ECO402 Solved MCQs
By
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1. What do economists mean when they state that a good is scarce?
a. There is a shortage or insufficient supply of the good at the existing price.
b. It is impossible to expand the availability of the good.
c. People will want to buy more of the good regardless of price.
d. The amount of the good that people would like to have exceeds the supply that is freely available from nature.

2. Economic choice and competitive behavior are the result of
a. basic human greed.
b. poverty.
c. private ownership of resources.
d. scarcity.

3. Rationing is
a. the allocation of a limited supply of a good or resource among users who would like to have more of it.
b. a function that can only be performed by market prices.
c. a function that is unnecessary except in cases where markets are used to allocate goods and resources.
d. essential only when the price of a product is set above market equilibrium.

4. The expression, "There's no such thing as a free lunch" implies that
a. everyone has to pay for his own lunch.
b. the person consuming a good must always pay for it.
c. costs are incurred when resources are used to produce goods and services.
d. no one has time for a good lunch anymore.

5. Which one of the following states a central element of the economic way of thinking?
a. Scarce goods are priceless.
b. Incentives matter--if the personal cost of a choice increases, individuals will be less likely to choose it.
c. The realism of the assumptions is the best test of an economic theory.

d. When deciding how to allocate time, the concept of opportunity cost is meaningless.

6. Which of the following is most clearly consistent with the basic postulate of economics with regard to human decision making?
a. People will never choose work over leisure.
b. People will buy less gas if the gasoline tax decreases 20 cents per gallon.
c. People will buy more orange juice at $2 per gallon than at $1 per gallon.
d. People will consume less beef if the price increases from $1 to $2 per pound.

7. Which one of the following is a positive economic statement?
a. An increase in the price of butter causes consumers to buy less butter.
b. Social conscience demands that we increase the minimum wage.
c. Taxes should be raised to halt inflation.
d. The sales tax on food should be repealed.

8. The basic difference between macroeconomics and microeconomics is that
a. macroeconomics looks at the forest (aggregate markets), while microeconomics is concerned with the individual trees (subcomponents).
b. macroeconomics is concerned with policy decisions, while microeconomics applies only to theory.
c. microeconomics is concerned with the forest (aggregate markets), while macroeconomics is concerned with the trees (components).
d. opportunity cost is applicable to macroeconomics, and the fallacy of composition relates to microeconomics.

9. Economic analysis assumes that
a. for the most part, individuals act out of selfish motives, and it is realistic to assume this is always true.
b. although individuals are at times selfish and at times altruistic, only their selfish actions may be predicted.
c. people are basically humanitarian and their actions are therefore difficult to predict.
d. changes in the personal benefits and costs associated with an activity will exert a predictable influence on human behavior.

10. Adam Smith believed that if people were free to pursue their own interests, then
a. greed and cheating would prevail in the market.
b. less would be produced than if altruism were our guiding principle.
c. they would generally be encouraged to produce goods and services that others valued highly (relative to their costs).
d. the public interest would be best served, but the interests of employers would be hurt.

1. Which of the following sayings best reflects the concept of opportunity cost?
a. "You can't teach an old dog new tricks."
b. "Time is money."
c. "I have a baker's dozen."
d. "There's no business like show business."

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2. If an economy is operating at a point inside the production possibilities curve,
a. its resources are being wasted.
b. the curve will begin to shift inward.
c. the curve will begin to shift outward.
d. This is a trick question because an economy cannot produce at a point inside the curve.

3. The primary benefit that results when a nation employs its resources in accordance with the principle of comparative advantage is
a. an expansion in capital investment resulting from a reallocation of resources away from consumption.
b. a larger output resulting from a more efficient use of resources.
c. greater equality of income resulting from an increase in the number of workers.
d. an increase in the profitability of business enterprises resulting from an increase in capital formation.

4. The price of an airline ticket from Denver to Washington, D.C., is $600. A bus ticket is $150. Traveling by plane takes six hours, compared with 36 hours by bus. Other things constant, an individual would gain by choosing air travel if, and only if, his time were valued at more than
a. $6 per hour.
b. $8 per hour.
c. $10 per hour.
d. $15 per hour.

5. Does voluntary exchange create wealth (value)?
a. No, exchange does not expand output.
b. No, if one person gains, the other party must lose an equal amount.
c. Uncertain, it does when it results in the creation of additional goods and services; otherwise it does not.

d. Yes, trade generally permits the trading partners to gain more of what they value; this is why they agree to the terms of the exchange.

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6. "Now that Blake paints the broad surfaces and I do the trim work, we can paint a house in three-fourths the time that it took for each of us to do both." This statement most clearly reflects http://vustudents.ning.com
a. the importance of secondary effects.
b. the fallacy of composition.
c. the law of comparative advantage.
d. behavior inconsistent with economizing.

7. Which of the following will most likely occur under a system of clearly defined and enforced private property rights?
a. Resource owners will fail to conserve vital resources, even if they expect their scarcity to increase.
b. Resource owners will ignore the wishes of others, including others who would like to use the resource that is privately owned.
c. Resource owners will fail to consider the wishes of potential future buyers when they decide how to employ privately owned resources.
d. Resource owners will gain by discovering and employing their resources in ways that are highly valued by others.

8. Three basic decisions must be made by all economies. What are they?
a. how much will be produced; when it will be produced; how much it will cost
b. what the price of each good will be; who will produce each good; who will consume each good
c. what will be produced; how goods will be produced; for whom goods will be produced
d. how the opportunity cost principle will be applied; if and how the law of comparative advantage will be utilized; whether the production possibilities constraint will apply

9. If a firm or a nation desires to maximize its output, each productive assignment should be carried out by those persons who
a. have the highest opportunity cost.
b. have a comparative advantage in the productive activity.
c. can complete the productive activity most rapidly.
d. least enjoy performing the productive activity.

10. "The economic wealth of this country is primarily the result of the profit made by some individuals at the expense of others." The person who made this statement
a. has failed to comprehend that mutual gains result from specialization and

exchange.
b. has failed to comprehend the fallacy of composition.
c. has failed to understand the significance of the production possibilities constraint.
d. has utilized the economic way of thinking; the statement is essentially correct.

1. Which of the following would most likely increase the demand for peanut butter?
a. a decrease in the price of bread, a good that is often used with peanut butter
b. a discovery that the average daily consumption of peanut butter increases one's life span by 15 years
c. crop failures that raise the price of peanuts
d. a decrease in the price of all substitute protein products

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2. Economic profit is best defined as
a. a company's net income as indicated by its accounting statement.

b. the difference between the price of a product and the monetary cost of the raw materials used to produce it.
c. the difference between the revenue from the sale of a product and the opportunity cost of the resources used to produce it.
d. income paid by a business to its owners.

