AK - Midterm #1 Practice Multiple Choice Questions:

Economics is the study of
a. production methods.

b. **how society manages its scarce resources.**
c. how households decide who performs which tasks.
d. the interaction of business and government.

When a society cannot produce all the goods and services people wish to have, it is said that the economy is experiencing
a. **scarcity.**
b. surpluses.
c. inefficiencies.
d. inequalities.

Economists use the word *equality* to describe a situation in which
a. **each member of society has the same income.**
b. each member of society has access to abundant quantities of goods and services, regardless of his or her income.
c. society is getting the maximum benefits from its scarce resources.
d. society's resources are used efficiently.

Economists make assumptions in order to
a. mimic the methodologies employed by other scientists.
b. minimize the number of experiments that yield no useful data.
c. minimize the likelihood that some aspect of the problem at hand is being overlooked.
d. **focus their thinking on the essence of the problem at hand.**

Where can an economy *not* produce?
a. inside its production possibilities frontier
b. on its production possibilities frontier
c. **outside its production possibilities frontier**
d. at the endpoints of its production possibilities frontier

In the figure to the right, inefficient production is represented by which point(s)?

a. J, L
b. J, L, M
c. K, N
d. **M**
Because it is difficult for economists to use experiments to generate data, they generally must
   a. do without data.
   b. substitute assumptions for data when data are unavailable.
   c. rely upon hypothetical data that were previously concocted by other economists.
   d. **use whatever data the world gives them.**

Comparative advantage is related most closely to which of the following?
   a. output per hour
   b. **opportunity cost**
   c. efficiency
   d. bargaining strength in international trade

Which of the following is *not* correct?
   a. The producer who requires a smaller quantity of inputs to produce a good is said to have
      an absolute advantage in producing that good.
   b. The producer who gives up less of other goods to produce Good X has the smaller
      opportunity cost of producing Good X.
   c. The producer who has the smaller opportunity cost of producing a good is said to have a
      comparative advantage in producing that good.
   d. **The gains from specialization and trade are based not on comparative advantage but on absolute advantage.**

In a market economy, supply and demand are important because they
   a. are direct policy tools used by government agencies to regulate the economy.
   b. illustrate when a market is in equilibrium, but they are not helpful when a market is out of equilibrium.
   c. **can be used to predict the impact on the economy of various events and policies.**
   d. All of the above are correct.

A competitive market is one in which there
   a. is only one seller, but there are many buyers.
   b. are many sellers, and each seller has the ability to set the price of his product.
   c. are many sellers, and they compete with one another in such a way that some sellers are always being forced out of the market.
   d. **are so many buyers and so many sellers that each has a negligible impact on the price of the product.**
Buyers and sellers who have no influence on market price are referred to as
   a. market pawns.
   b. monopolists.
   c. price takers.
   d. price setters.

Which of these statements best represents the law of demand?
   a. When buyers’ tastes for a good increase, they purchase more of the good.
   b. When income levels increase, buyers purchase more of most goods.
   c. **When the price of a good decreases, buyers purchase more of the good.**
   d. When buyers’ demands for a good increase, the price of the good increases.

A movement downward and to the left along a supply curve is called a(n)
   a. increase in supply.
   b. decrease in supply.
   c. **decrease in quantity supplied.**
   d. increase in quantity supplied.