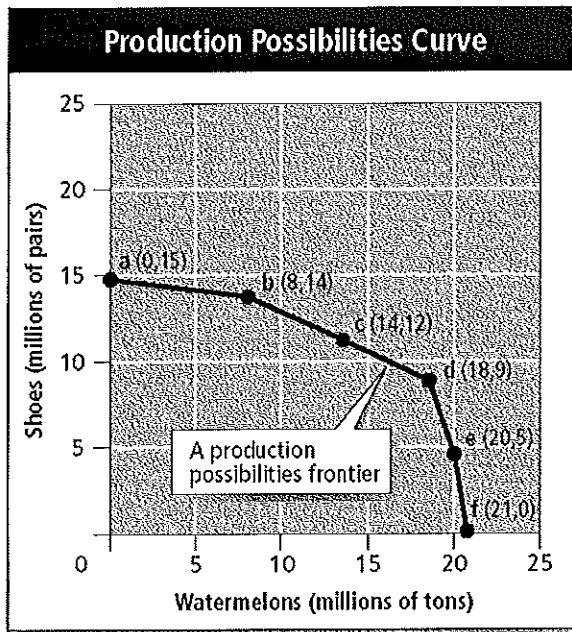


Final exam

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. What is the difference between a scarcity and a shortage?
- A scarcity occurs when producers will not or cannot offer goods or services at the current prices, and a shortage occurs when there are limited quantities to meet unlimited wants.
 - Scarcity is the effort that people devote to a task that meets unlimited wants, and a shortage occurs when supplies of goods or services run low.
 - A scarcity occurs when supplies of goods and services are suddenly attainable, and a shortage occurs when producers will not or cannot offer goods or services at the current prices.
 - A scarcity occurs when there are limited quantities to meet unlimited wants, and a shortage occurs when a good or service is unavailable.
- _____ 2. Ben's family purchased a dishwasher so that the family members could save time for more productive activities. What kind of production factor is this?
- labor capital
 - human capital
 - physical capital
 - efficiency capital
- _____ 3. According to the "guns and butter" example, if a country decides to spend more on military goods, which of the following will happen?
- The country will have less money to devote to consumer goods.
 - The country will have an equal amount of money to devote to consumer goods.
 - The country will be forced to make trade-offs in military purchasing.
 - The country will have more resources to devote to consumer goods.
- _____ 4. By the end of the summer, Jason had saved enough money for college from his job as a waiter. He even had some money left over. Although he wanted both, he decided to buy a DVD player rather than a digital camera. Which of the following is the opportunity cost in this scenario?
- the DVD player
 - the digital camera
 - college
 - the job
- _____ 5. A legislative committee is weighing the pros and cons of a clean-air program. If it spends \$1 million on the program, the air will be cleaner by 20 percent. If it spends \$2 million, the air will be cleaner by 30 percent. If it spends \$3 million, the air will be cleaner by 35 percent. After comparing opportunity costs and benefits at the margin, the committee agrees to fund the program with \$2 million. Why did it not choose to appropriate \$3 million?
- At \$3 million, the air is not improved as much as the committee would like.
 - At \$3 million, the costs are no longer worth the benefits.
 - It was too much to spend without a guarantee.
 - The air is improved by the same amount whether \$2 million or \$3 million is spent.



6. Which of the following statements is true about the graph of a production possibilities curve?
- The cost of producing watermelons and shoes is roughly even on the production possibilities frontier.
 - It costs 2 million more tons of watermelons to produce 14 million tons of shoes.
 - The cost of moving from producing no watermelons to producing 8 million tons of watermelons is 1 million pairs of shoes.
 - One million tons of watermelons must be sacrificed to produce 8 million pairs of shoes.
7. How does a society answer the three economic questions about the production and consumption of goods and services?
- Its answer is based on the importance it attaches to various economic goals and societal values.
 - Its answer is based on the importance it attaches to the stock market.
 - Its answer is based on recent technological advances.
 - Its answer is based solely on current environmental regulation.
8. Which one of the following relies on habit, custom, or ritual to decide what to produce, how to produce it, and to whom to distribute it?
- a market economy
 - a traditional economy
 - a centrally planned economy
 - a mixed economy
9. In a free market economy, the factor market involves which type of exchange?
- The goods and services that households produce are purchased by firms.
 - Firms purchase factors of production from households.
 - Households purchase factors of production from firms.
 - Firms loan money to households to purchase capital.
10. Self-interest is the motivating force driving the free market. Which of the following is the regulating force?
- incentive
 - group interest
 - competition
 - the invisible hand
11. Centrally planned economies can work effectively toward explicitly stated goals, but which of the following is one disadvantage of such a system?
- Its performance almost always falls short of its ideals.
 - These economies never produce an increase in output.

