1. Which of the following is true?
   a. Scarcity and poverty (common definition, not government definition) are basically the same thing.
   b. Scarcity can be eliminated if material living conditions rise high enough.
   c. Scarcity will always be present as long as people tend to always want more.
   d. Scarcity is the result of prices being set above equilibrium.
   e. both a & b

2. Assume you have completed 3 and 1/2 years of college. You have one semester to go before earning your Economics & Finance degree. If you used marginal analysis to make the decision on whether to attend the last semester of college, you would:
   a. compare the total costs of your 4 years of education against the total benefits a degree will give you.
   b. compare the costs of 1 more semester, against the benefits you gain from having a degree vs only 3 1/2 years of college.
   c. Not use marginal analysis. Many of the costs and benefits are implicit (i.e. non $ costs or benefits), something marginal analysis does not consider.
   d. Not use marginal analysis. Marginal analysis making does not apply when 2 time periods (now vs future) are being considered.
   e. Both c & d

3. _____ Which of the following best defines Ceteris Paribus?
   a. Causation is known only by the gods. Without controlled experiments, causation is hard to determine.
   b. Buyer beware! Buyers need to take responsibility for their own actions (i.e. purchases).
   c. Prosperity through greed. Sellers motivated by greed make buyers better off.
   d. All else is constant. Only what is stated to change does change.
   e. A static world. Nothing whatsoever is changing.

4 - 6. Below are excerpts of a paper from a prestigious economist at the Collidge Institute. Indicate whether the following statements are Lexigraphic, Monographic, Normative, Oviparous, or Positive.

4. George Bush's plan to allow individuals to invest their social security dollars in private investments is estimated to widen the income gap between the richest 50% & the poorest 50% of the elderly by 2025.

5. George Bush's plan to allow individuals to invest their social security dollars in private investments is estimated to increase the average income of the elderly 22% by 2025.

6. The costs (income inequality) of George Bush's social security plan is not worth the benefit (higher average incomes). After careful analysis, I conclude that the U.S. should not adopt it.

7. Consider the following statement. "The costs (income inequality) of George Bush's social security plan is not worth the benefit (higher average incomes). After careful analysis, I conclude that the U.S. should not adopt it." Which of the following concepts does this statement best express?
   a. There is usually a tradeoff between efficiency and equity.
   b. The Invisible Hand (of market economic selection) tends to promote some at the expense of others.
   c. People often fail to correctly perceive small percentage risks.
   d. Resource markets are not directly linked to goods and services markets.
   e. Marginal decision making does not apply when 2 time periods (now vs future) are being considered.
8. As more wine is produced in Italy, the opportunity cost of an added unit of wine increases. Which of the following PPFs correctly illustrates this?

![PPFs](image)

Answer #’s 9 – 15 based on the curves at right. Assume a 2 nation, 2 good world.

9. True (a) or False (b): Both nations can gain from specialization & trade if the Terms of Trade is \( \frac{1.75 \text{ Shirts}}{1 \text{ Wine}} \).

10. True (a) or False (b): Both nations can gain from specialization & trade if the Terms of Trade is \( \frac{1.50 \text{ Shirts}}{1 \text{ Wine}} \).

11. True (a) or False (b): Both nations can gain from specialization & trade if the Terms of Trade is \( \frac{1.25 \text{ Shirts}}{1 \text{ Wine}} \).

12. True (a) or False (b): Both nations can gain from specialization & trade if the Terms of Trade is \( \frac{1.00 \text{ Shirts}}{1 \text{ Wine}} \).

13. True (a) or False (b): Italy should specialize in the production of shirts if it wants to gain from trade.

14. True (a) or False (b): Italy should export shirts if it wants to gain from trade.

15. True (a) or False (b): Italy should import shirts if it wants to gain from trade.

16. Who developed the theory (or Law) of Comparative Advantage?
   
   a. Alfred Marshall  
   b. David Ricardo  
   c. Richard Rubin  
   d. Adam Smith  
   e. Lawrence Summers

17. Who was the first person to formally model supply and demand?
   
   a. Alfred Marshall  
   b. David Ricardo  
   c. Richard Rubin  
   d. Adam Smith  
   e. Lawrence Summers
18. Which one of the following pairs of graphs correctly illustrates 2 countries which are gaining from trade?

