1. In 1996, Congress and the President “reformed” welfare. The law was changed so that for some programs one could receive federal assistance (i.e. welfare) for only 2 consecutive years. The goal was to encourage welfare recipients to get off welfare and out into the workforce more quickly. The drawback was those failing to find work would be much worse off than under the old system. Which economic principle does this best illustrate?
   a. There is usually a tradeoff between efficiency and equity.
   b. On average, people respond to markets. There are, however, many individual exceptions.
   c. Specialization and trade fails to benefit those at a comparative disadvantage.
   d. Marginal analysis is useful. However, not everyone uses it.
   e. Society faces a short-run tradeoff between inflation and unemployment.

2. Assume that Michelle’s income goes from $60,000 to $62,000. The amount of taxes she owes, as a result, rises from $7,500 to $8,370. What is her marginal tax rate?
   a. 12.5%
   b. 13.0%
   c. 13.5%
   d. 15%
   e. none of the above

3. Which of the following best defines *Ceteris Paribus*?
   a. The world (i.e. entire situation under consideration) is unchanging.
   b. Buyer beware! Buyers need to take responsibility for their own actions (i.e. purchases).
   c. What is true for an individual is not true for the group as a whole.
   d. All else is constant. Only what is stated to change does change.
   e. Let us be! Given good property rights, the private sector works well on its own.

4. A circular flow diagram is:
   a. a model which illustrates cost-benefit analysis.
   b. a model that shows how banks “create” and circulate money in an economy.
   c. a model showing how countries can grow from trade.
   d. a model which shows ways buyers and sellers can interact.

5. Immigration from Eastern Europe was very high from 1992 to 1999. The American economy experienced one of its greatest periods of growth ever from 1993 to 2000. Beginning in 2000, this immigration greatly decreased and many immigrants returned to Eastern Europe. In 2001, the U.S. economy entered a recession. Which of the following is true?
   a. The economic boom necessarily caused the immigration from Eastern Europe. The recession necessarily caused the immigration to stop.
   b. The immigration from Eastern Europe was necessarily a major cause of the boom and then recession.
   c. It is difficult to assign any causation. Correlation does not necessarily mean causation.
6. Fred Flintstone currently is paid 1,000 clams a week in his job in the quarry. He is thinking about quitting his job and buying/managing a bowling alley instead. He estimates that it will cost 2,000 clams per week to operate the bowling alley. A table of his estimated expenses is at right. What is the value of Fred’s (estimated) opportunity cost of buying and running the bowling alley?

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages of Fred’s employees</td>
<td>900 clams</td>
</tr>
<tr>
<td>Principle &amp; interest to finance bowling</td>
<td>100 clams</td>
</tr>
<tr>
<td>Maintenance</td>
<td>200 clams</td>
</tr>
<tr>
<td>Floor wax</td>
<td>50 clams</td>
</tr>
<tr>
<td>Utilities</td>
<td>300 clams</td>
</tr>
<tr>
<td>Taxes</td>
<td>400 clams</td>
</tr>
<tr>
<td>Misc cash expenses</td>
<td>50 clams</td>
</tr>
</tbody>
</table>

a. 400 clams  
b. 1,000 clams  
c. 2,000 clams  
d. 3,000 clams  
e. none of the above

7. Ralph values new gutters at $800. He paid an individual $600 to install gutters on his house. Unfortunately, the person skipped town with the $600 and did not install the gutters. Ralph can pay another company, one that bonded and insured, another $600 for gutters. This company is guaranteed by law to install the gutters. Should, according to what was learned in class, Ralph pay the second $600 for his gutters?

a. Yes  
b. No

8. Which of the following best explains why there is opposition to free(r) in most nations of the world?

a. Free trade benefits owners of capital, but not most workers. Workers, while having lower incomes per person, are very large in number.

b. Free trade only benefits those nations which can produce at a lower cost, in terms of labor hours, than other nations.

c. Free trade only benefits those nations which can produce at a lower $ cost than other nations.

d. The theory behind free trade works for a two nation model. There are some doubts, however, about whether it is applicable to many nations trading.

e. The losses from free trade are highly visible and highly concentrated. The gains, while greater in total amount, are harder for individuals to see.