- c. The workers control all the production factors.
 - d. It gives too many rewards for innovation.
- _____ 12. Which of the following statements is true, as market economies have evolved since Adam Smith's time?
- a. Government intervention in the economy has decreased.
 - b. Government intervention in the economy has become greater.
 - c. Government intervention in the economy is based on job safety.
 - d. Government intervention in the economy has stayed relatively the same.
- _____ 13. China, like many other nations, is undergoing a period of transition in which many of its state firms are being privatized. Which of the following statements BEST describes the change in China's mixed economy system?
- a. The economy is moving away from a market-based system toward a centrally planned system.
 - b. The private sector economy is being managed by state-appointed trustees.
 - c. The free enterprise system is placing limits on property taxes and enforcing trade tariffs.
 - d. The economy is moving away from central planning toward a market-based system.
- _____ 14. The purpose of the free enterprise system is to
- a. give consumers goods and services free of charge.
 - b. eliminate economic choices.
 - c. create political campaign slogans.
 - d. give consumers freedom to make economic choices.
- _____ 15. What are some of the basic principles of free enterprise?
- a. research institutions, government restriction, and stock qualifications
 - b. profit motive, legal equality, private property rights, free contract, and competition
 - c. interest groups, disclosure laws, public interest, and negative regulation
 - d. absolute organizations, low prices, and quality control indexes
- _____ 16. In which way does a public disclosure law help consumers?
- a. by allowing consumers to file grievances about products and businesses with the government
 - b. by requiring companies to give consumers important information about their products
 - c. by forcing companies to pay taxes based on the amount of goods and services they sell or buy
 - d. by requiring businesses to report business relationships that could constitute a monopoly on the marketplace
- _____ 17. Which of the following is a good indicator of economic stability?
- a. foreign policy
 - b. general foreign trade
 - c. general price levels
 - d. job-related safety
- _____ 18. Which word BEST completes the following sentence? Improvements in _____ allow an economy to produce more output from the same or a smaller quantity of inputs.
- a. GDP
 - b. free enterprise
 - c. technology
 - d. communication
- _____ 19. Which of the following is NOT a reason for the government to provide a good or service as a public good?
- a. The good or service should be made available to everyone.
 - b. Increasing the number of consumers would increase the cost to a private provider.
 - c. It would be inefficient to exclude nonpayers.
 - d. It would be impractical to make consumers pay individually.
- _____ 20. Improved technology helps create a higher standard of living for future generations by
- a. preventing drastic shifts in general price levels.
 - b. reducing the number of unemployed workers.
 - c. creating specialized jobs for workers.
 - d. providing additional goods and services.

21. When shoes at a local shoe store went on sale at 50 percent off the regular price, the store sold almost every pair of shoes it had in less than a day. By the time the stock was replenished, the sale was over and very few shoes were purchased. Which of the following does this illustrate?
- the income effect
 - the law of discounts
 - the law of demand
 - the substitution effect
22. Which of the following explains the relationship between income effect and consumption?
- When the price of goods goes up, people get less for their money, and consumption goes down.
 - As incomes rise, consumption of lower-priced goods falls.
 - When the price of goods goes up, people buy more, but consumption of the same amount of goods rises.
 - As incomes fall, consumption of products and services stays the same, but people get less for their money.

Market Demand Schedule	
Price of a slice of pizza	Quantity demanded per day
\$0.50	300
\$1.00	250
\$1.50	200
\$2.00	150
\$2.50	100
\$3.00	50

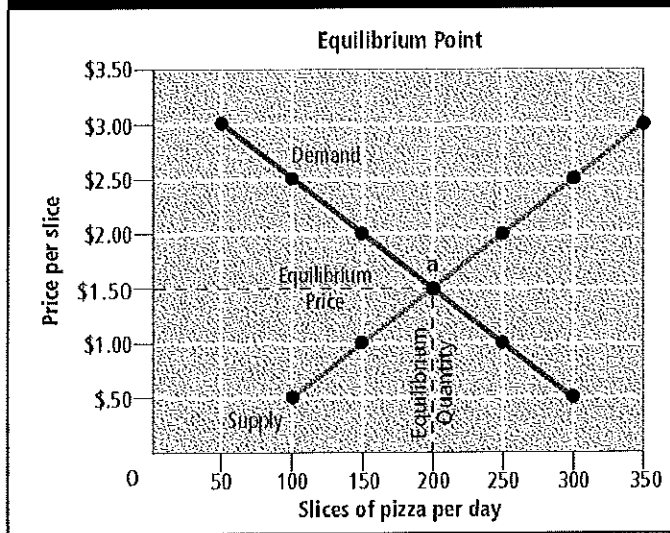
23. Franco's Pizzeria sells slices of pizza for \$2.00. According to the market demand schedule and assuming *ceteris paribus*, what happens when Franco's raises the price to \$2.50 a slice?
- The quantity demanded per day stays the same.
 - The quantity demanded falls from 100 slices a day to 50 slices a day.
 - The quantity demanded falls from 150 a day to 100 a day.
 - The quantity demanded increases to 250 a day.
24. Mariah is buying fewer boxes of macaroni and cheese, used cars, fast-food dinners, and generic products because her income rose. This shift in the demand curve caused by Mariah's income has resulted in
- a decreased demand for inferior goods.
 - a decreased demand for tangible goods.
 - an increased demand for normal goods.
 - a decreased demand for expendable goods.
25. Which of the following is NOT a factor affecting elasticity?
- availability of substitutes
 - the good's relative importance
 - whether the good is a necessity or a luxury
 - the good's price range
26. According to the law of supply, the higher the price,
- the more consumers are willing to pay.
 - the larger the quantity produced.
 - the smaller the quantity produced.
 - the more the availability of a good is reduced.