![Graphs of 2 countries illustrating trade gains](image)

19. Which of the following diagrams represent an increase in capacity utilization?

![Diagrams of capacity utilization](image)

20. In 1939 the U.S. economy still had not completely recovered from the Great Depression. In 1966 the U.S. economy was booming. Production was high and unemployment was low. In both years, the U.S. began a large military build-up (one in response to conflict in Europe and China and the other in response to conflict in Vietnam). **Assume the military build-up is the same relative size in both cases (say 8% of GDP).** In which case would production of non-military goods (i.e. civilian goods) be most likely to fall?

a. The 1939 build-up  

b. the 1966 build-up

21. **True (a) or False (b):** The invention of a fuel cell which provides cheap energy production would shift a nation's PPF outward.
22. **True (a) or False (b):** A fall in the unemployment rate from 15% to 7% would shift a nation's PPF outward.

23. Currently, U.S. Exports are what % of U.S. GDP?
   a. 7%
   b. 11%
   c. 15%
   d. 19%
   e. 23%

24. Which of the following is an argument for free(r) trade?
   a. Trade is the best way to protect workers in industries having trouble competing in foreign markets.
   b. Trade may allow companies to achieve economies of scale by selling to larger markets.
   c. Trade reduces a nation's dependence on foreign suppliers of critical military parts and hardware.
   d. Trade encourages a nation towards greater self-sufficiency.
   e. both a & d

#s 25 - 28. Indicate whether the following are true of recent trade treaties.

25. **True (a) or False (b):** The GATT treaty signed in 1994 was the first treaty named GATT. Prior to 1994, there were GATT negotiations, but no GATT treaty.

26. **True (a) or False (b):** Prior to NAFTA, U.S. tariffs on Mexican goods were higher than Mexican tariffs on U.S. goods.

27. **True (a) or False (b):** The 1994 GATT treaty focused mainly on non-tariff barriers to trade.
   27. The best answer is b. False. However, this question was thrown out.

28. **True (a) or False (b):** The U.S. government provided trade adjustment assistance to help U.S. workers losing their jobs because of the 1994 GATT treaty. With NAFTA, the U.S. government did not offer such assistance.

29. Dr. Lovett steals Dr. Quinn's overhead markers before class. Dr. Quinn does not know who stole them. This is an example of:
   a. a negative externality (external costs)
   b. a positive externality (external benefits)
   c. no externality.
   d. The Invisible Hand working as it should

30. Dr. Harvey and Dr. Klopfenstein's decide to work together on a paper. The paper is successfully published under their names. Each benefits from the other’s actions. This is an example of:
   a. a negative externality (external costs)
   b. a positive externality (external benefits)
   c. no externality.
   d. The Invisible Hand working as it should

30. This question was thrown out. I intended for the correct answer to be "no externality" since both Dr. K and Dr. H are involved in the decision to do the activity. i.e. Dr. K and Dr. H are not 3rd parties.
   There could, however, be 3rd parties who benefit from this, namely, anyone in society who benefits from their research. i.e. Research usually generates external benefits.

31. Your friend Clint states, "I'm good at building boats. However, I only have a small garage with a few tools. It takes me a week and costs about $1,500 to build 1 boat. If I had more space and tools I could set up an assembly line and build 21 boats a week for only $900 a piece. I am willing to sell more boats at a lower price. **Therefore my supply curve slopes down.**" Which of the following is correct?
   a. Clint is correct. Individual, but not market, supply curves frequently slope down.
   b. Clint is correct. Supply curves for manufactured goods usually slope down.
   c. Clint is correct. As people transition from hobbies to a paying career, their supply curve will slope down.
   d. Clint is wrong. He is talking about points on 2 different supply curves.
   e. Clint is wrong. He is confusing his supply curve with his PPF.
32. Monica quits her job as a manager at Target and decides to start up her own U-Haul rental franchise. Her cash outlays (i.e. expenses) for operating the new business each year are shown at right. **Which of the following best describe her (yearly) opportunity cost of running the new business?**

