Wizard Test Maker

# AP ECONOMICS: MICRO & MACRO

## QUESTION CATALOGUE



eduware

# AP Economics

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902. In a situation with two countries each producing two goods, which of the following statements is correct?
(A) It is possible for a country to hold a comparative advantage in both goods.
(B) It is possible for a country to hold a comparative advantage in neither good.
(C) It is possible for a country to hold an absolute advantage in both goods but a comparative advantage in neither good.
**(D) It is possible for a country to hold an absolute advantage in one good but a comparative advantage in the other good.**
(E) It is not possible for a country to hold a comparative advantage in one good and an absolute advantage in the same good.

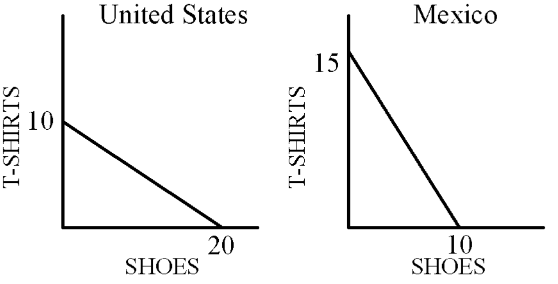
903. Base your answer to the following question on the following table. The numbers represent the amount of either good that one worker from the given country can produce in one day.

| Country | TVs | | Cars |
|---|---|---|---|
| X | 10 | or | 5 |
| Y | 20 | or | 5 |

According to the data, country X
(A) has an absolute advantage in TVs and should export TVs
(B) has an absolute advantage in TVs and should export Cars
**(C) has a comparative advantage in Cars and should export Cars**
(D) has a comparative advantage in TVs and should export TVs
(E) doesn't have an aboslute advantage in either good and should import both

908. If two countries are each capable of producing the same two goods, all of the following statements are false EXCEPT
(A) A country with an absolute disadvantage in both goods will not have a comparative advantage in either good.
(B) A country can have a comparative advantage in both goods.
(C) If a country has an absolute advantage in one good, it must have a comparative advantage in that good.
**(D) A country with a comparative advantage in one good must have a comparative disadvantage in the other good.**
(E) If a country has an absolute advantage in both goods, it must have a comparative advantage in both goods.

907. Base your answer to the following question on the following graph. The lines represent the production possibility frontier for the given country.



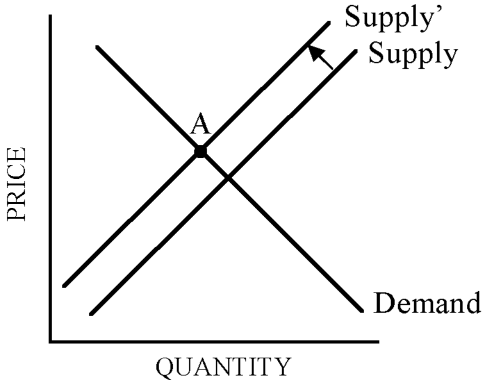

Which of the following statements is correct?
(A) Mexico has a comparative advantage in t-shirts and should import t-shirts.
**(B) Mexico has a comparative advantage in t-shirts and should import shoes.**
(C) The US has a comparative advantage in t-shirts and should export t-shirts.
(D) The US has a comparative advantage in t-shirts and should export shoes.
(E) Mexico has a comparative advantage in both goods and should not trade.

924. If the United States can produce either 10 gallons of juice or 5 gallons of milk in one day, and France can produce either 5 gallons of juice or 5 gallons of milk,
(A) the US has an absolute advantage in juice, and should specialize in milk
(B) the US has a comparative advantage in juice, and should specialize in milk
(C) the US has an absolute advantage in both products, and should not specialize
**(D) France has a comparative advantage in milk, and should specialize in milk**
(E) France has an absolute advantage in milk, and should specialize in milk

932. If one worker in Italy can produce either 10 bottles of wine or 5 blocks of cheese in one hour, and one worker in France can produce either 30 bottles of wine or 10 blocks of cheese in one hour, then
(A) Italy has a comparative advantage in cheese and should import cheese
**(B) Italy has a comparative advantage in cheese and should import wine**
(C) France has an absolute advantage in wine and should import wine
(D) France has a comparative advantage in wine and should import wine
(E) France has a comparative advantage in cheese and should import wine