9. “The price of medical care, even if adjusted for inflation, has greatly increased in the past 4 decades. At the same time, the amount of medical purchased has greatly increased. Therefore, demand for medical care slopes up.” The previous statement is:

a. False. Increasing quantity bought as price rises is a downward sloping demand curve.

b. False. The speaker is referring to points on two different demand curves.

c. True but not normal. For the majority of goods, demand slopes down.

d. True and the norm for most goods.

10. From 1620 to 1750, many Europeans coming to the British American colonies came as indentured servants. Indentured servants were unable to afford the costs of passage to the colonies on their own. Instead they signed a contract in which they would work for someone in the colonies for 7 years for no pay, only food, clothing and shelter. Afterwards they would be given some tools, land, and be “freed” from indentured servitude. Indentured servitude was an example of:

a. An externality on the indentured servant.

b. Markets failing to benefit both buyer and seller because of information problems.

c. A non-market economy performing less well than a market economy.

d. Markets benefiting both the buyer and seller.
11. Chlordane is an insecticide invented by a private firm and used by the private sector (farmers, homeowners, etc) for many years. Chlordane is wonderful at killing insects. Unfortunately, it also is slow to break down and tends to get in the water supply and cause birth defects. Which of the following is true of the private sector’s production of Chlordane?
   a. Chlordane, while having some drawbacks, must be produced if the economy is to remain on its PPF.
   b. The production and use of Chlordane, in dollar terms, must be a net gain for society or the private sector would not do it.
   c. The production, distribution, and use of Chlordane produces an externality.
   d. This is an information problem only. If the buying public knew about the dangers of Chlordane, it would be used in a manner which no longer causes birth defects.
   e. both a & b.

12. True (a) or False (b): Ceteris paribus, a decrease in a nation’s unemployment rate from 7% to 4% would be represented by a shift of the PPC outwards.

13. Consider the PPC at right. What happens to the opportunity costs per added tank as the production of tank increases?
   a. the opportunity cost per added tank increases.
   b. the opportunity cost per added tank remains constant.
   c. the opportunity cost per added tank decreases.
   d. The opportunity cost per added tank could increase, stay the same, or decrease depending whether the PPF shifts in, out, or stays in place.

14. “The current recession began after businesses began to accumulate inventories. In reaction to this, businesses cut production, and therefore employment.” This is an example of:
   a. a perimetric statement/analysis
   b. a positive statement/analysis
   c. a normative statement/analysis
   d. a ceteris paribus statement/analysis
   e. a caveat emptor statement/analysis

15. “The Bush administration has not handled the current recession well. There has been too little government action to increase spending. The Bush administration should present Congress with a budget that spends more and taxes less.” This is an example of:
   a. a perimetric statement/analysis
   b. a positive statement/analysis
   c. a normative statement/analysis
   d. a ceteris paribus statement/analysis
   e. a caveat emptor statement/analysis

16. Assume it takes Egypt 12 hours of labor to produce a shirt and 60 hours to raise a cow. It takes Kush 14 hours of labor to produce a shirt and 98 hours to raise a cow. If Egypt and Kush are the only 2 countries trading, which of the following is true?
   a. Egypt should specialize in the production of cattle and Kush in the production of shirts.
   b. Egypt should specialize in the production of shirts and Kush in the production of cattle.
   c. Egypt should produce both shirts and cattle and not trade with Kush.
   d. More information, in particular the price of each good in each country before trade, is needed to answer this.
17. Gilligan has been selected for “Survivor Hawaii”. He is part of an 8 person tribe who must survive for 40 days. Unfortunately, Gilligan is the slowest in the tribe at every single task. Can Gilligan gain by specializing and trading with the others?
   a. Yes, Gilligan can gain from specialization and trade. However, the rest of the tribe will be worse off.
   b. Yes, Gilligan can gain from specialization and trade. Moreover, the rest of the tribe will be better off too.
   c. No, both Gilligan and the other members of the tribe will loose is Gilligan specializes and trades with them.