3. The long run is a time period of sufficient length to enable
a. producers to alter their use of fixed capital (the size of their plant and equipment).
b. producers to alter their output by utilizing labor and raw materials more intensively.
c. decision makers to adjust fully to a change in market conditions.
d. Both a and c are correct.

4. The number of persons wanting tickets to Super Bowl games is invariably greater than the number of tickets (and seats) available. This is evidence that the price of the tickets is
a. higher than the competitive equilibrium price.
b. equal to the competitive equilibrium price since the number of tickets bought equals the number sold.
c. lower than the competitive equilibrium price.
d. higher than the competitive equilibrium price when the demand is inelastic but lower when the demand is elastic. http://vustudents.ning.com

5. "A reduction in gasoline prices caused the demand to increase. The lower prices led to an increase in demand for large cars, causing their prices to rise." These statements
a. are essentially correct.
b. contain one error; the lower gasoline prices would cause a reduction in demand for

large cars, not an increase.
c. contain one error; the lower gasoline prices would increase the quantity of gasoline demanded by consumers, not the demand for large cars.
d. contain two errors; the lower gasoline prices would cause the quantity of gasoline demanded (rather than demand for large cars) to increase, and the lower gasoline price would reduce (rather than increase) the demand for large cars.

6. A cold spell in Florida extensively reduced the orange crop, and, as a result, California oranges commanded a higher price. Which of the following statements best explains the situation?
a. The supply of Florida oranges fell, causing the supply of California oranges to increase as well as their price.
b. The supply of Florida oranges fell, causing the supply of California oranges to decrease and their price to increase.
c. The supply of Florida oranges fell, causing their price to increase and the demand for California oranges to increase.
d. The demand for Florida oranges was reduced by the freeze, causing an increase in the price of California oranges and a greater demand for them.

7. When a price floor is above the equilibrium price,
a. quantity demanded will exceed quantity supplied.
b. quantity supplied will exceed quantity demanded.
c. the market will be in equilibrium.
d. This is a trick question because price floors generally exist below the equilibrium price.

8. If the market price of a good is less than the opportunity cost of producing it,
a. the market price of the product will fall in the long run.
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b. producers will increase supply in the long run.
c. resources will flow away from production of the good, causing supply to decline with the passage of time.
d. the situation will remain unchanged as long as supply and demand remain in balance.

9. The price of chicken increases as the result of higher beef prices. This indicates that
a. chicken and beef are substitutes.
b. chicken and beef are complements.
c. the market demand for beef is inelastic.
d. the market demand for chicken is elastic.

10. The invisible hand principle indicates that competitive markets can help promote the efficient use of resources
a. only if buyers and sellers really care, personally, about economic efficiency.
b. even when each market participant cares only about getting a "bigger slice of the pie" rather than about the overall efficiency of resource use.
c. even if business firms fail to produce goods efficiently.
d. if, and only if, businesses recognize their social obligation to keep costs low and use resources wisely. http://vustudents.ning.com

1. "A reduction in gasoline prices caused the demand to increase. The lower prices led to an increase in demand for large cars, causing their price to rise." This statement
a. is essentially correct.
b. contains one error the lower gasoline prices would cause a reduction in demand for large cars, not an increase.
c. contains one error the lower gasoline prices would increase the quantity demanded by consumers, not the demand.
d. contains two errors the lower gasoline prices would cause the quantity demanded (rather than demand) to increase, and the lower gasoline price would reduce (rather than increase) the demand for large cars.

2. "If gasoline sales were taxed, the price of gasoline would rise. Consequently, the quantity demanded of gasoline would decline. As a result of the higher gasoline prices, the demand for fuel-efficient automobiles would increase." This statement is
a. essentially correct.
b. incorrect; the high gasoline prices would cause the demand for gasoline, not the quantity demanded, to fall.
c. incorrect; the statement confuses a change in demand with a shift in supply.
d. incorrect; demand and quantity demanded are confused for both gasoline and fuel-efficient cars.

3. "As the price of gasoline rose, consumers decreased their quantity demanded. In addition, the demand for compact cars increased, causing their price to rise." This statement
a. is essentially correct.
b. contains one error the quantity demanded, not the demand for compact cars, increased.

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c. contains two errors demand and quantity demanded are confused twice.
d. contains one error demand, not quantity demanded, for gasoline decreased.

4. "If gasoline sales were taxed, the price of gasoline would rise. Consequently, the demand for gasoline would decline. As a result of the higher gasoline prices, the demand for fuel-efficient automobiles would increase." This statement is
a. essentially correct.
b. incorrect; the high gasoline prices would cause the quantity demanded of gasoline, not the demand, to fall.
c. incorrect; the statement confuses a change in demand with a shift in supply.
d. incorrect; demand is confused with quantity demanded for both gasoline and fuel-efficient cars.

5. If the supply of apples decreases, which of the following will generally occur in a market setting?
a. Demand for apples will decrease.
b. The quantity demanded will increase.
c. The costs of apple producers will decrease.
d. The price of apples will increase.

6. If the supply of a good decreases, which of the following will generally occur in a market setting?
a. The price of the good will decrease.
b. Demand will decrease.
c. The quantity demanded will increase.
d. The quantity demanded will decrease.

7. "Lower fuel oil prices in 1986 led to a reduction in demand and lower prices of solar heating units. At the lower price, producers of solar heating units reduced the quantity supplied." This statement is
a. false; lower fuel oil prices would increase the demand for and price of solar heating units.
b. false; producers of solar units would expand production rather than reduce output if the price of the units fell.
c. false; if the demand for solar units fell, the supply of the units would decrease but not the quantity supplied.
d. essentially correct.

8. If the demand for a good increases, which of the following will generally occur in a market setting?
a. The price of the good will decrease.
b. The supply of the good will increase.

c. The quantity supplied will increase.
d. Producer profits will fall.

9. If the demand for a good decreases, which of the following will generally occur in a market setting?
a. The price of the good will increase.
b. The supply of the good will decrease.
c. The quantity supplied will decrease.
d. Producer profits will rise.

10. In a market economy, an increase in demand will generally cause the equilibrium
a. price to fall.
b. quantity supplied to increase.
c. quantity demanded to fall.
d. number of firms in the market to decline.

11. A decrease in demand will
a. reduce supply.
b. increase the quantity traded in the market.
c. cause higher prices, although quantity traded in the market will decline.
d. lead to a reduction in the quantity supplied.

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1. If the United Auto Workers union can obtain a substantial wage increase for auto workers, the price of automobiles will rise. The rise can be attributed to
a. a shift to the right in the supply curve for automobiles.
b. a shift to the left in the supply curve for automobiles.
c. a shift to the right in the demand curve for automobiles.
d. a shift to the left in the demand curve for automobiles.