27. Lily is opening a new coffee shop and is having trouble deciding on the price to charge for a cup of cappuccino. How will determining all the supply schedules of coffee shops in her market help Lily?
- The market supply schedule would help Lily determine the total supply of cappuccino at a certain price, based on relationships between prices and the total quantity supplied by all coffee shops in her market.
 - The sales supply schedule would help Lily determine the minimum and maximum prices she should charge for cappuccino, based on comparisons between larger and smaller coffee shops in her market.
 - The sales supply schedule would help Lily determine the maximum price for cappuccino in her market, based on relationships between consumers' spending habits and current cappuccino prices.
 - The market supply schedule would help Lily determine the lowest possible price she should ask for a cappuccino, based on the current year-end sales at the top-selling coffee shops in her area.

Marginal Product of Labor		
Labor (number of workers)	Output (beanbags per hour)	Marginal product of labor
0	0	—
1	4	4
2	10	6
3	17	7
4	23	6
5	28	5
6	31	3
7	32	1
8	31	-1

28. According to the graph of marginal product of labor for a company that makes beanbags, which of the following situations is created when the fourth through seventh workers are hired?
- increasing marginal returns
 - marginal product of labor specialization
 - negative marginal returns
 - diminishing marginal returns
29. According to the graph, which of the following happens when an eighth person is hired at the beanbag company?
- A positive marginal product of labor is created.
 - A negative marginal return is created.
 - The output of beanbags is 28 per hour.
 - The output of beanbags stays the same.
30. In which category do subsidies, excise taxes, and regulation belong?
- effects of rising costs
 - limitations on imports
 - government's influence on supply
 - benefits of marginal costs

Finding Equilibrium



- ___ 31. Study the graph showing the equilibrium point for a pizzeria. Which of the following can be said about the equilibrium price and the equilibrium quantity?
- The quantity supplied and the quantity demanded are equal at 200 slices per day.
 - The quantity demanded and the quantity supplied are equal at \$2.00 per slice.
 - The quantity supplied is not equal to the quantity demanded in this market, which should be at 200 per day.
 - The maximum quantity demanded, 350 per day, is more than the quantity supplied.
- ___ 32. Which of the following government actions is an attempt to control the high cost of rent for lower-income families, and what has been the result of this action?
- Rent controls; high-income families are denied rental housing.
 - Price ceilings; few renters with the greatest need benefit from the program.
 - Rent ceilings; landlords can no longer discriminate.
 - Price floors; the supply of apartments rose.
- ___ 33. Which word can be used twice to BEST complete this sentence? When supply ____, prices fall, and quantity demanded ____ to reach a new equilibrium.
- increases
 - decreases
 - levels
 - reverses
- ___ 34. The economic impact of a holiday fad is illustrated by
- a negative result on the change in demand graph.
 - a flattening of the demand curve.
 - a sharp drop in the marginal product demand ratio.
 - a rapid shift to the right in a market demand curve.
- ___ 35. Which of the following BEST explains why rationing, not a price-based system, was used during World War II?
- Rationing restricted production to a few products during World War II so that suppliers and manufacturers could concentrate on supporting the war effort.
 - With rationing, consumers were able to control the distribution of food and goods while the government determined which products would be sold.
 - Unlike a price-based system, the temporary price controls of World War II rationing helped ease shortages and guaranteed every American a minimum standard of living.

- d. Unlike price-based systems, rationing more severely restricted consumers' buying habits, and it temporarily shifted distribution of food and goods to the military.
- ___ 36. Factors that make it difficult for new firms to enter a market are called
- a. start-up costs.
 - b. barriers to entry.
 - c. perfect competition.
 - d. commodities.
- ___ 37. Why can an industry that enjoys economies of scale easily become a natural monopoly?
- a. because average costs drop as production rises
 - b. because the market taxes less as production rises
 - c. because consumers tend to appreciate monopolies
 - d. because our government traditionally supports monopolies
- ___ 38. A firm sells natural gas to a city for one price and sells the same gas to an outlying village at another price. What is this practice called?
- a. oligopoly
 - b. monopoly
 - c. differentiation
 - d. price discrimination
- ___ 39. What is an oligopoly?
- a. an agreement by a formal organization of producers to coordinate prices and production
 - b. a market structure in which a few large firms dominate the market
 - c. a market structure in which two firms have a price war
 - d. a market structure in which a single firm dominates the market
- ___ 40. Which of the following is one market trend that results when a monopolistically competitive firm starts earning profits well above its costs?
- a. The firm would become an oligopolistic firm because it has effectively eliminated the competition and now dominates the market alone.
 - b. The firm would try to lure 100 percent of customers by flooding the market with defective products.
 - c. Fierce competition would encourage rivals to create new ways to differentiate their products and lure customers to them.
 - d. The firm would eventually go out of business because demand would decrease.
- ___ 41. Although a sole proprietorship is the least-regulated form of business organization, which type of regulation do these business owners face that may keep them from operating out of their homes?
- a. eminent domain laws
 - b. zoning laws
 - c. fringe benefits
 - d. a site permit
- ___ 42. As a sole proprietor, Jessica took out a loan to buy equipment for her in-home business. If Jessica's business does not make enough money to pay back her loan, she will have to sell personal property to cover her outstanding obligation. Which of the following conditions affects sole proprietors but not other business organizations?
- a. unlimited personal liability
 - b. personal obligation
 - c. proprietary liability
 - d. obligatory property
- ___ 43. What is the difference between a general partnership and a limited liability partnership (LLP)?
- a. In an LLP, all partners are limited from personal liability in certain situations.
 - b. In a general partnership, all partners are exempt from personal liability.
 - c. In an LLP, only one partner is required to be a general partner.
 - d. In a general partnership, only one partner has unlimited personal liability for the firm's actions.
- ___ 44. In which kind of business organization should you participate if you can afford to lose only the amount of your initial investment?
- a. dual partnership
 - b. sole proprietorship
 - c. limited partnership
 - d. general partnership
- ___ 45. Who faces limited liability for the firm's debts in a corporation?