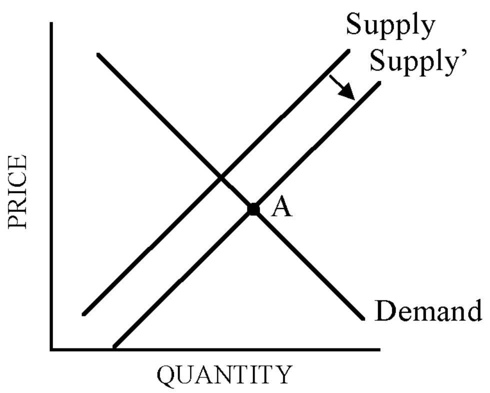
955. Consider a situation in which computers are being manufactured by hand. Suppose a new process is introduced that allows for much more efficient production of computers. It will follow that
(A) the price of computers will rise
(B) the demand for computers will rise
**(C) the price of computers will fall**
(D) the supply of computers will fall
(E) the quantity supplied of computers will rise

956.




A shift from equilibrium to point A in the above graph could represent
(A) a decrease in production costs of a good
(B) an increase in the quantity supplied of a good
**(C) a decrease in supply of a complement good**
(D) a decrease in supply of a substitute good
(E) a decrease in the quantity supplied of a good

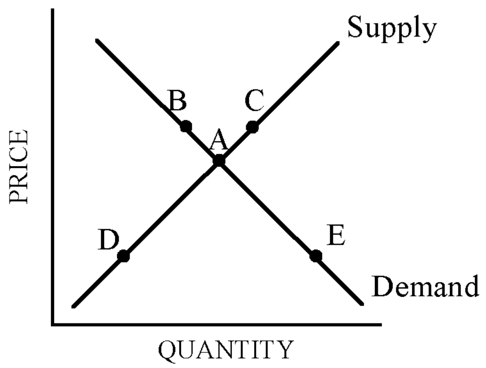
957.




A shift from equilibrium to point A in the above graph could represent
(A) an increase in the production costs of a good
**(B) a decrease in production costs of a good**
(C) an increase in quantity supplied of a good
(D) a decrease in quantity supplied of a good
(E) a decrease in supply of a complement good

958. If there are two substitute goods, and the demand for one good falls, what will the effect be on the other good?
(A) Price rises and supply increases
**(B) Price rises and quantity supplied increses**
(C) Price falls and supply decreases
(D) Price falls and quantity supplied decreases
(E) Price rises and there is no change in quantity supplied

Base your answers to questions **960** through **963** on the following graph.




960. Which of the following represents excess supply?
(A) Q(A) - Q(B)
(B) Q(B) - Q(A)
**(C) Q(C) - Q(B)**
(D) Q(A) - Q(C)
(E) Q(E) - Q(D)

961. Which of the following represents excess demand?
(A) Q(A) - Q(B)
(B) Q(B) - Q(A)
(C) Q(C) - Q(A)
**(D) Q(E) - Q(D)**
(E) Q(D) - Q(E)

962. Which of the following points represents the equilibrium?
**(A) A**
(B) B
(C) C
(D) D
(E) E

963. Starting at equilibrium, an increase in the demand for a substitute good would cause a shift to which point?
(A) A
(B) B
(C) C
**(D) D**
(E) None of the above

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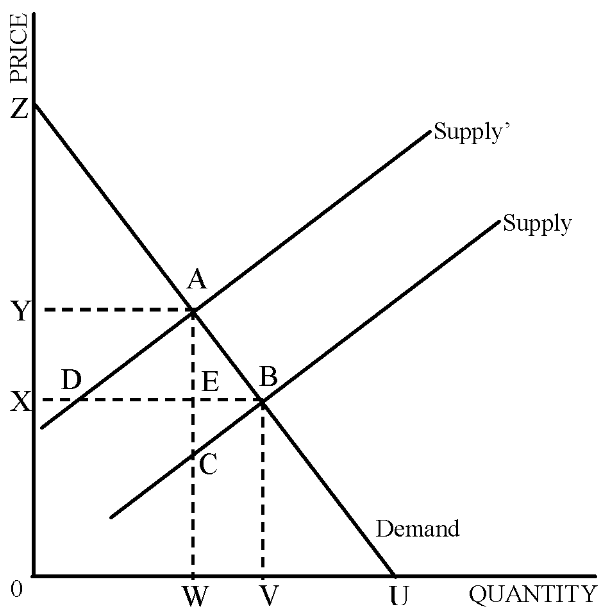
1629. When the government taxes the sale of a product,
(A) the price of the product decreases
(B) the demand for the product increases
(C) the demand for the product decreases
(D) the supply of the product shifts to the right
**(E) the quantity demanded of the product decreases**