2. When a price floor is above the equilibrium price,
a. quantity demanded will exceed quantity supplied.
b. quantity supplied will exceed quantity demanded.
c. the market will be in equilibrium.
d. This is a trick question because price floors generally exist below the equilibrium price.

3. Rent control applies to about two-thirds of the private rental housing in New York City. Economic theory suggests that the below-equilibrium prices established by rent controls would

a. redistribute income from tenants to landlords.
b. promote a rapid increase in the future supply of housing.
c. result in poor service and quality deterioration of many rental units.
d. lead to a reduction in housing discrimination against minorities.

4. Which of the following is the most likely result of an increase in the minimum wage?
a. an increase in the employment of unskilled workers
b. a decrease in the unemployment rate of unskilled workers
c. an increase in the demand for unskilled workers
d. a decrease in the employment of unskilled workers

1. Which one of the following would most likely increase the demand for coffee?
a. a decrease in consumer income
b. a decrease in the price of coffee
c. an increase in the price of tea, a close substitute
d. a drought in the coffee-producing regions of Brazil

2. A 10 percent increase in the price of sugar reduces sugar consumption by about 5 percent. The increase causes households to
a. spend more on sugar.
b. spend less on sugar.
c. spend the same amount on sugar.
d. consume more goods like coffee and tea that are complements of sugar.

3. If the price of gasoline fell, the market demand curve for automobile tires, a complement, would
a. shift to the right.
b. shift to the left.
c. remain stationary.
d. become more elastic.

4. When economists say the demand for a product has increased, they mean that the
a. demand curve for the product has shifted to the left.
b. price of the product has fallen, and consequently consumers are buying more of the product.
c. cost of producing the product has increased.
d. amount of the product that consumers are willing to purchase at various prices has increased.

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5. "I like ice cream, but after eating homemade ice cream last night, I want to have

something else for dessert today." This statement most clearly reflects
a. the budget constraint.
b. consumer irrationality.
c. the second law of demand: price elasticity increases with time.
d. the law of diminishing marginal utility.

6. People can travel within Washington, D.C., via the Metro subway system or by taxi. Suppose that taxi fares increase by 20 percent, while the subway fares remain constant. As the result of the higher taxi fares, the total revenue derived from subway fares _____, while the total revenue derived from taxi fares _____. (Fill in the blanks).
a. will decrease; may either increase or decrease
b. will increase; may either increase or decrease
c. may either increase or decrease; will increase
d. may either increase or decrease; will decrease

7. If Sarah's income rises from $2,000 to $2,400 per month and, as a result, she purchases 40 percent more designer clothing, then her income elasticity for designer clothing is http://vustudents.ning.com
a. 0.5.
b. 1.0.
c. 2.0.
d. Not enough information is given to answer this question.

8. If the price of apples rises from 50 cents to $1.50 and quantity demanded falls from 1000 to 900, then we can conclude that the price elasticity for apples is:
a. -20
b. inelastic
c. elastic
d. both a and c are correct.

9. If the price of gasoline goes up and Dan now buys fewer candy bars because he has to spend more on gas, this would best be explained by the
a. substitution effect
b. income effect
c. highly elastic demand for gasoline
d. any of the above are possible explanations

10. Which of the following would increase the likelihood that consumers might purchase a product?
a. lower product price

b. improved quality
c. successful advertising
d. All of the above are correct.

1. Which of the following items is most likely to be an implicit cost of production?
a. property taxes on a building owned by the firm
b. transportation costs paid to a trucking supplier
c. rental payments for a building utilized by the company and rented from another party
d. interest income foregone on funds invested in the firm by the owners

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2. An advantage of the corporate structure over proprietorship and partnership forms of business organization is that
a. stockholders in the corporation have limited liability, whereas proprietors or partners have unlimited liability.
b. ownership rights of a corporation may be transferred more easily.
c. large investment funds are more easily attracted by the corporation.
d. All of the above are correct.

3. The law of diminishing returns http://vustudents.ning.com
a. is reflected in the eventually rising marginal cost curve for the firm in the short run.
b. implies that average fixed costs will remain unchanged as output expands.
c. is true for physical production activities but not for activities such as studying.
d. applies to a capitalist economy but would be irrelevant if the means of production were owned by the state.

4. Which of the following represents a long-run adjustment?
a. the hiring of four additional cashiers by a supermarket
b. a cutback on purchases of coke and iron ore by a steel manufacturer
c. construction of a new assembly-line plant by an automobile manufacturer
d. the extra dose of fertilizer used by a farmer on his wheat crop

5. In the short run, the marginal cost curve crosses the average total cost curve at
a. a point just below the average fixed cost curve.
b. the minimum point on the average total cost curve.
c. the maximum point of the average variable cost curve.
d. All of the above are correct.

6. When costs that do not change with the level of output are divided by the output level, you have calculated
a. total cost.
b. average total cost.
c. average fixed cost.
d. marginal cost.

7. If consumer demand for oranges suddenly fell, this would most likely reduce the average total costs for growers of
a. bananas, if bananas were frequently consumed with oranges.
b. apples, which consumers often substitute for oranges.
c. grapefruit, because these farmers use the same land and labor pool as orange growers.
d. wheat, because these farmers use land unsuitable for the growing of oranges.

8. Calculating the cost of owning and operating a used car for one year, a political science major included the items listed in the table below:

Purchase price	$5000
Gas and oil (20 cents per mile, 5000 miles)	$1000
Depreciation (estimated decline in the value of the car)	$1800
Insurance	$200
Maintenance	$150
Interest income foregone on $5000	$500
License tag	$80
TOTAL	$8730

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Which of the following is the best appraisal of his calculations?
a. They are correct.
b. There is only one error, depreciation should not be included.
c. There is only one error, the purchase price should not be included.
d. There are two errors, neither the purchase price nor the interest income foregone should be included.

9. What kind of costs are irrelevant when making decisions?
a. sunk costs
b. marginal costs
c. fixed costs
d. variable costs

10. Which of the following would shift a firm's short-run cost curves upward?

a. an advance in technology
b. an increase in employees' wages
c. a decrease in the demand for the firm's product
d. a reduction in excise taxes levied on the firm's product

1. The short-run supply curve is more inelastic than the long-run supply curve because
a. resources are generally cheaper in the short run.
b. in the short run new firms will enter the industry, driving up the prices of resources.
c. consumers are willing to pay higher prices to obtain the commodity now, rather than wait until prices fall.
d. firms have less time to plan and vary all of their productive inputs in the short run; thus, per-unit costs will be higher.

