

Economics Test
Don't just be GOOD...do GOOD!

- ① In the American economic system, the four factors of production are natural resources, labor, capital, and
- A. trade-offs.
 - B. free enterprise.
 - C. the market economy.
 - D. entrepreneurs.

The economic system in the United States is called

- ②
- A. capitalism.
 - B. socialism.
 - C. communism.
 - D. traditionalism.

The forces of supply and demand work together in markets to

- ③
- A. build a sound budget.
 - B. make a profit.
 - C. establish prices.
 - D. create price floors.

Which of the following is the most common form of business organization?

- ④
- A. cooperative
 - B. sole proprietorship
 - C. partnership
 - D. corporation

Which of the following is an example of a need?

- ⑤
- A. fruit
 - B. vacations
 - C. movies
 - D. swimming pools

Which kind of savings or investment represents partial ownership in a company?

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- A. savings account
- B. stock
- C. bond
- D. certificate of deposit (CD)

Which kind of savings or investment is a timed deposit that almost always pays higher interest than a savings account?

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- A. certificate of deposit (CD)
- B. mutual fund
- C. money market account
- D. bond

Which kind of investment is less risky than individual stocks and bonds?

8

- A. certificate of deposit (CD)
- B. money market account
- C. savings account
- D. mutual fund

What forces people to make economic choices?

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- A. need for shelter
- B. abundance of goods
- C. scarcity of resources
- D. desire for profit

Choosing to buy a DVD player instead of something else is an example of

10

- A. a trade-off.
- B. macroeconomics.
- C. total cost.
- D. scarcity.

According to rational economic decision making, we should accept an option when

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- A. the costs outweigh the benefits.
- B. the benefits outweigh the costs.
- C. there are no costs.
- D. there are no benefits.

Which of the following is an example of what to produce?

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- A. printing new textbooks
- B. deciding where to drill for oil
- C. regulating air pollution caused by factories
- D. hiring new workers

The greatest tragedy in America is not the destruction of our natural resources, though that tragedy is great. The truly great tragedy is the destruction of our human resources by our failure to fully utilize our abilities. . . .

—Oliver Wendell Holmes

In what way does Holmes say that human resources are destroyed?

- 13
- A. People are failing in schools.
 - B. People are thinking too much about natural resources.
 - C. Natural resources are taking the place of human resources.
 - D. People are not living up to their potential.

Which of the following is a human resource?

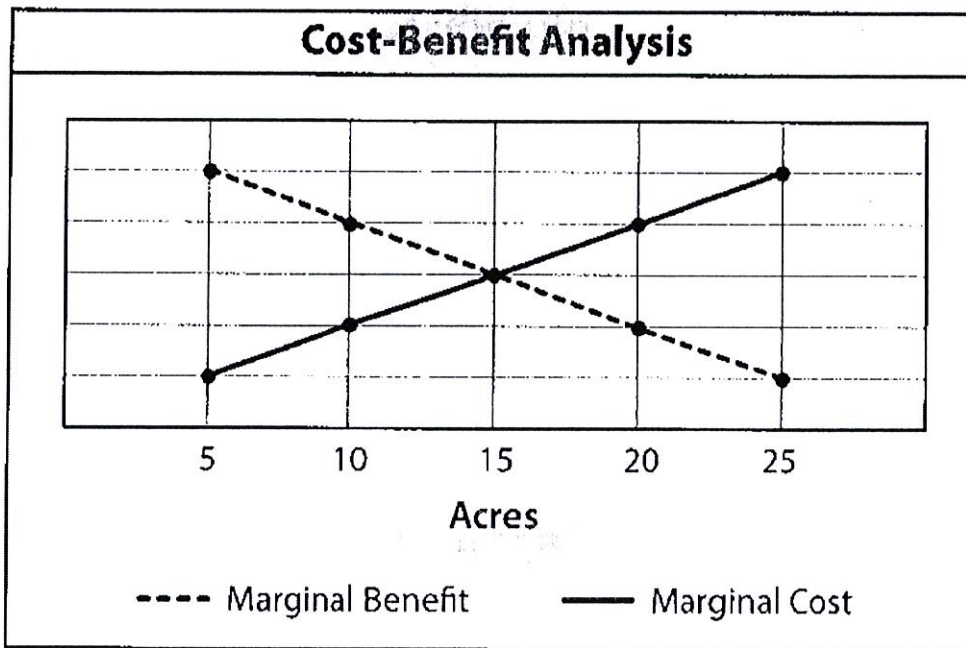
- 14
- A. oil
 - B. tools
 - C. goods
 - D. knowledge

What does a cost-benefit analysis compare?

