

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Complete the following sentence. Marginal cost is 1) _____
A) the cost of an increase in an activity.
B) equal to marginal benefit.
C) the opportunity cost of a decrease in an activity.
D) the cost of a decrease in an activity.
E) the total cost of an activity.
- 2) Complete the following sentence. A price floor set below the equilibrium price results in 2) _____
A) a shortage.
B) the equilibrium price.
C) an increase in supply.
D) a surplus.
E) a decrease in demand.
- 3) When the government of Alberta chooses to build more roads, the required resources are no longer 3) _____
available to provide better health care facilities. This situation illustrates the concept of
A) marginal benefit.
B) entrepreneurship.
C) monetary cost.
D) opportunity cost.
E) human capital.
- 4) An economic model is tested by 4) _____
A) the Testing Committee of the Canadian Economic Association.
B) examining the realism of its assumptions.
C) comparing its complexity to other models that deal with similar issues.
D) comparing its descriptions and examining the realism of its assumptions.
E) comparing its predictions with the facts.

Use the figure below to answer the following questions.

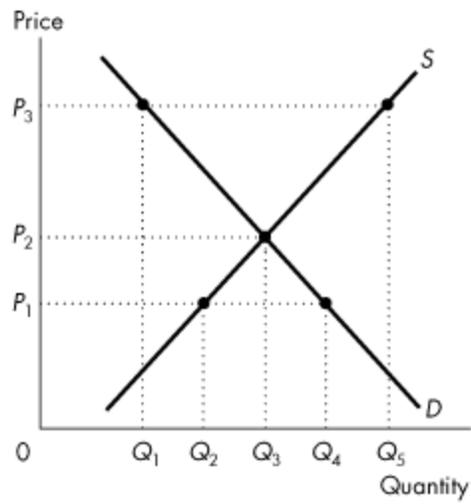


Figure 3.4.1

- 5) At price P_3 in Figure 3.4.1,
- A) there is a tendency for the price to rise.
 - B) equilibrium quantity is Q_5 .
 - C) there is a shortage in the amount of $Q_5 - Q_1$.
 - D) there is a surplus in the amount of $Q_5 - Q_1$.
 - E) this market is in equilibrium.

5) _____

Use the figure below to answer the following questions.

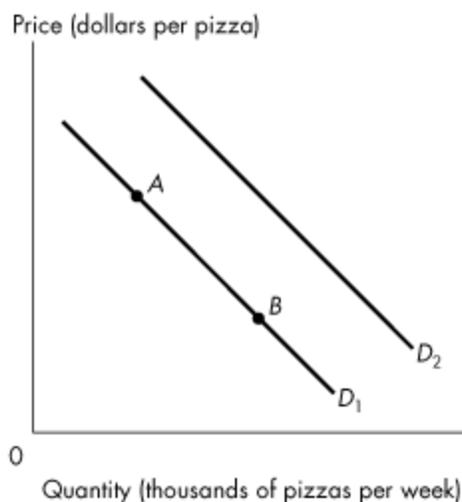


Figure 3.2.2

- 6) Which one of the following would result in the demand curve shifting from D_1 to D_2 in Figure 3.2.2? 6) _____
- A) a fall in the price of pizza
 - B) a rise in the price of hamburgers, a substitute for pizza
 - C) a rise in the price of Coke, a complement of pizza
 - D) an increase in the supply of pizza
 - E) a rise in the price of pizza
- 7) A shortage will exist if 7) _____
- A) demand decreases.
 - B) the price is below the equilibrium price.
 - C) the price is above the equilibrium price.
 - D) there are not enough producers.
 - E) there are not enough consumers.
- 8) The price of plums falls by 7 percent and quantity of plums demanded increases by 6.75 percent. We conclude that the demand for plums is 8) _____
- A) perfectly elastic.
 - B) inelastic.
 - C) perfectly inelastic.
 - D) unit elastic.
 - E) elastic.
- 9) An illegal market in which the equilibrium price exceeds the price ceiling is 9) _____
- A) a black market.
 - B) a rental market.
 - C) a housing market.
 - D) a capital market.
 - E) an efficient market.

- 10) The law of demand states that, other things remaining the same, 10) _____
A) the higher the price of a good, the smaller is the quantity supplied.
B) the higher the price of a good, the greater is the quantity demanded.
C) as income increases, willingness to pay for the last unit increases.
D) the higher the price of a good, the smaller is the quantity demanded.
E) price and quantity supplied are positively related.
- 11) Which one of the following will shift the supply curve of good X leftward? 11) _____
A) a decrease in the wages of workers employed to produce X
B) an increase in the cost of machinery used to produce X
C) a situation where quantity demanded exceeds quantity supplied
D) a technological improvement in the production of X
E) a decrease in the cost of capital used to produce X
- 12) The relative price of a good is all of the following *except* 12) _____
A) the same as the money price of a good.
B) the money price of the good divided by a price index.
C) an opportunity cost.
D) the ratio of one price to another.
E) determined in a market.
- 13) "The rich should face higher income tax rates than the poor." This is an example of 13) _____
A) a normative statement.
B) a negative statement.
C) a positive statement.
D) neither a normative nor a positive statement.
E) economic reasoning.
- 14) If a rent ceiling imposed by the government is greater than the equilibrium rent for housing, then 14) _____
A) a shortage of housing will occur.
B) a surplus of housing will occur.
C) the equilibrium rent will rise.
D) the supply of rental housing will increase.
E) the equilibrium rent will prevail as long as all else remains constant.
- 15) The law of supply tells us that other things remaining the same, as the 15) _____
A) price of gasoline rises, the quantity of gasoline supplied decreases.
B) supply of gasoline increases, the price of gasoline falls.
C) price of gasoline falls, the quantity of gasoline supplied decreases.
D) cost of producing gasoline increases, the price of gasoline rises.
E) cost of producing gasoline falls, the supply of gasoline will increase.
- 16) A decrease in the quantity supplied is shown by a 16) _____
A) movement up along the supply curve.
B) rightward shift of the demand curve.
C) rightward shift of the supply curve.
D) movement down along the supply curve.
E) leftward shift of the supply curve.

