

ECO402 Solved MCQs

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
 - 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d. The sales tax on food should be repealed.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."

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.

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

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