2. In competitive price-taker markets, firms are assumed to be producing
a. identical products.
b. small products.
c. large products.
d. differentiated products.

3. When we say that a firm is a price taker, we are indicating that
a. the firm takes the price established in the market then tries to increase that price through advertising.
b. the firm can increase or decrease its rate of production and sales without having any significant effect on the price of the product it sells.
c. the demand curve faced by the firm is perfectly inelastic.
d. the firm will have to take a lower price if it wants to increase the number of units that it sells.

4. In price-taker markets, individual firms have no control over price. Therefore, the firm's marginal revenue curve is
a. indeterminate.
b. a downward-sloping curve.
c. constant at the market price of the product.
d. precisely the same as the firm's total revenue curve.

5. If marginal cost exceeds marginal revenue, a price-taker firm should
a. expand output.

b. reduce output.
c. lower its price.
d. Both a and c are correct.

6. When firms in a price-taker market are temporarily charging prices that exceed their production costs, the firms
a. will earn long-run economic profit.
b. will expand the scale of their operation and additional firms will enter the industry until price falls to the level of per-unit production cost.
c. will earn short-run economic profits that will be offset by long-run economic losses.
d. must be colluding or rigging the market, or otherwise they would be unable to charge such high prices.

7. When market conditions in a price-taker market are such that firms cannot cover their production costs, then
a. the firms will suffer long-run economic losses.
b. the firms will suffer short-run economic losses that will be exactly offset by long-run economic profits.
c. some firms will go out of business, causing prices to rise until the remaining firms can cover their production costs.
d. all firms will go out of business, since consumers will not pay prices that enable firms to cover their production costs.

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8. When the price of a product rises, the increase in quantity supplied will generally be greater in the long run than the short run because
a. producers maximize short-run, but not long-run, profits.
b. over time, new firms will enter the industry and old firms will expand their operations in response to the price increase.
c. consumers are less resistant to higher prices in the long run than in the short run.
d. consumer income will expand in the long run, causing resource prices to rise, which will induce producers to increase output.

9. If occupational safety laws were changed so that firms no longer had to take expensive steps to meet regulatory requirements, we would expect that
a. the demand for the products of this industry would increase.
b. the market price of the products of this industry would decrease in the short run but not in the long run.
c. the firms in the industry would make long-run economic profit.
d. competition would force producers to pass the lower production costs on to

consumers in the long run.

10. "Our marginal revenue exceeds our marginal costs at current factor prices." This statement indicates that

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a. an expansion in output will increase revenues more than costs.
b. the firm is maximizing its profit.
c. a larger output will reduce the firm's profit.
d. the firm is better at marketing its goods than it is at producing efficiently.

ANSWERS - CHAPTER 21

1. d.

2. a.

3. b.

4. c.

5. b.

6. b.

7. c.

8. b.

9. d.

10. a.

SAMPLE TEST - CHAPTER 22

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1. In a competitive price searcher market, the firms will
 a. be able to choose their price and the entry barriers into the market will be low.
 b. be able to choose their price and the entry barriers into the market will be high.
 c. have to accept the market price for their product and the entry barriers into the market will be low.
 d. have to accept the market price for their product and the entry barriers into the market will be high.

2. A profit-maximizing price searcher will expand output to the point where
 a. total revenue equals total cost.
 b. marginal revenue equals marginal cost.
 c. price equals average total cost.
 d. price equals marginal cost.

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3. In the long run, neither competitive price takers nor competitive price searchers will earn economic profits because
 a. entry barriers into these markets are high.
 b. the government will dictate moderate prices for these firms.
 c. with low barriers to entry, competition among suppliers will force prices down to the level of production costs.
 d. marginal revenue is always less than marginal cost when barriers to entry are low.

4. If firms in a competitive price searcher market are currently experiencing positive economic profits, in the long run
 a. new firms will enter the market, and the current firms will experience a decrease in demand for their products until zero economic profit is again restored.
 b. new firms will enter the market, and the current firms will experience an increase in demand for their products until zero economic profit is again restored.

c. some existing firms will exit the market, and the remaining firms will experience an increase in demand for their products until zero economic profit is again restored.
d. some existing firms will exit the market, and the remaining firms will experience a decrease in demand for their products until zero economic profit is again restored.

5. As long as a market is contestable, even if it has only a few sellers
a. the threat of new entrants will prevent the current producers from producing inefficiently and charging prices above the competitive level.
b. the producers will be able to charge prices that are high enough to produce long-run economic profits.
c. the producers will not face new competition because the barriers to entry are high.
d. the market will never be expected to come close to the competitive result.

6. Entrepreneurial judgment
a. is necessary to make business decisions when no fixed decision rule can be used.
b. is fully incorporated into modern economic models of business behavior.
c. requires complex decisions involving uncertainty, discovery, and business judgment.
d. Both a and c are correct.

7. Compared to the outcome when the firms are price takers, competitive price searcher markets will result in
a. a wider variety of products and higher prices.
b. less product variety and higher prices.
c. a wider variety of products and lower prices.
d. less product variety and lower prices.

8. If a market is in long run equilibrium, which of the following conditions will be present in a competitive price taker market but absent from a competitive price searcher market?
a. P = ATC
b. MR = MC
c. P = MC
d. All of the above are true.

9. The strategy underlying price discrimination is
a. to charge higher prices to customers who have good substitutes available to

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them.
b. to charge everyone the same price, but limit the quantity they are allowed to buy.
c. to increase total revenue by charging higher prices to those with the most inelastic demand for the product and lower prices to those with the most elastic demand.
d. to reduce per unit cost by charging higher prices to those with the most inelastic demand and lower prices to those with the most elastic demand.

10. If a government wanted to increase the prosperity of a nation, it could best serve this goal by
a. protecting domestic industries from international trade.
b. regulating the way in which firms can operate.
c. reducing barriers that restrict the ability of potential competitors to enter markets.
d. subsidizing firms in danger of going out of business.

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ANSWERS - CHAPTER 22

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1. a.

2. b.

3. c.

4. a.

5. a.

6. d.

7. a.

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8. c.

9. c.

10. c.

SAMPLE TEST - CHAPTER 23

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1. When economies of scale are important and an industry tends toward natural monopoly, splitting the industry into small, rival firms will
a. lead to lower prices in the short run.
b. cause prices to rise when demand is inelastic but fall when it is elastic.
c. cause prices to fall because of the decline in producer profits.
d. increase per-unit costs of production.

2. A monopolist will maximize profits by
a. setting his price as high as possible.
b. setting his price at the level that will maximize per-unit profit.
c. producing the output where marginal revenue equals marginal cost and charging a price along the demand curve.
d. producing the output where price equals marginal cost.