- a. the corporation, but not its owners
- b. individual stockholders
- c. No one; only general liability can be faced.
- d. the chief executive officer

___ 46. Which of the following is an important personal financial consideration that keeps many firms from incorporating?

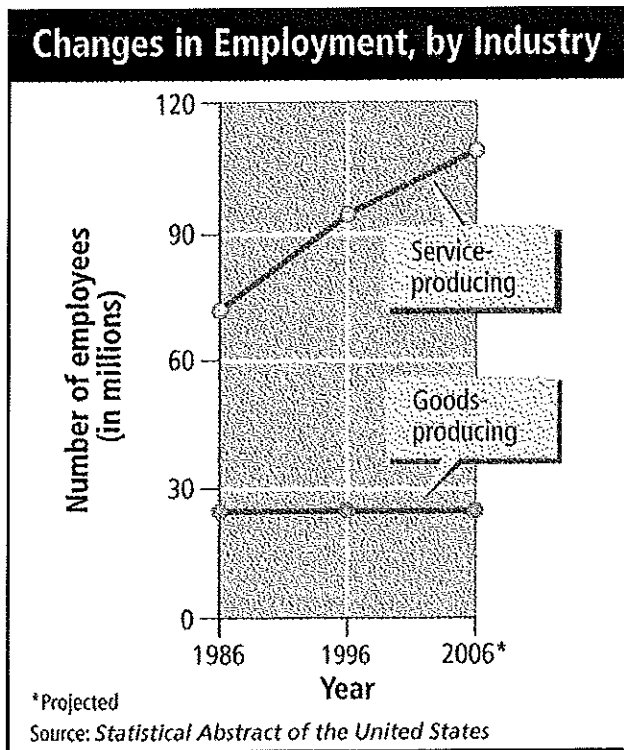
- a. Corporation dividends are subject to government regulation, but dividends paid to partnerships are not.
- b. Boards of directors must be paid according to the income of the firm.
- c. Stock is nontransferable, and stockholders therefore could lose considerable money if a company failed.
- d. Stockholders must pay personal income tax on dividends.

___ 47. When two giant automakers, Chrysler Corporation and Daimler-Benz, merged to form a single corporation, which type of merger was it?

- a. vertical
- b. horizontal
- c. parallel
- d. conglomerate

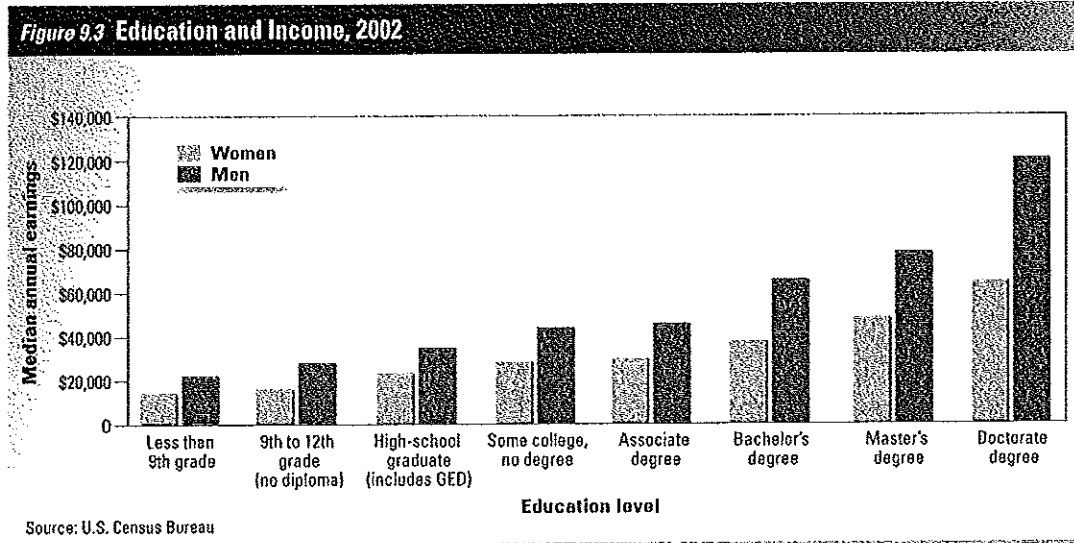
___ 48. Which of the following is a reason franchising has become popular in recent years?

