Eco201, Fall 2005, Prof. Bill Even
Quiz 1

Name _______________________________

Place all answers in the space provided at the end of the quiz. No credit will be given for answers recorded elsewhere.

1) Over the last 60 years, as a proportion of total production, the U.S. economy has produced more
   a. agricultural products.  b. goods and services.  
   c. services.   d. goods.

2) What are the four categories into which factors of production are grouped?
   a. land, labor, capital and entrepreneurship  
   b. capital, human capital, land and labor  
   c. profit, wages, rent and interest  
   d. entrepreneurship, profit, labor and wages

3) In economics, the term "capital" refers to
   a. consumer goods.   b. the money in one's pocket.  
   c. buildings and equipment.  d. mineral resources.

4) Opportunity cost is best defined as
   a. the value of the next best alternative that is given up in making a choice. 
   b. the total of all other alternatives that are given up in making a choice. 
   c. how much money and time it takes to consume something.  
   d. how much money is paid for something.

5) Suppose the cost of 5 pencils is $1.50. The cost of 6 pencils is $1.75. The marginal cost of the sixth pencil is
   a. $.25.  b. $1.50.  c. $3.25.    d. $1.75.

6) Which of the following will create an incentive to increase the amount of an activity?
   a. a decrease in the marginal cost of the activity and an increase in the marginal benefit of the activity 
   b. an increase in the marginal cost of the activity and a decrease in the marginal benefit of the activity 
   c. constant marginal cost and constant marginal benefit of the activity 
   d. None of the above will create an incentive to increase the amount of an activity.

7) Which of the following is a positive statement?
   a. Because they decrease productivity, labor unions should be eliminated. 
   b. The United States should fight inflation even if it raises unemployment. 
   c. A 5 percent increase in income leads to a 3 percent increase in the consumption of orange juice. 
   d. What to do with Social Security is the most important economic issue today.

8) Which of the following is NOT a normative statement?
   a. The distribution of income is fair.  
   b. People buy more of a good or service when its price falls.  
   c. The government ought to provide health care to everyone.  
   d. Corporations should be more socially responsible.

9) The figure above shows ________ relationship between the two variables.
   a. a positive  b. no  
   c. an inverse  d. a negative

10) "The price of long distance phone calls goes down after 5 p.m. and falls further after 11 p.m. As a result, people make more long distance phone calls as it gets later each night." A graph showing this relationship between long distance phone rates and the number of calls made would show
    a. a negatively-sloped curve. b. an inverse relationship. 
    c. a positively-sloped curve. d. Both answers A and B are correct.

11) If we use the numbers in the above table to draw a graph, with the price on the vertical axis and the quantity on the horizontal axis, the curve relating price and quantity has a slope of
    a. -8.0.  b. -1.25.  
    c. 8.0.    d. 0.8.
12) The slope of the line shown in the above figure is
a. \(2/3\).  
b. \(5/2\).  
c. \(2/5\).  
d. 5.

13) Any point on a production possibilities frontier (PPF) itself is
a. efficient.  
b. equitable.  
c. unattainable.  
d. inefficient.

14) Increasing opportunity cost implies that
a. producing additional units of one good results in increasing amounts of lost output of the other good.
b. producing additional units of one good results in proportionately smaller reductions in the output of the other good.
c. the society will be producing inside its production possibilities frontier.
d. the production possibilities frontier will be a straight line.

15) The production possibilities frontier bows outward because
a. resources are of uniform quality.
b. opportunity costs are increasing as the production of a good increases.
c. opportunity costs are decreasing as the production of a good increases.
d. opportunity costs are fixed as the production of a good increases.

16) In the above table, the production of 3 pizzas and 80 cases of soda is
a. possible only if the economy produces with maximum efficiency.
b. feasible but would involve unemployed or misallocated resources.
c. impossible unless more resources become available or technology improves.
d. possible only if there is inflation.

17) In the above table, the opportunity cost of the 2nd pizza is
a. 15 cases of soda.  
b. 80 cases of soda.  
c. 95 cases of soda.  
d. 0 cases of soda.

18) Marginal benefit is
a. the opportunity cost of producing one more unit of a good and increases as production of the good increases.
b. the opportunity cost of producing one more unit of a good and decreases as production of the good increases.
c. the benefit from consuming one more unit of a good and decreases as consumption of the good increases.
d. the benefit from consuming one more unit of a good and increases as consumption of the good increases.

19) Resource use is efficient when marginal benefit is
a. greater than marginal cost.  
b. at its maximum value.  
c. equal to marginal cost.  
d. less than marginal cost.

20) Economic growth is shown on the production possibilities frontier as
a. a movement from one point on the PPF to another.
b. the curvature of the PPF.
c. an outward shift in the PPF.
d. an inward shift in the PPF.

Place all answers below.

<table>
<thead>
<tr>
<th>Possibility</th>
<th>Pizza (per hour)</th>
<th>Soda (cases per hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>95</td>
</tr>
<tr>
<td>C</td>
<td>2</td>
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</tr>
<tr>
<td>D</td>
<td>3</td>
<td>60</td>
</tr>
<tr>
<td>E</td>
<td>4</td>
<td>35</td>
</tr>
<tr>
<td>F</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

1) c  2) a  3) c  4) a  5) a  6) a  7) c  8) b  9) a  10) d  11) b  12) c  13) a  14) a  15) b  16) c  17) a  18) c  19) c  20) c
1) c
2) a
3) c
4) a
5) a
6) a
7) c
8) b
9) a
10) d
11) b
12) c
13) a
14) a
15) b
16) c
17) a
18) c
19) c
20) c