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent of Building Space</td>
<td>$11,000</td>
</tr>
<tr>
<td>Rent of Equipment</td>
<td>$9,000</td>
</tr>
<tr>
<td>Wages of her employees</td>
<td>$25,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>$1,000</td>
</tr>
<tr>
<td>Business Taxes</td>
<td>$3,000</td>
</tr>
<tr>
<td>Misc. Materials</td>
<td>$1,000</td>
</tr>
<tr>
<td><strong>Total Cash Outlays</strong></td>
<td><strong>$50,000</strong></td>
</tr>
</tbody>
</table>

a. $50,000  
b. $47,000 (all except business taxes)  
c. $50,000 – her revenues (i.e sales)  
d. her revenues (i.e sales)  
e. $50,000 + her salary at Target

33. **Which of the following best define the term “Invisible Hand”?**

a. the tendency of selfish business to do what benefits the consumer  
b. the tendency of businesses to abuse the consumer if they can and keep it secret  
c. the tendency of government to abuse the consumer if they can and keep it secret  
d. behind the scenes government guidance of an economy  
e. the tendency of business to co-opt or lobby government to do their bidding

34. Assume there is 1) no government intervention, 2) no industry wide information gathering organization, and 3) no direct communication among firms. How, if at all, will a private market “decide” how much to produce and what price to charge?

a. The market will not successfully decide on a price on quantity without any of these 3 market “pillars”.  
b. The market will decide on a price and quantity only if buyers successfully form a cooperative.  
c. The market will converge to a particular price and quantity as sellers respond to surpluses or shortages.  
d. The market will set price equal to costs of production plus a standard markup. Quantity will be set at a level just below where firms have to start paying overtime and looking for new sources of materials.

35. Which of the following would cause a **decrease** in the demand for courses at Tarrant County Community College (TCCC)?

a. an increase in the price (i.e. tuition) TCCC charges per semester hour  
b. a decrease in the price (i.e. tuition) TCCC charges per semester hour  
c. an increase in the price (i.e. tuition) UT-Arlington charges per semester hour  
d. a decrease in the price (i.e. tuition) UT-Arlington charges per semester hour  
e. both a & d

36. Assume that gasoline production increases, and, at the same time, gasoline prices increase. Which of the following has happened in the gasoline market?

a. The demand for gasoline has increased.  
b. The demand for gasoline has decreased.  
c. The supply of gasoline has increased.  
d. The supply of gasoline has decreased.

37. Assume that the market for **apartments in Arnold**, Maryland is initially in equilibrium. Then, the price of apartments in Annapolis, Maryland (right next to Arnold) rises greatly. The quality, etc. of apartments in both areas is unchanged. What will happened in the market for **apartments in Arnold**?

a. Price rises and quantity rises in Arnold.  
b. Prices rises and quantity falls in Arnold.  
c. Price falls and quantity rises in Arnold.  
d. Price falls and quantity falls in Arnold.  
e. No change. Nothing changes in a market unless it is explicitly stated in Arnold.
38. Assume that the market for cotton fiber in 1790 was in equilibrium. Then, a much faster and more efficient cotton gin (machine for separating the seeds from the fiber) is invented. What happened in the market for cotton fiber after this invention?
   a. Prices rise and quantity rises.  
   b. Prices rise and quantity falls.  
   c. Prices fall and quantity rises.  
   d. Prices fall and quantity falls.  
   e. No change. Nothing changes in a market unless it is explicitly stated.

39. Consider the market for gasoline powered cars. Which of the following is most likely to cause the price to decrease and the quantity to increase?
   a. a decrease in the price of gasoline  
   b. an increase in the price of gasoline  
   c. several auto unions successfully negotiate higher wages for auto workers  
   d. several automakers successfully negotiate lower wages from their employees  
   e. both b & d

40. You are visiting Russia. Your speak very little Russian. You read a newspaper that (correctly) states; “Price of ñâèíèíà increases greatly! Demand for öûïëåíîê decreases! What can be said about ñâèíèíà and öûïëåíîê?
   a. They are both normal goods.  
   b. They are complements to each other.  
   c. They are substitutes for each other.  
   d. ñâèíèíà is an input (resource). öûïëåíîê is an output (good or service).  
   e. öûïëåíîê is an input (resource). ñâèíèíà is an output (good or service).