1779. The area below the demand curve and above the market price is considered
(A) producer surplus
(B) deadweight loss
(C) positive externality
(D) negative externality
**(E) consumer surplus**

1785. Suppose the market equilibrium price for a certain type of bracelet is $500 and a price-discriminating monopolist charges Angela $1000 for it. If she was willing to pay up to $1750, then the sale of the bracelet created
**(A) a $750 consumer surplus**
(B) a $1250 consumer surplus
(C) a $1500 producer surplus
(D) a $750 producer surplus
(E) a $500 deadweight loss

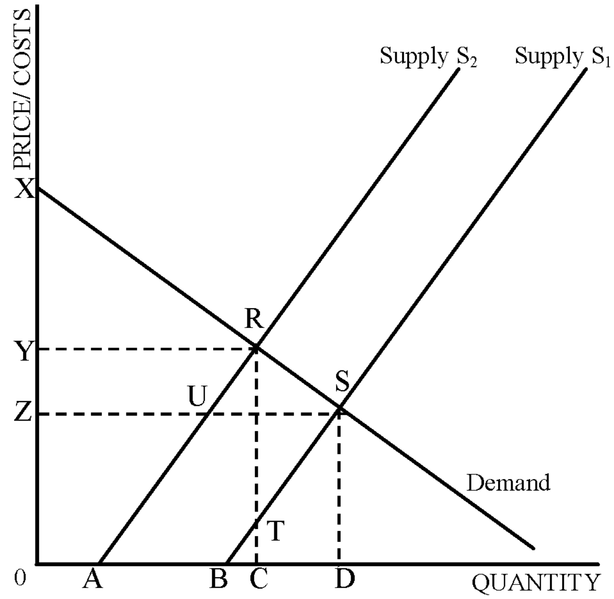
1875. Base your answer to the following question on the graph below, which shows the market demand curve for a product and two different market supply curves.




Which of the following correctly defines the graphical representation of the consumer surplus when the supply curve is S?
**(A) ZBX**
(B) BV0X
(C) ZU0
(D) ABC
(E) ABE

1947. If a profit-maximizing monopolist is able to practice total price discrimination, consumer surplus will
**(A) not exist in the market**
(B) decrease as quantity supplied increases
(C) increase as quantity supplied increases
(D) be equal to producer surplus in the market
(E) be inversely proportional to producer surplus

Base your answers to questions **1883** through **1886** on the graph below, which shows the supply and demand curves for a market.




1883. What is the consumer surplus when supply equals $S_1$?
**(A) XSZ**
(B) XRY
(C) YRSZ
(D) ZSB0
(E) XSB0

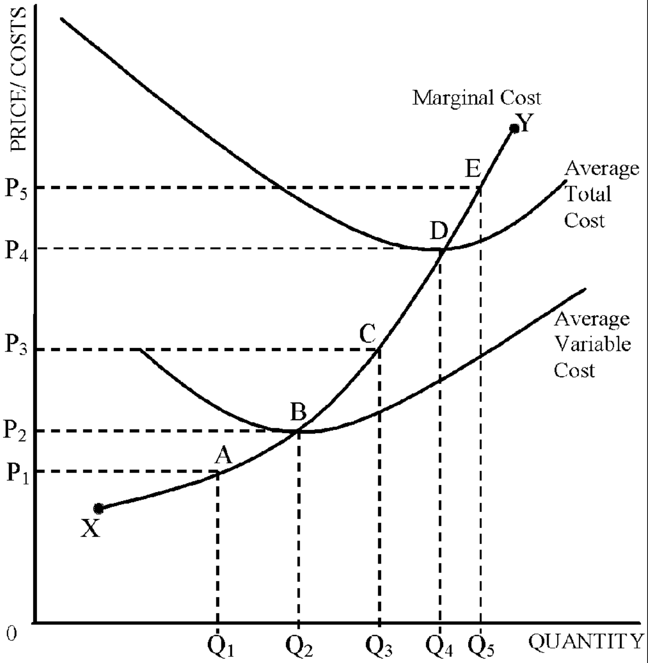
1884. What is the consumer surplus when supply equals $S_2$?
(A) YRUZ
(B) RSBA
(C) YRA0
(D) RST
**(E) XRY**