3. Which one of the following is the most accurate description of a monopolist?
a. a firm that produces a single product
b. a firm that is the sole producer of a narrowly defined product class, such as yellow, grade A, butter produced in Jackson County, Wisconsin
c. a firm that is the sole producer of a product for which there are no good substitutes in a market with high barriers to entry
d. a firm that is large relative to its competitors

4. Assuming that firms maximize profits, how will the price and output policy of an unregulated monopolist compare with ideal market efficiency?
a. The output of the monopolist will be too large and its price too high.

b. The output of the monopolist will be too large and its price too low.
c. The output of the monopolist will be too small and its price too high.
d. The output of the monopolist will be too small and its price too low.

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5. An oligopolistic market
a. has a small number of rival firms, and each is large relative to the market.
b. makes the demand for each firm dependent on the actions of its rivals.
c. has high entry barriers facing firms that could otherwise enter the market.
d. all of the above answers are correct.

6. Oligopolistic agreements on price tend to be unstable because
a. although the monopoly price is the best price for all firms, oligopolists are unaware of this.
b. although the monopoly price maximizes the joint profits of the firms, a secret price cut by any individual firm will increase the profits of that firm; hence, collusive agreements tend to break down.
c. the demand for the products of oligopolistic industries is inherently unstable relative to the demand for the products of non-oligopolistic industries.
d. firms in oligopolistic industries have more concern for consumers than do firms in competitive industries.

7. The price charged by oligopolists
a. will equal the equilibrium price in a price takers market if the oligopolists collude.
b. will equal the monopoly price if the oligopolists do not collude.
c. will generally lay between the monopoly and competitive market equilibrium prices.
d. will be the same whether the oligopolists cooperate with one another or not.

8. When firms use resources in an attempt to secure and maintain grants of market protection from the government, it is called
a. rent-seeking.
b. collusion.
c. franchising.
d. resource investment.

9. The incentive for the managers of a government-operated firm (for example, a state university) to promote internal efficiency and keep costs low will be
a. weak, because it will be difficult for voters and their representatives to monitor and eliminate the inefficiency of such firms.

b. strong, because public officials will have little concern for personal gain.
c. strong, because voters can easily recognize inefficiency and penalize the public-sector managers who are responsible.
d. weak, because government employees are less competent than those who work in the private sector.

10. When natural monopoly is present in an industry, the per-unit costs of production will be
a. lowest when there are a large number of producers in the industry.
b. lowest when a single firm generates the entire output of the industry.
c. lower for small firms than for large firms.
d. minimized at the output that maximizes the industry's profitability.

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ANSWERS - CHAPTER 23

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1. d.

2. c.

3. c.

4. c.

5. d.

6. b.

7. c.

8. a.

9. a.

10. b.

SAMPLE TEST - CHAPTER 11

---

1. State governments often use licensing to limit the entry of potential competitors into the retail liquor industry. To the extent the licensing procedures limit supply, push up prices, and lead to long-run economic profit, business entrepreneurs

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a. have an incentive to use both economic and political means in attempting to obtain the valuable licenses.
b. have little incentive to enter the licensed industry.
c. would enter the industry only if the licenses were free.
d. would use economic, but not political, methods in attempting to obtain the valuable licenses.

2. Which one of the following public policy alternatives is most likely to increase the competitiveness of markets in the United States?
a. stricter quotas restricting the entry of textile products into the country
b. elimination of tariffs and quotas on automobiles, textiles, and steel products produced in other countries
c. legislation allowing interlocking corporate directorates
d. adoption of tighter licensing restrictions limiting the entry of persons into professional occupations

3. Which of the following practices is clearly illegal under current antitrust legislation?
a. quantity discounts based on cost savings
b. vertical mergers that do not lessen competition
c. conglomerate mergers
d. false or deceptive advertising

4. Which of the following was the first antitrust act passed in the United States?
a. the Federal Trade Commission Act

b. the Clayton Act
c. the Robinson-Patman Act
d. the Sherman Act

5. The Herfindahl Index is useful for measuring the
a. market power of large firms within an industry.
b. market power of the four largest firms in an industry.
c. competitiveness of the U.S. economy.
d. degree of foreign competition present in an industry.

6. In recent years, the federal government was been less likely to oppose mergers, even those increasing a firm's market share, if
a. the merger is expected to reduce the prices paid by buyers of the industry's output.
b. both of the firms involved in the merger are large.
c. the firms compete in a market that is not served by foreign firms.
d. the firms compete in an industry that produces a homogenous product.

7. Economic theory indicates that regulations requiring automobile manufacturers to produce cars with air bags, stronger bumpers, and higher gasoline mileage
a. increase the supply of automobiles and lead to lower automobile prices.
b. decrease the supply of automobiles and lead to higher automobile prices.
c. increase demand and lead to a lower market price of automobiles.
d. leave the market price of automobiles unchanged, since competition will force manufacturers to bear the burden of these regulatory costs.

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8. When making appointments to regulatory agencies, the special interest effect indicates that vote-maximizing political entrepreneurs have a strong incentive to appoint persons sympathetic to
a. the welfare of society in general.
b. the goals of economic efficiency.
c. the desires of those managing the regulated firms.
d. groups whose welfare is unlikely to be affected by the regulatory agency.

9. Public policies designed to improve the health, safety, and environmental conditions of workers or consumers is called
a. antitrust policy.
b. social regulation.
c. economic regulation.
d. All of the above are correct.

10. Which one of the following statements best summarizes U.S. public policy toward
competitive markets?
a. Public policy has consistently promoted competition.
b. Public policy has consistently promoted monopoly, even when competitive markets
would have been a realistic alternative.
c. Public policy has been contradictory, sometimes attempting to promote competition and other times adopting regulatory policies that have stifled competition.
d. Public policy has consistently promoted domestic competition while protecting domestic producers from foreign competitors when they are receiving governmental subsidies.

ANSWERS - CHAPTER 11

---

1. a.

2. b.

3. d.

4. d.

5. a.

6. a.

7. b.

8. c.

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9. b.

10. c.

SAMPLE TEST - CHAPTER 12

---

1. The demand curve for a human resource will be more inelastic, the
 a. lower the skill level necessary to perform the job.
 b. easier it is to obtain the skill and knowledge necessary to provide the resource.
 c. more elastic the demand for the product the resource is used to produce.
 d. more inelastic the demand for the product the resource is used to produce.

2. If skilled labor is three times the cost of unskilled labor, a profit-maximizing firm will vary the quantity of each type of labor until the
 a. marginal product of each is the same.
 b. amount of unskilled labor used is three times the quantity of skilled labor used.
 c. amount of unskilled labor used is one-third the quantity of skilled labor used.
 d. marginal product of unskilled labor is one-third that of skilled labor.