- a. Franchise owners are free to set their own rules and operating standards, but they benefit from national ad programs.
- b. Small franchise owners enjoy a degree of control and can benefit from the support of the parent company.
- c. Because they are owned by a group of individuals for their shared benefit, franchises spread the liability.
- d. Franchising fees and royalties are generally low, and large profits can be made for minimal investment.

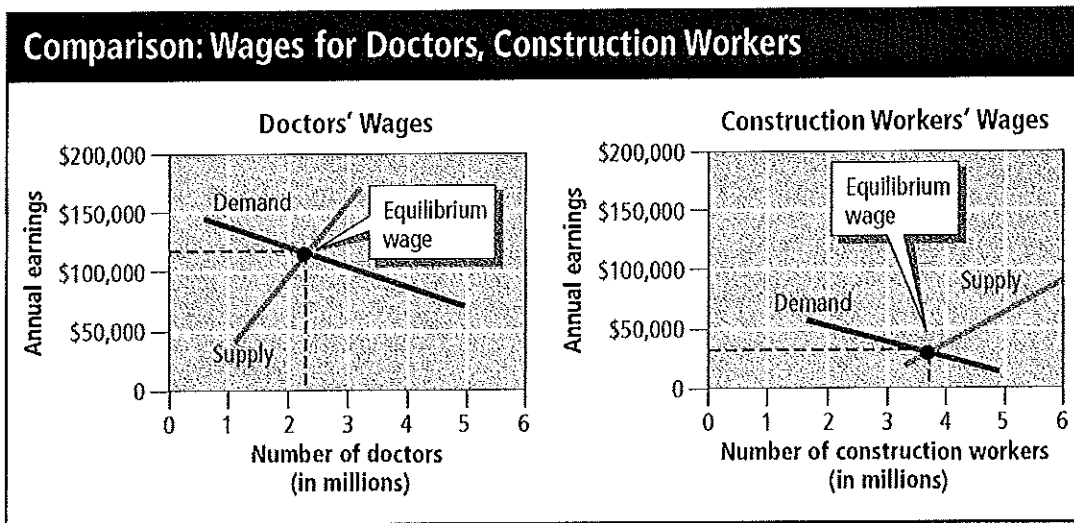


___ 49. What has happened to employment since 1986, according to the graph?

- Production of services is increasing at an equal rate with production of goods.
- Production of services is increasing faster than production of goods.
- Production of goods and services both continue to progress rapidly.
- There is a decrease in the nonlabor work force.



- Look at the bar graph. How does it demonstrate the learning effect?
 - Men earn more than women, regardless of education.
 - More women are in the labor force than men.
 - Increases in education result in higher wages.
 - As income increases, men and women earn the same amount.
- How can competition in a scarce labor market affect wages?
 - Wages will go down because productivity is lower.
 - Wages will remain level because firms want to keep supplies even and costs under control.
 - Wages will go up to attract workers to a firm and to keep existing workers.
 - Wages will go down to discourage new, nonskilled labor from entering the labor force.



- _____ 52. Compare the graphs of wages for doctors and construction workers. Which of the following accounts for the difference between the equilibrium wages for these two professions?
- The supply of construction workers is relatively low and the demand is relatively high, but the supply of doctors is high relative to the demand for them.
 - The equilibrium wage for construction workers is lower because doctors have a higher education level and are in the professional labor force.
 - The equilibrium wage for doctors is lower because the working conditions for construction workers involves a higher level of danger and physical stress.
 - The supply of doctors is relatively low and the demand is relatively high, but the supply of construction workers is high relative to the demand for them.
- _____ 53. Why have minorities historically tended to earn lower salaries and wages than their white counterparts, despite nondiscrimination laws?
- There are fewer minorities in the labor force.
 - Minorities must compete with women, who are flooding the labor force.
 - Whites have had access to more education and work experience.
 - There are foreign workers taking their jobs.
- _____ 54. Beginning in the 1800s, labor unions have had a strong influence on the nation's economy. What event and industry initiated the labor union movement in the United States?
- the Civil War and importing
 - the Industrial Revolution and manufacturing
 - the American Revolution and farming
 - the Spanish-American War and exporting
- _____ 55. Which of the following was an effect of the Taft-Hartley Act of 1947?
- The act was an effort to curb union power, and mandatory union membership could be banned.
 - The act attempted to equalize pay for men and women, allowing women the right to compete for equal pay in equal jobs.
 - The act was an effort to strengthen union power, and mandatory union membership in some industries could be required.
 - The act attempted to encourage more African American membership in unions, but the right-to-work laws had the opposite effect.
- _____ 56. To which of the following categories do collective bargaining, mediation, and arbitration belong?
- transactions between unions and labor organizers
 - contractual obligations of labor management
 - negotiations between unions and company leaders
 - settlement techniques involving a neutral mediator
- _____ 57. Which of the following correctly defines money as a unit of account?
- It determines whether a good has value.
 - It is determined to be legal by the person in possession of it.
 - It provides a means for comparing the values of goods and services.
 - It does not retain its value when saved instead of spent.
- _____ 58. One of the six characteristics economists use to judge how well an item serves as currency is divisibility. What does this concept mean?
- Currency must be divided into equal parts.
 - Money must be indestructible and portable.
 - Any two units of currency must be uniform.
 - Money must be easily divided into smaller denominations.
- _____ 59. What is the difference between commodity money and representative money?
- Commodity money consists of objects used as money that contain their own value, but

representative money is a specific group of the commodity objects.