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**Answer #’s 18 – 23 based on the PPF’s below. Assume a 2 nation, 2 good world.**

![PPF Diagram](image)

18. **True (a) or False (b):** Both nations can gain from specialization & trade if the Terms of Trade is \( \frac{35 \text{Wheat}}{1 \text{Sickle}} \).

19. **True (a) or False (b):** Both nations can gain from specialization & trade if the Terms of Trade is \( \frac{20 \text{Wheat}}{1 \text{Sickle}} \).

20. **True (a) or False (b):** Athens should specialize in the production of sickles if it wants to gain from trade.

21. **True (a) or False (b):** Athens should import sickles if it wants to gain from trade.
22. Which combination is possible, given the PPFs, and represents both nations gaining from trade?
   a. Athens imports 700 wheat and exports 30 sickles. Sparta exports 600 wheat and imports 40 sickles.
   b. Athens exports 600 wheat and imports 40 sickles. Sparta imports 600 wheat and exports 40 sickles.
   c. Athens imports 800 wheat and exports 20 sickles. Sparta exports 800 wheat and imports 20 sickles.
   d. Athens imports 800 wheat and exports 30 sickles. Sparta exports 800 wheat and imports 30 sickles.
   e. none of the above

23. Which combination is possible, given the PPFs, and represents both nations gaining from trade?
   a. Athens consumes 600 wheat and 60 sickles. Sparta consumes 400 wheat and 40 sickles.
   b. Athens consumes 1,000 wheat and 60 sickles. Sparta consumes 800 wheat and 80 sickles.
   c. Athens consumes 1,000 wheat and 40 sickles. Sparta consumes 400 wheat and 40 sickles.
   d. all of the above.
   e. none of the above

24. Scarcity definitely exists today. In the coming century scarcity:
   a. will persist as long as humans tend to always want more.
   b. may be eliminated if capacity rises enough. However, other problems such as a lack of clean air may persist.
   c. may be eliminated if society finds a way to distribute this increased production to the poor.
   d. may be eliminated if the government creates enough money.
   e. both b and c.

25. Which of the following is an argument for free(r) trade?
   a. The gains from trade come at no cost to a society.
   b. Trade helps a nation ensure it has a secure base of defense industry materials.
   c. Trade makes a nation more self-reliant. A nation that trades is less affected by economic fluctuations in the rest of the world.
   d. Selling to world markets, instead of just the local market, may allow a firm to be larger which, in many industries, means lower (per unit) costs.
   e. None of the above are correct.

26. Matilda spent $1,050 and 120 total hours to take a C++ programming from TTI Institute. Which best describes her opportunity cost of taking this class?
   a. The extra money she earns from her new skills minus $1,050.
   b. The extra money and the personal satisfaction she earns from her new skills minus what else she could have done with the $1,050 and 120 hours.
   c. What else she could have done with the $1,050 and the 120 hours.
   d. The monetary gain she receives from her new skills.
   e. What else she would have done with the $1,050. The 120 hours had to “spent” regardless.
27. Sellers of gasoline in Britain raise the price from £1.40 to £1.60. As a result, buyers buy less gasoline. This is best described as:
   a. an increase in demand
   b. a decrease in demand
   c. only an increase in quantity demanded
   d. only a decrease in quantity demanded

