

Sample Multiple-choice Questions for Economics

1. A politician proposes reducing business taxes, a move she says will encourage risk-taking entrepreneurship. This proposed cut in business taxes is intended to stimulate the economy mainly through
 - A. an increase in aggregate supply.
 - B. a decrease in aggregate supply.
 - C. a decrease in aggregate demand.
 - D. an increase in aggregate demand.
2. One country enjoys a comparative advantage over another in producing oil when
 - A. it has more oil than the other country.
 - B. it can produce oil at a lower opportunity cost than the other country.
 - C. it does not need to import oil.
 - D. it wants to export as much oil as possible.
3. Drought conditions create water shortages. Assuming that water consumption can be measured for each household, select the water policy below that is most likely to cause the greatest reduction in water use by urban households.
 - A. Give water to users with instructions to use it wisely.
 - B. Charge a flat (constant) fee of \$50 per household, irrespective of the amount of water used.
 - C. Raise the price of water from 10 cents to 50 cents per gallon with the biggest water users (per capita) paying the highest price per gallon.
 - D. Charge \$20 per month and limit household consumption to last year's monthly
4. As more labor is added to a fixed amount of input, the rate at which output goes up begins to decrease. This is called
 - A. diminishing marginal utility.
 - B. diminishing marginal productivity.
 - C. diminishing marginal costs.
 - D. diminishing marginal profit.
5. If the cost of sugar rises and sugar is a major ingredient in jelly beans, then the jelly bean
 - A. demand curve shifts to the left.
 - B. supply curve shifts to the left.
 - C. supply curve shifts to the right.
 - D. demand and supply curves both shift to the right.
6. Which of the following is most likely to benefit a debtor?
 - A. unanticipated deflation
 - B. anticipated deflation
 - C. unanticipated inflation
 - D. anticipated inflation

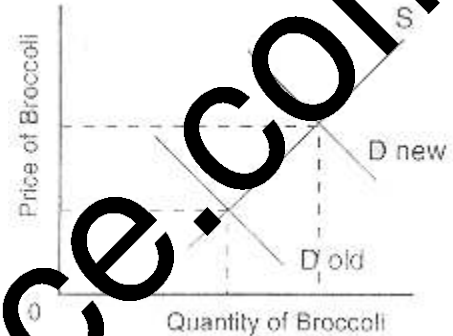
For the following question, choose the word to complete the sentence that most accurately reflects the relationship, definition, or similarity of the first pair of words in the sentence:

7. Parts are to the whole as $C+I+G+X$ is to

- A. trade surplus
- B. gross domestic product
- C. disposable income

8. Which newspaper headline might be best illustrated by the above graph?

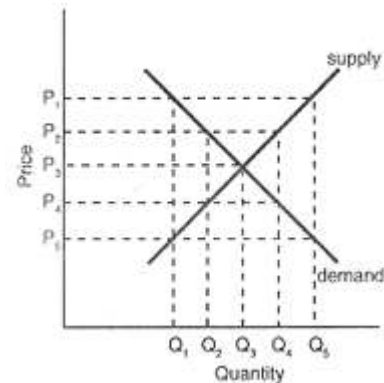
- A. "Hailstorm Wipes Out Broccoli Crop"
- B. "Broccoli Prices Drop Due to Increased Imports"
- C. "Medical Doctors Advise Eating Broccoli for Longer Life"
- D. "President's Dislike of Broccoli Has No Effect on Sales"



9. If the government supported the price of this commodity so that it could not be sold for less than P_2 what would the result be?

- A. a shortage equal to $Q_4 - Q_2$
- B. a surplus equal to $Q_4 - Q_2$
- C. a shortage equal to $Q_3 - Q_1$
- D. a surplus equal to $Q_4 - Q_1$

Supply and Demand Curves



10. When the Federal Reserve Bank lowers the reserve requirement

- A. investors will purchase "open market" bonds.
- B. banks must hold less money.
- C. people will deposit more money.
- D. banks will create more money.

11. With existing resources in the economy, what is the result of movement from point D to point C?

- A. production of more cotton and less coal
- B. production of less cotton and more coal
- C. production of more cotton and more coal
- D. production of less cotton and less coal

Production Possibility Frontier

