Multiple Choice (3 points each)

1. The fundamental problem of economics is:
   A) The law of increasing opportunity costs.
   B) The scarcity of resources relative to human wants.
   C) How to get government to operate efficiently.
   D) How to create employment for everyone.

2. Given that resources are scarce:
   A) A "free lunch" is possible but only for a limited number of people.
   B) Opportunity costs are experienced whenever choices are made.
   C) Poor countries must make choices but rich countries with abundant resources do not have to make choices.
   D) Some choices involve opportunity costs while other choices do not.

3. Which of the following is a scarce resource?
   A) Paper used to produce textbooks.
   B) Wheat given to Russia to alleviate hunger.
   C) Clean water.
   D) All of the above.

4. Which of the following is the best example of land?
   A) The gasoline refined from crude oil.
   B) A factory which produces new goods and services.
   C) The river water used to float a riverboat casino.
   D) A shovel.

5. Which of the following is the best example of capital and no other factor of production?
   A) Clean air.
   B) Money in a savings account.
   C) Equipment that will be used to produce goods.
   D) The property on which a landfill has been established.

6. An entrepreneur is:
   A) An innovator.
   B) Someone who brings resources together and produces a product.
   C) A risk taker.
   D) All of the above.

7. The opportunity cost of studying for an economics test is:
   A) Negative, since it may improve your grade.
   B) Zero, because you knew when you registered for the class that studying would be required.
   C) The money you spent on tuition for the class.
   D) The best alternative use of your time.
8. If an economy is producing on its production-possibilities curve, then producing:
   A) More of one good implies producing more of another good.
   B) Less of one good implies producing less of another good.
   C) More of one good implies producing less of another good.
   D) More of one good implies shifting the curve toward the origin.

9. According to the law of increasing opportunity costs:
   A) The more one is willing to pay for resources, the larger will be the possible level of production.
   B) Increasing the production of a particular good will cause the price of the good to rise.
   C) In order to produce additional units of a particular good, it is necessary for society to sacrifice increasingly larger amounts of alternative goods.
   D) Only by keeping production constant can rising prices be avoided.

10. *Ceteris paribus*, if Korea increases the size of its military, then its:
    A) Production-possibilities curve will shift outward.
    B) Production-possibilities curve will shift inward.
    C) Production of non-military goods will increase.
    D) Production of non-military goods will decrease.

11. Which of the following is true when an economy is producing efficiently (i.e. is productively efficient)?
    A) The economy is producing on the production-possibilities curve.
    B) Goods and services are being produced using the fewest resources.
    C) The economy is getting the most goods and services from the available resources.
    D) All of the above.

12. Every point on the production-possibilities curve is considered to be:
    A) Productively efficient.
    B) An optimal level of output.
    C) Equally desirable.
    D) All of the above.

13. In terms of the production-possibilities curve, inefficiency is represented by:
    A) All points on the curve.
    B) All points inside the curve.
    C) All points outside the curve.
    D) A rightward shift of the curve.

14. When technological change allows a smaller amount of a resource to be used in producing two goods shown on a production-possibilities curve, there will be:
    A) A movement along the production-possibilities curve.
    B) An inward shift of the production-possibilities curve.
    C) No change in the production-possibilities curve.
    D) An outward shift of the production-possibilities curve.
15. The invisible hand refers to:
A) Intervention in the economy by the government bureaucrats we do not see and over whom we have no control.
B) Undiscovered natural resources.
C) The allocation of resources by market forces.
D) The person who has the responsibility to coordinate all the markets in a market economy.

16. The doctrine of laissez faire is based on the belief that:
A) Markets are likely to do a better job of allocating resources than government directives.
B) Government directives are likely to do a better job of allocating resources than markets.
C) Government failure does not exist.
D) Markets result in an unfair distribution of income.

17. Which of the following is the most appropriate way to match different economic systems with their corresponding failures?
A) Market failures with command economies.
B) Government failures with market economies.
C) Market failures and government failures with mixed economies.
D) Neither market nor government failure in a purely capitalist economy.

18. Pollution is an example of:
A) Inefficient operation by the firm that is polluting.
B) Market failure.
C) The ability of central planning to provide the optimal quantities of goods.
D) All of the above.

19. Which of the following is an example of government failure?
A) Bureaucratic delays.
B) Required use of pollution-control technologies that are obsolete.
C) Inefficient incentives.
D) All of the above.

20. Macroeconomics focuses on the performance of:
A) Individual consumers.
B) The overall economy.
C) Government agencies.
D) All of the above.

21. The study of microeconomic theory focuses on the:
A) Interaction of international trade and domestic production of goods and services.
B) Operation of the entire economy.
C) Role of the banking system in the economy.
D) Structure and performance of markets and the operation of the price system.

22. The *ceteris paribus* assumption:
A) Is necessary because of the complexity of the real economy.
B) Makes it easier to formulate economic theory and policy.
C) Increases the risk of errors in economic predictions.
D) All of the above are correct.
23. Society is employing some of its available resources but not all of them. (See Figure 1.1.)
   A) A.
   B) B.
   C) C.
   D) D.

24. Society is not able to produce either good because it is so inefficient. (See Figure 1.1.)
   A) A.
   B) B.
   C) C.
   D) D.

25. Society is producing the most output possible with the available resources and technology. (See Figure 1.1.)
   A) A.
   B) B.
   C) C.
   D) D.

26. Society might be able to produce this combination if technology improved but cannot produce it with current technology. (See Figure 1.1.)
   A) A.
   B) B.
   C) C.
   D) D.

**True/False (3 points each)**

1. ___ Scarcity results when available resources cannot satisfy all desired uses of those resources.
2. ___ All output combinations that lie outside a production-possibilities curve are attainable with available resources and technology.

3. ___ Technological advance shifts the production-possibilities curve inward.

4. ___ Government failure occurs when government intervention fails to improve economic outcomes.

5. ___ Macroeconomics addresses the economy as a whole.

6. ___ Microeconomics is concerned with individual performance as well as the economy as a whole.

7. ___ The resource category called "capital" includes forests, mineral deposits, and water resources.

8. ___ Allocative efficiency means achieving the optimal or most desired point on the production possibilities curve.

9. ___ Rational behavior implies that everyone will make identical choices.

10. ___ The comment that "social security taxes must be reduced if there are to be adequate incentives to work" is an example of a normative economic statement.

11. ___ In a competitive market economy, firms and resource suppliers will seek to further their own self-interest, but at the same time, as if guided by an "invisible hand," they will promote the public interest.