- b. Commodity money consists of objects that have value in and of themselves, but representative money makes use of objects because the holder can exchange them for something else of value.
- c. Representative money allows objects to be exchanged for something else, but commodity money has value because the government decreed it is an acceptable means to pay debts.
- d. Representative money consists of objects that have value in and of themselves, but commodity money makes use of objects because the holder can exchange them for something else of value.

- _____ 60. Which of the following is an important power given to the federal government by the National Banking Acts of 1863 and 1864?
- a. the power to charter banks
 - b. the power to create separate currencies for the North and the South
 - c. the power to create a gold standard
 - d. the power to test for counterfeit money
- _____ 61. How did the Federal Reserve System improve the banking industry in the twentieth century?
- a. It created a reserve of money that all banks would use for loans.
 - b. It created a branch of government to monitor the banking system.
 - c. It served as a decision-making body to regulate the federal banks.
 - d. It served as a central bank with the power to lend to other banks in time of need.

Compound Interest			
Start of year	Principal amount	Interest earned at 5%	Principal at end of year
–	\$100.00	\$5.00	\$105.00
1	\$105.00	\$5.25	\$110.25
2	\$110.25	\$5.51	\$115.76
3	\$115.76	\$5.79	\$121.55
4	\$121.55	\$6.08	\$127.63
5	\$127.63	\$6.38	\$134.01
6	\$134.01	\$6.70	\$140.71
7	\$140.71	\$7.04	\$147.75
8	\$147.75	\$7.39	\$155.14
9	\$155.14	\$7.76	\$162.90
10	\$162.90	\$8.14	\$171.04
11	\$171.04	\$8.55	\$179.59
12	\$179.59	\$8.98	\$188.57
13	\$188.57	\$9.43	\$198.00
14	\$198.00	\$9.90	\$207.90
15	\$207.90	\$10.39	\$218.29

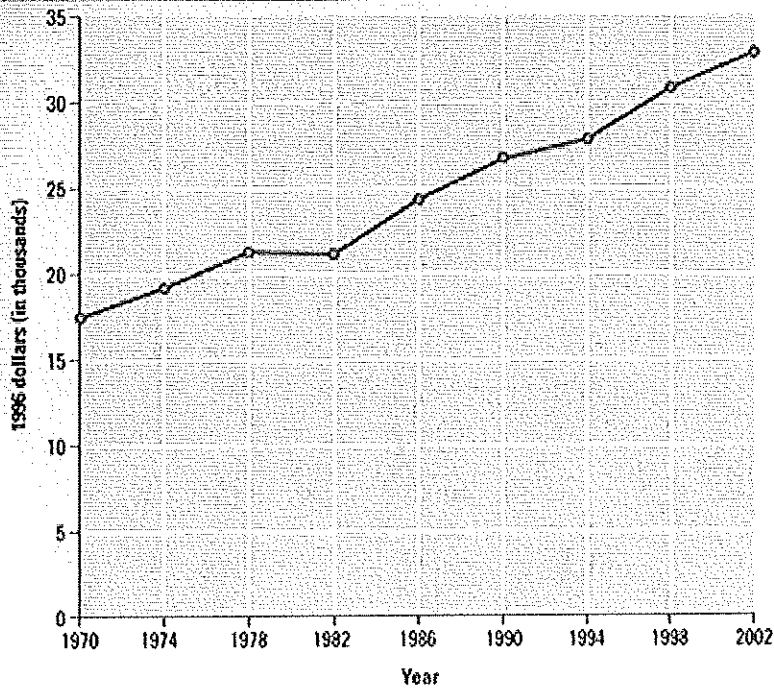
- _____ 62. According to the table, how many years does it take for the depositor to gain approximately one fourth of the original deposit in interest?