- 15
- A. marginal costs and marginal benefits
 - B. marginal costs and total costs
 - C. total costs and total revenue
 - D. total revenue and marginal benefits

What business strategy is demonstrated by the factory supervisor who breaks a large job into small, separate tasks?

- 16
- A. division of labor
 - B. specialization
 - C. human capital investment
 - D. economic interdependence



What does this graph show?

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- A. The marginal benefit decreases as the cost increases.
- B. The marginal benefit increases as the cost increases.
- C. The marginal cost is the same for all acres.
- D. The marginal benefit is never greater than the marginal cost.

How many acres should the farmer plant?

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- A. 5 acres
- B. 10 acres
- C. 20 acres
- D. 15 acres

In the United States, prices are established primarily through

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- A. the forces of supply and demand.
- B. government regulations.
- C. the decisions of major corporations.
- D. tax incentives.

Which of the following words BEST describes the flow of economic activity in a market system?

- 20
- A. back and forth
 - B. linear
 - C. sequential
 - D. circular

Which of the following statements illustrates the standard of living as measured by the Gross Domestic Product?

- 21
- A. The Smiths can buy everything they want and need.
 - B. The Jones family lives within walking distance of the public library.
 - C. The Williams family is happy that neighborhood crime is on the decline.
 - D. The Johnsons enjoy the mild winters of Georgia.

Which feature of capitalism is at work when buyers and sellers freely and willingly engage in market transactions?

- 22
- A. profit motive
 - B. competition
 - C. free enterprise
 - D. voluntary exchange

The Gross Domestic Product examines the

- 23
- A. quality of final goods produced.
 - B. amount of intermediate goods produced.
 - C. volume of used goods sold in public markets.
 - D. quantity of goods and services produced.

Private property rights promote capitalism by

- 24
- A. providing incentives to make, save, and spend money.
 - B. setting limits on competition among consumers.
 - C. allowing consumers to demand competitive prices.
 - D. permitting consumers to control the product market.

Which of the following BEST defines free enterprise?

- 25
- A. Individuals may start new business ventures at no cost.
 - B. Buyers and sellers may conduct business voluntarily in the marketplace.
 - C. Businesses may compete without government interference.
 - D. Individuals may buy and sell property without paying taxes.

According to the laissez-faire philosophy of economics, government should generally

- 26
- A. help small and large businesses alike.
 - B. stay out of the marketplace.
 - C. support laborers.
 - D. encourage foreign trade.

Your _____ is the money you earn from all sources and your _____ are the money you choose to spend.

- 27
- A. surplus/deficits
 - B. income/expenses
 - C. balance/expenditures
 - D. collateral/interests

Long-term financial goals

- 28
- A. sometimes conflict with short-term spending.
 - B. include spending money as you receive it.
 - C. can keep you from furthering your education.
 - D. mean buying what you want when you want it.

Property put down as security for a loan is known as

- 29
- A. charge.
 - B. budget.
 - C. dividend.
 - D. collateral.

Demand for a product tends to increase when

- 30
- A. the price of a complement increases.
 - B. the price of a substitute decreases.
 - C. consumers expect a surplus.
 - D. consumers expect a shortage.

But one less welcome byproduct of rapid economic and technological change . . . is the evident insecurity felt by many workers. . . . This anxiety stems, I suspect, from a fear of job skill obsolescence [being outdated], and one very tangible measure of it is the pressure on our education and training systems to prepare and adapt workers to effectively run the new technologies. These pressures are likely to remain intense . . . because I see nothing to suggest that the trends toward a greater conceptual content of our nation's output and, thus, toward increased demand for conceptual skills in our workforce, will end. The rapidity of innovation and the unpredictability of the directions it may take imply a need for considerable investment in human capital. . . . Workers must be equipped not simply with technical know-how but also with the ability to create, analyze, and transform information and to interact effectively with others.

—Alan Greenspan, "Structural Change in the New Economy," 2000

According to Greenspan, the success of the U.S. economy will depend on

- A. increased production of manufactured goods.
- 31** B. creativity, critical thinking, and interpersonal skills.
- C. the creation of new jobs as old ones become obsolete.
- D. technological change.

Greenspan suggests that one way to ensure economic success is to

- 32** A. invest in human capital.
- B. improve the standard of living.
- C. slow the pace of technological change.
- D. promote cooperation between the government and business sectors.

Which of the following BEST describes how an entrepreneur might respond to Greenspan's advice?

- 33** A. create and sell tools that evaluate job performance
- B. develop new techniques for hiring workers
- C. offer workshops on creative problem solving
- D. focus less on capital goods and more on consumer goods

Which of the following pairs of products are complements?

