Q = 2000 \)
4. \( Q = 3400; P = 280. \)

**Problem B.**

Here are data showing the time it takes Bob and Jane to do selected tasks:

<table>
<thead>
<tr>
<th></th>
<th>Bob</th>
<th>Jane</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wash Dog</td>
<td>40 minutes</td>
<td>30 minutes</td>
</tr>
<tr>
<td>Make Pizza</td>
<td>50 minutes</td>
<td>25 minutes</td>
</tr>
</tbody>
</table>

1. Do you see any absolute advantage(s)?
2. Identify any comparative advantages.
3. Who should specialize in dog washing? In pizza making?

**Answer**
1. Jane has absolute advantages in both activities, since she does both tasks in less time than that required by Bob.
2. Bob has a lesser absolute disadvantage (therefore a *comparative advantage*) in dog washing (takes 4/3 as much time as Jane, whereas he takes twice as much as her for pizza making). Jane, then, has a comparative advantage in pizza making (takes her only 1/2 as much time as Bob, but dog washing takes her 3/4 as much).
3. Bob should do the dog, and Jane, the pizza.

**Problem C.**

For two types of goods, consumer goods and producer goods:
1. Draw a production possibilities frontier that assumes constant opportunity cost.
2. Draw a production possibilities frontier that assumes increasing opportunity cost.
3. Where are the unattainable combinations in each of the above cases?
4. For the increasing cost case, label a point, \( Z \), that is consistent with inefficiency in the economy. Could this point also represent unemployment?
5. For that same diagram label a point, \( X \), that would constitute a rational choice if the economy’s decision makers had an objective of rapid economic growth.

**Answer**
1. Your PPF should be a straight, downward-sloping line.
2. Your PPF should be concave toward the origin, a curve of ever-decreasing slope.
3. They lie to the right of the curve.
4. \( Z \) will lie between the curve and the axes (inside the curve).
5. \( X \) should lie somewhere near the producer goods axis, since more future output requires investment in producer goods.