3. The notion that the demand for inputs depends on the demand for outputs is termed
 a. inverse demand.
 b. derived demand.
 c. proportional demand.
 d. notational demand.

4. What concept implies that a firm's marginal revenue product curve for labor will slope downward in the short run?
 a. diminishing marginal returns
 b. the law of supply
 c. the law of decreasing cost
 d. the price equalization principle

5. Which one of the following labor resources will likely have the most inelastic supply schedule in the short run?
 a. filling station attendants

b. sales clerks
c. construction laborers
d. dentists

6. Suppose the United Auto Workers' Union succeeded in obtaining a 10 percent increase in the wages of its workers and that the wage increase caused automobile prices to rise. Employment in the auto industry would most likely fall if
a. the demand for American-made automobiles was highly elastic.
b. the supply of foreign-produced automobiles was highly inelastic.
c. American consumers considered foreign automobiles a poor substitute for American automobiles.
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d. the demand for American automobiles was relatively constant and highly inelastic.

7. If the demand for a consumer good increases, the demand for resources required to make the good will
a. increase.
b. remain the same, but the quantity demanded will increase.
c. decrease due to economies of scale.
d. increase or decrease depending on whether the firm is labor intensive or capital intensive.
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8. The marginal productivity theory most closely relates to the
a. demand for resources.
b. supply of resources.
c. concept of scarcity.
d. noncompetitive aspects of the resource market.

9. A decrease in demand for a product will cause the output of the product to
a. decline and the demand for and prices of productive resources used to produce the product to fall.
b. decrease and both the demand for and prices of productive resources used to produce the product to increase.
c. decrease but the demand for resources used to produce the product will remain constant.
d. increase and the resource prices to rise.

10. If the demand for workers with Ph.Ds. in economics increases, we would expect
a. the wages of economists to increase in the short run and the number of economists employed to expand in the long run.
b. the supply of economists to increase in the short run and their wages to fall

in the long run.
c. a rapid increase in the supply of economists, causing wages to remain constant.
d. the wages of economists to decline in the short run and the number of economists employed to increase in the long run.

ANSWERS - CHAPTER 12

---

1. d.

2. d.

3. b.

4. a.

5. d.

6. a.

7. a.

8. a.

9. a.

10. a.

SAMPLE TEST - CHAPTER 13

1. If all persons had identical preferences and productivity factors (ability, skill level, education, experience, etc.), the highest paying jobs would be the most
a. prestigious.
b. convenient.
c. undesirable.
d. easily learned.

2. Automated production methods are only attractive when they
a. are undertaken in heavily unionized sectors of the economy.
b. reduce per-unit costs.
c. replace workers.
d. decrease labor productivity.

3. Ceteris paribus, compared to a similar job offering no fringe benefits, a job with generous benefits will be likely to pay
a. a lower wage rate.
b. a higher wage rate.
c. the same wage rate.
d. twice the wage rate of the job with offering no fringe benefits.

4. Technological progress generally has the effect of
a. creating permanently higher levels of unemployment.
b. freeing resources that can now go to other uses.
c. lowering the national standard of living.
d. All of the above are correct.

5. Wages in the United States are higher than those in India primarily because
a. the weather is better in the United States.
b. a larger proportion of the labor force is unionized in the United States.
c. less capital per employee is required in the United States.
d. the human and physical capital of American workers exceeds that of their Indian

counterparts.

6. Economic theory suggests that the standard of living of American workers would rise if
a. the minimum wage were doubled.
b. automation were outlawed.
c. workers were forced to retire earlier.
d. technological improvements increased output per worker-hour.

7. If the minimum wage is increased and the demand for low-skill workers is inelastic, then
a. the total wage payment to low-skill workers will rise.
b. the employment of low-skill workers will decline by a larger percent than the increase in wage.
c. firms will substitute low-skill workers for high-skill workers in order to keep their average wage bill roughly constant.
d. the training opportunities available to low-skill workers will improve.

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8. The earnings of all employees in a competitive economy would be equal if
a. all individuals were homogeneous.
b. all jobs were equally attractive.
c. workers were perfectly mobile among jobs.
d. All of the above would be necessary for equality of earnings.

9. Economic theory suggests that college graduates receive higher wages than those with only a high school education because
a. college graduates are more productive.
b. college graduates must be paid higher wages because their educational costs were higher.
c. college graduates have formed stronger unions.
d. the supply of high school graduates is small relative to the demand for their labor.

10. Which of the following is most likely to improve the productivity of the labor force?
a. investment in human capital
b. an increase in the minimum wage
c. an increase in the percent of the population that is unionized
d. federal legislation mandating full employment

ANSWERS - CHAPTER 13

1. c.

2. b.

3. a.

4. b.

5. d.

6. d.

7. a.

8. d.

9. a.

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10. a.

SAMPLE TEST - CHAPTER 14

1. Other things constant, if there were an increase in demand for goods now compared
to goods in the future, we would expect
a. the interest rate to fall.
b. the capital investment rate to rise.
c. current consumption to decline.
d. the demand for loanable funds to increase.

2. The net present value of $1,000 received in the future would
a. decline if the $1,000 were received sooner.
b. increase if the delivery date for the $1,000 were set farther into the future.
c. decrease if the interest rate fell.
d. decrease if the interest rate rose.

3. Which of the following is true?
a. Investment and saving are terms used to describe different aspects of the capital-formation process.
b. When investors finance a project with their own funds, they are also saving.
c. Additional saving is required to finance an increase in investment.
d. All of the above are true.

4. The money rate of interest is the
a. real rate of interest minus the inflationary premium.
b. real rate of interest plus the inflationary premium.
c. real rate of interest divided by the inflationary premium.
d. inflationary premium minus the real interest rate.

5. The pure interest yield is real rate of return that one can expect on
a. purely speculative assets.
b. low-risk assets.
c. funds invested in the commodities market.
d. investments that pay no interest.

6. A competitive capital market is important to society because it directs resources toward projects that
a. can be completed quickly.
b. create wealth.
c. have an outcome that is known with certainty.
d. reduce the value of the resources employed.

7. Economic analysis indicates that when usury laws hold interest below the equilibrium rate,
a. saving will rise.
b. the quantity of loanable funds demanded by borrowers will decline.
c. high-risk borrowers will find it more difficult to obtain loanable funds.
d. there will be an excess supply of loanable funds relative to demand.

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8. Compared to investing in physical capital, human capital investments are more likely to be influenced by
a. non-monetary considerations.
b. depreciation rates.
c. the rate of return.
d. opportunity costs.