- a. 3
- b. 4
- c. 5
- d. 6

- ___ 63. What type of financial service offered at commercial banks, savings and loan associations, and credit unions is also offered at financial companies?
- a. investments
 - b. checking accounts
 - c. installment loans
 - d. savings plans
- ___ 64. Which of the following happens when you use your debit card at a machine designed to read it?
- a. Your card sends a message to your bank to transfer money from your checking account directly into the store's bank account.
 - b. Your bank receives notice that funds need to be withdrawn from your checking or savings account at the end of the business day.
 - c. Your bank immediately pays the funds required to the store and then invoices you for the amount on your next bank statement.
 - d. Your bank confirms that money is available in your account and then adds this amount to an electronic transfer of funds that it wires to the store each week.
- ___ 65. How does investing contribute to a free enterprise system?
- a. Investing places large amounts of money in one corporation or business, allowing it to gain power over competition.
 - b. Investing gives more money to businesses to expand and grow, creating new jobs and better products.
 - c. Investing keeps investment corporations from becoming a part of the free enterprise system, which would create an imbalance.
 - d. Investing distributes money evenly so that enterprises can compete equally in the marketplace.
- ___ 66. Which of the following is a financial intermediary?
- a. the Federal Reserve system
 - b. a borrower
 - c. a saver
 - d. a bank
- ___ 67. Why should you consider liquidity, not just return, when making savings and investment decisions?
- a. You should consider the rate of return in relation to the GNP.
 - b. You should consider how fast the market is changing at any given moment.
 - c. You should consider whether you will need ready access to your funds.
 - d. You should consider a company's portfolio as a whole and not just look at a single investment.
- ___ 68. Which type of bond carries the LEAST amount of risk?
- a. treasury bonds, because they are backed by the U.S. government
 - b. corporate bonds, because they are exempt from federal taxes
 - c. municipal bonds, because they are backed by state and local taxes
 - d. international bonds, because they are backed by foreign currencies
- ___ 69. Which of the following are benefits of money market mutual funds?
- a. They cost little, and the investor chooses the term of maturity.
 - b. Intermediaries buy short-term financial assets, and investors receive higher interest.
 - c. Investors have easy access to their money, and they are covered by FDIC insurance.
 - d. The funds are covered by FDIC insurance, and they are available for various fixed amounts of time.
- ___ 70. Liquidity is important to John. If he wants to make certain that he can resell his financial assets, in which market classification must he participate?
- a. primary market
 - b. secondary market
 - c. capital market
 - d. money market
- ___ 71. How do investors usually act during a bear market?

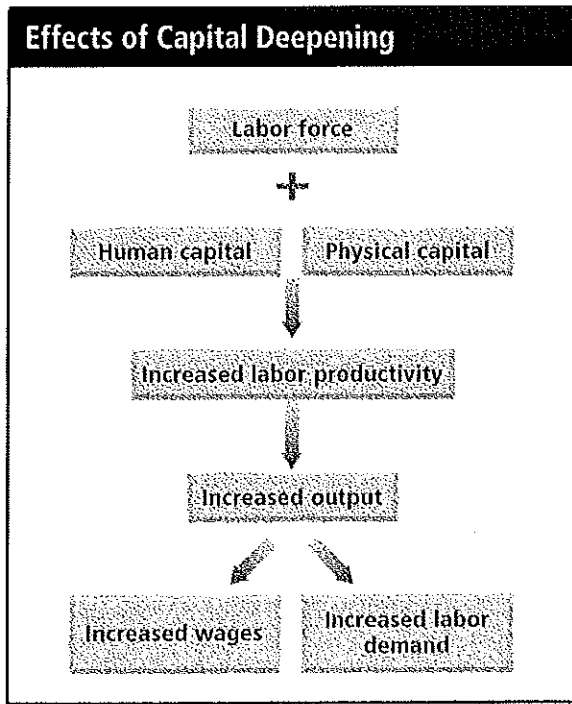
- a. Investors buy stock in expectation of higher profits because the stock market falls for a period of time.
 - b. Investors sell stock in expectation of lower profits because the stock market rises for a period of time.
 - c. Investors buy stock in expectation of higher profits because the stock market rises for a period of time.
 - d. Investors sell stock in expectation of lower profits because the stock market falls for a period of time.
- ___ 72. Why might someone consider the Standard & Poor's 500 (S & P 500) a better measurement of stock performance than the Dow Jones Industrial Average?
- a. The S & P 500 reports stock performance daily, and the Dow reports weekly.
 - b. The Dow reports on 30 stocks and the S & P 500 tracks 500 stocks as a measure of overall stock performance.
 - c. The S & P 500 predicted the Great Crash of 1929, and the Dow predicted a rising bull market.
 - d. The Dow specializes in the stocks of a single industry, and the S & P 500 reports on the stocks of a variety of industries.
- ___ 73. What is the money an investor receives above and beyond the money initially invested called?
- a. savings
 - b. liquidity
 - c. return
 - d. investment
- ___ 74. The Securities and Exchange Commission is
- a. an independent agency that advises the government about financial markets.
 - b. a government agency that sells treasury bonds and other United States financial obligations.
 - c. a government agency that regulates financial markets and investment companies.
 - d. a privately owned investment corporation that sells bonds and other investments.
- ___ 75. What is the gold standard?
- a. A system that uses actual gold coins as a country's money.
 - b. A system in which a country's money is backed with gold.
 - c. A currency system in which each dollar is worth 1/20 of a pound of gold.
 - d. A money system in which the paper currency is good in more than one country.
- ___ 76. Why would an economist use real GDP rather than nominal GDP to measure growth?
- a. Real GDP calculates the GDP for a longer period of time.
 - b. Real GDP uses current prices to measure the year's output.
 - c. Nominal GDP applies to only a small number of industries.
 - d. Real GDP reflects output more accurately than nominal GDP by using constant prices.
- ___ 77. Which of the following economic activities does NOT illustrate the limitations of calculating GDP?
- a. nonmarket activities
 - b. negative externalities
 - c. the underground economy
 - d. depreciation
- ___ 78. In a real economy, which two factors can change the level of nominal GDP?
- a. constant prices and quality of life
 - b. individual markets and economic planning
 - c. inflation and deflation
 - d. intermediate goods and national income accounting
- ___ 79. Four factors, both expected and unexpected, perpetuate the business cycle. Which of the following is NOT one of these factors?
- a. business investments
 - b. interest rates and credit
 - c. stagflation
 - d. external shocks