28. It is 1390 (before European contact) in the upper Missouri river valley. 1 oz. of pemmican (buffalo brains mixed with various herbs … yumm) is trading for 10 oz. of corn. At that trade rate, those with pemmican have more pemmican than they want. Those with pemmican have not traded away all the pemmican they wanted to. Which of the following is most likely true?
   a. Those with pemmican will offer to trade for more corn, say 1 oz. pemmican for 12 oz. corn.
   b. Those with pemmican will offer to trade for less corn, say 1 oz. pemmican for 8 oz. corn.
   c. Pemmican producers are not specializing in their area of comparative advantage. The wrong stuff is being produced.
   d. Corn producers are not specializing in their area of comparative advantage. The wrong stuff is being produced.
   e. Both groups, corn producers and pemmican producers, have a comparative advantage in the same goods. Gains from trade are therefore non-existent.

29. Which person is most responsible for giving us the theory of supply and demand?
   a. St. Thomas Aquinas
   b. Sir John Hicks
   c. Alfred Marshall
   d. Adam Smith
   e. unknown. Workable models of supply and demand have been around since ancient times.

30. Which of the following is the best explanation of how and why markets “know” which price and quantity to choose.
   a. “Natural” reactions to shortages and surpluses.
   b. “Caveat Emptor”, the natural tendency of buyers to always want more.
   c. Consortiums of firms within in an industry which pool their sales and production data, and generate supply and demand curves from that data.
   d. The rise of private firms, beginning in the 1700’s, which collect data, generate supply and demand curves from that data, and sell it to producers.
   e. The rise of government agencies, beginning in the 1700’s, which collect data, generate supply and demand curves from that data, and sell or give it to producers.

31. Which person coined the term “Invisible Hand”?
   a. John Adams
   b. St. Thomas Aquinas
   c. Alfred Marshall
   d. David Ricardo
   e. Adam Smith

32. Which person gave us the theory of comparative advantage?
   a. John Adams
   b. St. Thomas Aquinas
   c. Alfred Marshall
   d. David Ricardo
   e. Adam Smith
33. In which text was the term “Invisible Hand” coined?
   a. A Treatise on Human Interactions  
   b. The Hedonic Calculus: The Individual and Society  
   c. Principles of Political Economy and Taxation  
   d. Supply and Demand: Theory and Evidence  
   e. The Wealth of Nations

34. In which year was the above text written?
   a. 1899  
   b. 1842  
   c. 1776  
   d. 1412  
   e. approximately 250 B.C.

35. Which of the following defines the “Invisible Hand”?  
   a. The tendency for markets to not work well when buyers have poor information about the product they are buying.  
   b. The tendency for markets to require government, the “Invisible Hand”, to gather information needed to achieve the correct equilibrium.  
   c. The tendency for trade restrictions to “tax” consumers, i.e. raise prices, in ways that are hard to see.  
   d. The tendency for trade restrictions to restrict the growth of industries at a comparative advantage, in ways that are hard to see.  
   e. none of the above

36. Which is the most likely true?  
   a. Supply of oranges has decreased.  
   b. Only the quantity supplied of oranges has decreased.  
   c. none of the above

37. Which is the most likely true?  
   a. Demand for oranges has decreased.  
   b. Only the quantity demanded of oranges has decreased.  
   c. none of the above

38. Which of the following is the most true?  
   a. While not the only way to get people to do good things for others, markets are usually quite effective and encouraging such behavior.  
   b. Markets are the only way, yet discovered by humankind, to get people to do good things for others.  
   c. Markets generally do not encourage people to do good things for others. However, they are very good at encouraging people to do good things for themselves.

39. True (a) or False (b): According to the text, America has a comparative advantage in fleece (sheep’s wool). However, Australia, New Zealand, and Europe, having lost their comparative advantage in fleece, imposed very high tariffs on U.S. fleece.

40. True (a) or False (b): Belinda is buying more chicken than before. She doesn’t really like chicken any better or worse than before. However, chicken is cheaper than in the past so she buys more than before. This is best described as an increase in Belinda’s demand.