9. If we make additional investments in machines that enhance our ability to produce goods and services, then
a. the owners of the investments must borrow funds.
b. the owners of the investments must reduce their current consumption.
c. someone will have to reduce current consumption.
d. future consumption will have to be reduced.

10. If the interest rate were 4 percent, the net present value of $100 to be received one year from now would be
a. $96.15.
b. $98.04.
c. $100.
d. $104.

ANSWERS - CHAPTER 14

1. d.

2. d.

3. d.

4. b.

5. b.

6. b.

7. c.

8. a.

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9. c.

10. a.

SAMPLE TEST - CHAPTER 15

---

1. Which of the following is a powerful weapon that has served to increase the bargaining power of labor unions?
a. right-to-work laws
b. the strike

c. the lockout
d. section 14B of the Taft-Hartley Act

2. Since the demand for a narrowly defined product class (Fords, for example) is more
elastic than the demand for a broadly defined product class (all automobiles), a union will be better able to raise the wages of its members without causing a reduction in their employment when
a. it can organize an entire industry, rather than just selective firms within the industry.
b. it concentrates its organizational efforts on a single firm, ignoring the rest of the industry.
c. the demand for the product is highly elastic.
d. there are many good substitutes for union labor.

3. Which of the following would provide a check that limits the power of a union?
a. union shop provisions
b. foreign competition in the product market
c. a highly inelastic demand for the product
d. All of the above are correct.

4. In the early 1990s, which of the following countries had the smallest percent of its labor force unionized?
a. United States
b. Japan
c. Germany
d. Australia

5. When a union successfully raises the wages of its members, it will also
a. increase total productivity, which must rise in proportion to the wage rate.
b. encourage employers to find a substitute for the union labor.
c. raise the wages of non-union workers.
d. increase the share of income allocated to labor as opposed to capital.

6. As the football season approaches, the threat of a player strike would give
a. both players and management an incentive to bargain seriously.
b. only the players an incentive to bargain seriously.
c. only management an incentive to bargain seriously.
d. neither party much incentive to bargain seriously.

7. The share of the labor force that was unionized increased from approximately 10

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percent in 1930 to more than 30 percent in 1955. During these 25 years, the share of national income allocated to labor (in contrast to capital)
a. remained virtually constant.
b. increased approximately 10 percent.
c. increased between 15 and 25 percent.
d. increased 17.6 percent.

8. Laws that prohibit union shop provisions are called
a. Taft-Hartley statutes.
b. right-to-work laws.
c. yellow dog contracts.
d. social legislation.

9. An increase in the percentage of the labor force that is unionized will cause average wages for all workers to rise because
a. union labor is more productive.
b. profit levels are lowered to increase wages.
c. strike threats promote wage increases.
d. This is a trick question because greater unionization does not imply higher average wages.

10. Which of the following is true?
a. Women are more highly unionized than men.
b. A higher percent of white workers belong to unions than do black workers.
c. The proportion of government employees belonging to a union is substantially higher than the proportion of private-sector workers who are union members.
d. There is little difference in incidence of unionization among occupational categories.

ANSWERS - CHAPTER 15

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1. b.

2. a.

3. b.

4. a.

5. b.

6. a.

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7. a.

8. b.

9. d.

10. c.

SAMPLE TEST - CHAPTER 16

---

1. In 1994, the wealthiest 20 percent of families in the United States earned approximately _____ percent of the before-tax total income. (Fill in the blank.)
a. 34 percent
b. 47 percent
c. 62 percent
d. 79 percent

2. Imagine two cities, Engelgrad and Legreeville, where the rich, middle, and poor

income recipients in one city have annual incomes identical to their counterparts' incomes in the other city. In Engelgrad, the poorest families one year almost always end up as the richest families the next year and become middle-income families the year after that. In Legreeville, however, the poor remain poor and the rich remain rich. Which of the following is true about the two cities?

a. Annual data on the distribution of income will indicate that the degree of income inequality in the two cities is identical.
b. The degree of lifetime income inequality in the two cities is identical.
c. The income mobility for the two cities is identical.
d. The distribution of annual income is more unequal in Legreeville.

3. Compared to high-income families, a larger proportion of low-income families

a. are headed by a person with at least a high school education.
b. have both a husband and a wife who work full time.
c. are headed by a person between 35 and 64 years old.
d. are single-parent families.

4. During 1980-1994, the official poverty rate of non-elderly families

a. steadily declined.
b. remained virtually unchanged.
c. rose.
d. steadily declined until 1985, when it began to increase.

5. When a person who receives welfare benefits earns income, those benefits are reduced as earned income rises. This is called

a. an implicit marginal tax.
b. the opportunity cost of income.
c. the work-leisure trade-off.
d. reverse discrimination.

6. According to the official measure of poverty, in 1994 the poverty rate of families in the United States was

a. 8.2 percent.
b. 11.6 percent.
c. 18.5 percent.
d. 22.0 percent.

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7. International comparisons indicate that the degree of income inequality is greatest in

a. more developed countries.
b. less developed countries.

c. countries with a homogeneous population.
d. the United States.

8. With a negative income tax, an additional dollar earned by a low-income recipient would always cause the individual's disposable income to
a. increase, but by less than $l.
b. increase by exactly $l.
c. increase by more than $l.
d. decline unless he were a full-time worker.

9. The poverty threshold level defines poverty by calculating the cost of feeding a family and multiplying it by
a. two.
b. three.
c. four.
d. five.

10. Which of the following would cause the poverty threshold income level for a given
family to increase by 20 percent from one year to another?
a. a 20 percent increase in the family's income
b. a 20 percent decrease in the family's income
c. a 20 percent increase in the general level of prices
d. a 20 percent increase in real national income

ANSWERS - CHAPTER 16

1. b.

2. a.

3. d.

4. c.

5. a.

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6. b.

7. b.

8. a.

9. b.

10. c.

SAMPLE TEST - CHAPTER 20

---

1. The payments made to the beneficiaries of the social security program are financed by
a. the earlier insurance premiums paid by the recipients.
b. current receipts derived from the payroll tax.
c. income derived from funds that were previously invested in stocks and bonds.
d. governmental savings accounts based on the amount of funds the recipient previously paid into the system.