- 34** A. lightbulbs and lamps
- B. pens and pencils
- C. coffee and tea
- D. butter and margarine

A business that donates money and products to local charities is showing

- 35
- A. social responsibility.
 - B. full disclosure.
 - C. financial capital.
 - D. limited liability.

When labor unions and business managers disagree, they may ask an arbitrator to

- 36
- A. record their contract discussions.
 - B. help them reach a compromise.
 - C. listen to both sides and to make a decision.
 - D. write a full report to the government.

American Telephone and Telegraph was broken up by the government because it

- 37
- A. was an illegal merger.
 - B. was not regulated.
 - C. had an unfair monopoly.
 - D. had a natural monopoly.

Which example illustrates how changes in complements can influence demand?

- 38
- A. The demand for margarine increases when the price of butter rises.
 - B. The demand for tea decreases when the price of coffee decreases.
 - C. The demand for lightbulbs increases when the price of lamps decreases.
 - D. The demand for pencils increases when the price of pens rises.

One way the Fed protects consumers is by

- 39
- A. deregulating the banking industry.
 - B. acting as the government's checking account.
 - C. buying U.S. government bonds and Treasury bills.
 - D. specifying information lenders must provide.

The food and beverages index increased 0.4 percent in September. The index for food at home rose 0.5 percent in September, following a 0.4 percent increase in August. A 3.0 percent increase in the index for fruits and vegetables accounted for about 90 percent of the September advance in grocery store food prices. The indexes for fresh vegetables, for fresh fruits and for processed fruits and vegetables increased 6.6, 0.8, and 0.2 percent, respectively. The index for meats, poultry, fish, and eggs increased 0.5 percent in September. Beef prices, which increased 1.4 percent in August, fell 0.2 percent in September. This decline was more than offset by increases in the prices for pork, other meats, poultry, fish and seafood, and eggs.

—Bureau of Labor Statistics, 2006

The index for food at home

- 40
- A. rose in August but decreased in September.
 - B. decreased in August but rose in September.
 - C. remained constant in August and September.
 - D. increased in August and September.

The largest percentage increase was for

- 41
- A. processed fruits and vegetables.
 - B. beef.
 - C. fresh fruits.
 - D. fresh vegetables.

According to the passage, the fact that the price of beef declined did not have much effect because

- 42
- A. the prices of all foods declined.
 - B. it will increase in the future.
 - C. the prices for other meats increased.
 - D. people did not buy much beef.

Which of the following does the Fed regulate?

- 43
- A. banks in other countries
 - B. the daily operations of the FDIC
 - C. large commercial banks in the United States
 - D. Congress's use of taxpayer money

The Fed increases the money supply when it buys bonds because it

- 44
- A. raises consumer interest rates.
 - B. raises the reserve requirement.
 - C. puts cash in investors' hands.
 - D. requires member banks to sell bonds.

An example of mandatory spending by the federal government is the money used for

- 45
- A. military operations.
 - B. Social Security benefit checks.
 - C. national defense.
 - D. highway construction.

What is the greatest source of revenue to state governments?

- 46
- A. contributions and investments
 - B. intergovernmental revenues
 - C. state income tax
 - D. state sales tax

Nations trade with one another in order to

- 47
- A. solve scarcity problems.
 - B. prevent wars.
 - C. reduce competition.
 - D. decrease debt.

Opponents of conservation believe that conservation will

48

- A. encourage the development of more technology.
- B. promote short-term economic gain over long-term gains.
- C. require the increased use of natural resources.
- D. slow economic growth.

Which of the following defines *global interdependence*?

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- A. nations that place tariffs on foreign imports
- B. countries that trade freely with neighboring countries
- C. economic equality between richer and poorer nations
- D. countries that rely on one another for their goods and services

One of the main purposes of the United Nations is to

50

- A. encourage protectionism.
- B. maintain international peace.
- C. govern developing nations.
- D. discourage competition.

Which of the following is an outcome of conservation?

50

- A. pollution from gasoline usage
- B. dangerous climate changes
- C. destruction of forests
- D. protection of wildlife habitats

Short Answer (Choose two to answer on the back of your scantron)

- 1 Comparing and Contrasting** Compare and contrast market economies and command economies. How are they alike and different?

- 2 Evaluating Information** Describe two government programs that help those living in poverty. Explain what each program does and whom each program is designed to help.

- 3 Understanding Historical Perspective** Explain how the Federal Deposit Insurance Corporation (FDIC) relates to the Great Depression of the 1930s and the savings and loan (S&L) crisis of the late 1980s and early 1990s.

- 4 Making Predictions** Explain how a large federal debt could create problems for future generations of Americans. Be sure to include specific examples of problems that you predict will occur because of the federal debt.