- 17) Model *A* is superior to model *B* if 17) _____
- A) its predictions correspond more closely to the facts than the predictions of model *B*.
 - B) it contains fewer unrealistic assumptions than model *B*.
 - C) it is scientifically "elegant."
 - D) it is preferred by a majority of researchers in a public opinion poll.
 - E) it contains more real world detail than model *B*.
- 18) A price elasticity of demand of 2 means that a 10 percent increase in price will result in a 18) _____
- A) 20 percent decrease in quantity demanded.
 - B) 2 percent decrease in quantity demanded.
 - C) 5 percent decrease in quantity demanded.
 - D) 20 percent increase in quantity demanded.
 - E) 2 percent increase in quantity demanded.
- 19) Opportunity cost is 19) _____
- A) the value of your favourite activity.
 - B) the highest-valued alternative that we give up to get something.
 - C) the money you spend on food, shelter, and clothing.
 - D) the marginal benefit from an activity.
 - E) your value of leisure.
- 20) How many sides does a market have? 20) _____
- A) one side - sellers
 - B) three sides - buyers, sellers, and the government
 - C) two sides - buyers and sellers
 - D) one side - buyers
 - E) two sides - domestic and foreign
- 21) Which of the following "other things" are *not* held constant along a demand curve? 21) _____
- A) prices of related goods
 - B) the price of the good itself
 - C) preferences
 - D) income
 - E) expected future income and credit
- 22) Which of the following statements is normative? 22) _____
- A) Warts are caused by handling toads.
 - B) If income increases, sales of luxury goods fall.
 - C) As compact disc prices fall, people buy more of them.
 - D) Scientists should not make normative statements.
 - E) There is more caffeine in a cup of tea than in a cup of coffee.

Use the figure below to answer the following questions.



Figure 3.2.1

- 23) Point A in Figure 3.2.1 indicates that 23) _____
- A) \$1 is the least that consumers are willing to pay for the 4,000th apple.
 - B) consumers will not be in equilibrium if the price of an apple is \$1.
 - C) if the price is \$1, consumers will plan to buy 4,000 apples.
 - D) consumers will only pay \$1 for any apple.
 - E) if the price is more than \$1, consumers will buy 9,000 apples.
- 24) Statements about "what ought to be" are called 24) _____
- A) scientific statements.
 - B) normative statements.
 - C) positive statements.
 - D) hypotheses.
 - E) economic statements.
- 25) Governments tend to tax items with inelastic demand because 25) _____
- A) governments wish to avoid big rises in after-tax prices.
 - B) buyers pay most of the tax in these cases.
 - C) these goods yield the most tax revenues.
 - D) sellers pay most of the tax in these cases.
 - E) none of the above.

Use the figure below to answer the following questions.

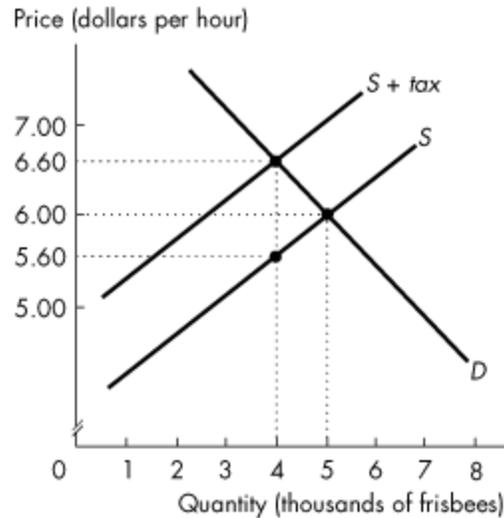


Figure 6.3.1

- 26) Refer to Figure 6.3.1 showing the market for frisbees before and after a tax is imposed. The tax on each frisbee is 26) _____
 A) \$1.00. B) \$6.60. C) \$5.60. D) \$0.60. E) \$0.40.
- 27) In a world characterized by scarcity 27) _____
 A) we are not limited by time.
 B) opportunity cost is zero.
 C) people must make choices among alternatives.
 D) individuals need not work to obtain goods.
 E) all goods are free.
- 28) The branch of economics that studies the choices of individuals and businesses is 28) _____
 A) macroeconomics.
 B) microeconomics.
 C) social economics.
 D) positive economics.
 E) normative economics.
- 29) The inescapable economic fact is that 29) _____
 A) capitalists are always exploiting the workers.
 B) there are unlimited wants and limited resources.
 C) capitalists and unions cannot work together.
 D) unions are always exploiting firms.
 E) there are unlimited resources, and we just have to figure out how to allocate them.
- 30) The buyer pays most of a tax if demand is relatively inelastic because 30) _____
 A) the buyer can easily substitute to other markets.
 B) the government forces the seller to bear the burden of the tax.
 C) the seller cannot easily substitute to other goods.
 D) there is a black market for this good.
 E) the buyer cannot easily substitute to other markets.

Answer Key

Testname: UNTITLED1

- 1) A
- 2) B
- 3) D
- 4) E
- 5) D
- 6) B
- 7) B
- 8) B
- 9) A
- 10) D
- 11) B
- 12) A
- 13) A
- 14) E
- 15) C
- 16) D
- 17) A
- 18) A
- 19) B
- 20) C
- 21) B
- 22) D
- 23) C
- 24) B
- 25) C
- 26) A
- 27) C
- 28) B
- 29) B
- 30) E