2. In 1995, the number of workers, per social security beneficiary was approximately _____; by the year 2030, this figure is expected to _____. (Fill in the blanks.)
a. 3.2 ; increase to approximately 6.8
b. 3.2; fall to approximately 2.0
c. 8.0; still be approximately 8.0
d. 8.0; fall to approximately 6.8

3. In the early 1990s, the one-fifth of U.S. families with the lowest incomes received approximately _____ percent of the total income (after taxes and

tranfer benefits), while the proportion received by the highest fifth of families was approximately _____ percent of the total. (Fill in the blanks.)
a. one, seventy two
b. five, forty two
c. eleven, thirty five
d. seventeen, twenty nine

4. During the last thirty years, the United States has experienced a decline in the percentage of "out-of-pocket" payments for medical services and an increase in the proportion of medical costs paid for by third-parties. This change in payment structure will tend to cause
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a. a decline in the demand for medical services.
b. a decline in the price of medical services.
c. a reduction in the incentive of individuals to economize on their use of medical services.
d. a reduction in the total amount spent on medical services.

5. Which of the following correctly describes the relationship between education, gender, and income levels in recent decades?
a. Incomes of both men and women have risen at roughly the same rate for all education levels.
b. Incomes of men who graduated from college have increased relative to men with a high school education, but the same has not held true for women.
c. While the earnings of men have risen at roughly the same rate for all education levels, earnings for college educated women have risen relative to those of high school educated women.
d. Earnings of both male and female college graduates and post-graduates have increased considerably during the last two decades relative to those with only a high school education.

6. When we compare the prices of medical services with overall consumer prices, we find that between 1960 and 1995, the prices of medical services
a. actually declined relative to the overall consumer price index.
b. increased at approximately the same rate as overall consumer price index.
c. increased almost twice as much as the overall consumer price index.
d. increased almost ten times as much as the overall consumer price index.

7. An income tax that taxes all income above $25,000 per year at a constant 19 percent marginal rate would have an average tax rate that
a. was regressive.

b. increased as income rose.
c. fell as income rose.
d. remained constant as income rose.

8. Poor people, who receive income assistance from the government, often do not work
because
a. they face very high implicit marginal tax rates.
b. they are usually not physically able to work.
c. they have no desire for additional money.
d. the government forces them to stay at home and take care of their children.

9. In the United States during the past thirty years, the overall poverty rate has
a. declined, even though spending on transfer payments has been reduced as a share of GDP.
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b. changed very little, even though spending on transfer payments has increased as a share of GDP during this period.
c. increased sharply as the result of the reduction in spending on transfer payments throughout most of this period.
d. gone down when spending on transfer payments rose and gone up when spending on
transfer payments fell.

10. When economists refer to a flat tax, they generally mean a tax where
a. everyone pays the same amount of tax.
b. everyone pays the same percentage of their total income in tax.
c. everyone pays the same marginal tax rate on their taxable income.
d. everyone pays tax on every dollar of income they earn.

ANSWERS - CHAPTER 20

---

1. b.

2. b.

3. b.

4. c.

5. d.

6. c.

7. b.

8. a.

9. b.

10. c.

SAMPLE TEST - CHAPTER 21

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1. From which of the following countries did the United States import the largest dollar value of merchandise goods during 1994?
 a. Canada
 b. Mexico
 c. Saudi Arabia
 d. Great Britain

2. A U.S. trade policy that restricts the sale of foreign goods in the U.S. market will
 a. reduce the demand for U.S. export goods, since foreigners will be less able to buy our goods if they cannot sell to us.
 b. benefit producers in industries that export goods.
 c. increase the nation's income since it protects domestic jobs.
 d. enhance economic efficiency by allocating more resources to the areas of their greatest comparative advantage.

3. Suppose the United States imposed a tariff on television sets, preventing foreign-produced TVs from freely entering the U.S. market. Which of the following would

most likely occur?
a. The price of televisions to U.S. consumers would increase, and the demand for U.S. export products would rise.
b. The price of televisions to U.S. consumers would fall, and the demand for U.S. export products would fall.
c. The price of televisions to U.S. consumers would increase, and the demand for U.S. export products would fall.
d. The price of televisions to U.S. consumers would fall, and the demand for U.S. export products would rise.

4. Which of the following is correct?
a. An increase in the tariff on foreign-produced automobiles will benefit U.S. consumers of domestic cars.
b. An ongoing result of the North American Free Trade Agreement is that producers in both countries will benefit at the expense of consumers.
c. The wages of U.S. workers would sharply decline if we traded freely with low-wage countries such as Mexico.
d. Exports provide a nation with its primary source of purchasing power used to import goods.

5. The following chart indicates the production possibilities of food and clothing per worker day in the United States and South Korea.

	Units of Output Per Worker Day	
	United States	South Korea
Food	2	1
Clothing	4	3

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Which of the following is true?
a. Mutual gains from trade could be realized if the United States specialized in clothing production and South Korea in production of food.
b. South Korean workers are the low-cost producers of food.
c. Mutual gains could be realized if the United States specialized in producing food and South Korea in producing clothing.
d. U.S. workers are the high-cost producers of food.

6. (I) Relative to a no-trade situation, if the United States exported wheat, the U.S. domestic wheat price would rise and domestic production of wheat would expand.
(II) Relative to a no-trade situation, international exchange causes prices of all goods to rise.
a. I is true, II is false.

b. I is false, II is true.
c. Both are true.
d. Both are false.

7. Imposing a restrictive quota on the import of spiked track shoes will likely
a. increase the price of the shoes but decrease the quantity consumed.
b. increase both the price of the shoes and the quantity consumed.
c. leave the price of the shoes unchanged but decrease the quantity consumed.
d. leave the price of the shoes unchanged and also leave the quantity consumed unchanged since domestic producers will expand output to make up for a reduction in the supply of the imported shoes.

8. The political popularity of a tariff on imported goods that compete with products of a well-established domestic industry is
a. surprising since one would expect the political power of consumers to override the interests of even a well-established domestic industry.
b. surprising since one would expect the economic harm resulting from tariffs to be well understood by voters.
c. not surprising since such a tariff would generally benefit an easily recognized interest group at the expense of uninformed, uninterested consumers.
d. not surprising since the tariff enables domestic producers and consumers to gain at the expense of foreigners. http://vustudents.ning.com

9. Hong Kong, Taiwan, and Singapore all have relatively
a. high trade barriers and high rates of economic growth.
b. high trade barriers and low rates of economic growth.
c. low trade barriers and high rates of economic growth.
d. low trade barriers and low rates of economic growth.

10. Which of the following will results from the North American Free Trade Agreement
(NAFTA)?
a. Domestic producers in the United States, Canada and Mexico will have free access to
larger markets.
b. The low wages of Mexican workers will make it virtually impossible for United States
and Canadian producers to export goods to Mexico.
c. An expanded variety of goods will be available to consumers in all three countries.
d. Both a and c are true; b is false.

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ANSWERS - CHAPTER 21

1. a.

2. a.

3. c.

4. d.

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5. c.

6. a.

7. a.

8. c.

9. c.

10. d.

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