Real GDP per Capita, 1970–2002



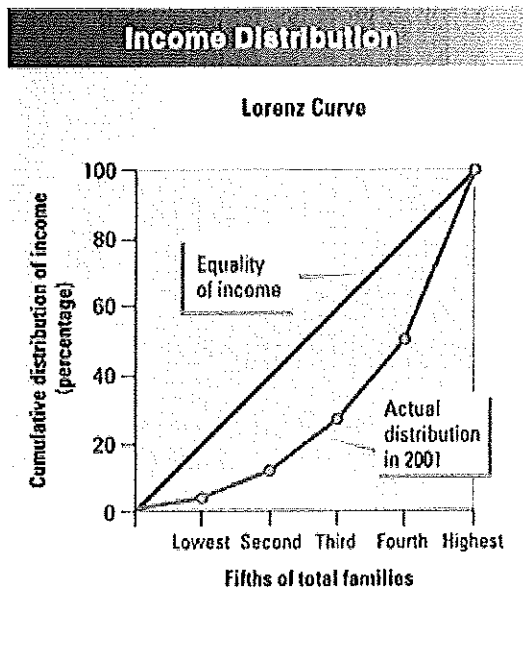
Source: Economic Report of the President

80. What happened following the stock market crash in 1929 to account for the change in real GDP in the 1930s shown in this graph?
- During the Great Depression, overproduction of goods by factories led to layoffs and unemployment.
 - During the Great Depression, factories were idle, and thousands of Americans lost their jobs and homes.
 - A tax rebate miscalculated the elasticity of the market, and thousands lost money in stocks, lost their homes, and became unemployed.
 - The rapid economic downturn did not recover until World War II, when the government boosted defense spending.



- _____ 81. According to the diagram, what is one beneficial effect of capital deepening?
- increased wages
 - decreased wages
 - decreased labor productivity
 - decreased labor demand
- _____ 82. Chris decided that this year she would put 25 percent of her income in savings and investments, an increase of 5 percent over the previous year. If a majority of people did this, how would the economy be affected?
- The economy would suffer because less money would be spent on goods and services.
 - The economy would prosper because more investment funds would be available for businesses.
 - There would be no effect because the same amount of money would enter the economy.
 - The economy would suffer because the government would collect fewer income taxes.
- _____ 83. What source of economic growth is reflected in the economy by an increase in productivity without an increase in land, labor, or capital?
- technological progress
 - foreign trade
 - population growth
 - savings and investment
- _____ 84. Which one of these people lost his or her job because of structural unemployment?
- Jordan graduated from law school and is interviewing with various law firms.
 - Thomas's job as a landscaper is on hold until the spring.
 - Sonya dropped out of school and now fails to meet the minimum requirements for her job.
 - Eva lost her job at a major interior design firm during the recession in the 1980s.
- Jordan
 - Thomas
 - Sonya
 - Eva
- _____ 85. According to the principle of cyclical unemployment, what will occur when the demand for goods and services drops during a recession?
- The business cycle resumes an upward trend.
 - The demand for labor drops.
 - The demand for labor rises.

- d. No frictional unemployment exists.
86. Ten years ago, a house sold for \$54,000. Today the same house is valued at \$108,000. What has inflation done to consumers' purchasing power?
- reduced it
 - increased it
 - doubled it
 - stopped it
87. During a war, the government puts pressure on producers for heavy equipment, supplies, and services, making each more valuable. What theory about inflation does this condition represent?
- cost-pull
 - cost-push
 - quantity
 - demand-pull
88. If you lived on a fixed income, how would you be affected by inflation?
- You would be financially stressed because your income does not increase when prices go up.
 - You would be hit hard because rising inflation would lower your rate of pay.
 - You would benefit because you would have more purchasing power.
 - There would be little effect because income is not tied to inflation.
89. During the 1990s, the inflation and unemployment trends in the United States changed. What was unusual in the 1990s?
- Unemployment reached high levels, but inflation fell to less than five percent.
 - Although inflation remained at less than three percent, unemployment fell to very low levels.
 - Unemployment and inflation maintained the same ratio during the 1990s.
 - Both unemployment and inflation rose to high levels.
90. The poverty threshold, or poverty line, varies according to what?
- the census
 - nationwide income averages
 - the size of the family
 - the inflation rate



91. What does the Lorenz Curve show about the distribution of income in 2001?
- The lowest 40 percent received 20 percent of total income.
 - Two-fifths of households received 10.5 percent of income.

- c. The distribution of income was roughly equal.
- d. The distribution of income was not equal.

_____ 92. What is the Consumer Price Index?

- a. a measure of prices of housing and rental costs all over the country
- b. an index of prices of items used by manufacturers and retailers
- c. an index determined by measuring the price of standard goods bought by urban consumers
- d. an index of the cost of living for all U.S. consumers