1885. What is the producer surplus when supply equals $S_1$?
(A) XSZ
(B) BTC
**(C) ZSB0**
(D) YRSZ
(E) CTSD

1886. What is the producer surplus when supply equals $S_2$?
(A) ARSB
**(B) YRA0**
(C) XRA0
(D) BTC
(E) ARTB

2137. The monetary value of a consumer's marginal benefit minus the price of the product delivering the benefit equals
**(A) consumer surplus**
(B) producer surplus
(C) positive externality
(D) negative externality
(E) economic rent

1872. Base your answer to the following question on the graph below, which represents the costs incurred by a perfectly competitive firm.




If the market price is $P_4$ for all output levels, then in the short run the firm

**(A) cannot earn economic profits**
(B) cannot earn normal profits
(C) should shut down
(D) is not covering fixed costs
(E) should increase output to $Q_5$

2011. Which of the following might be considered part of a firm's costs by an economist, but not by an accountant?

(A) Overhead costs
(B) Worker wages
(C) Capital investment
(D) Taxes paid to the government
**(E) Opportunity costs of entrepeneurship**

2020. Assuming it sells every unit it puts out, which of the following is the formula for a firm's economic profits?

(A) (AVC × Quantity Produced) – Total Revenues
**(B) Total Revenue – (ATC × Quantity Produced)**
(C) Marginal Revenue – Marginal Cost
(D) (AVC – FC) – Marginal Revenue
(E) Total Producer Surplus – Total Consumer Surplus

2022. Usually, firms will enter an industry only if

**(A) economic profits are being generated**
(B) normal profits are available to all firms
(C) the government guarantees the market's success
(D) consumer demand has resulted in a shortage
(E) the market is perfectly competitive

2027. A market that is experiencing a period of growth due to an increase in the number of firms in production will not experience an end to the entry movement until

**(A) economic profits reach zero**
(B) inefficient firms begin to fail and lose revenue
(C) consumers decide on one differentiated, favorite firm
(D) long run average costs begin to increase
(E) each firm operates at the profit-maximizing output level

2049. Economic profit is defined as

**(A) the difference between total revenue and total cost**
(B) the revenue generated when production is at the MR = MC level
(C) monopoly revenues impossible to obtain in competitive markets
(D) the economic rent paid to suppliers of limited products
(E) the marginal revenue generated by each individual unit of output sold

2146. Which of the following statements is FALSE about rational consumers and firms?

(A) Firms seek profit; consumers seek utility.
(B) Consumers will purchase a product only if its marginal utility is greater than or equal to its price.
**(C) Long run economic profits are an indicator that consumers are obtaining maximum utility.**
(D) Some consumers and some firms will trade, even if the market does not clear.
(E) Consumers will not spend money on things they do not assess to be more valuable than the price indicates.

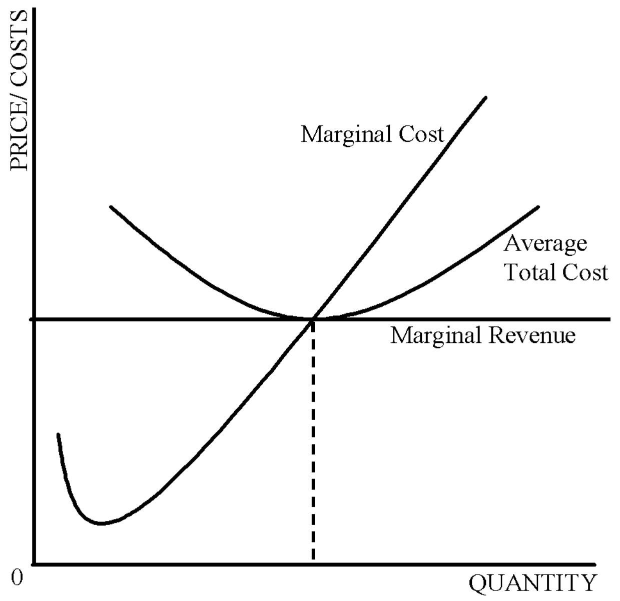
2149. Economic profits are equal to

(A) total revenue minus explicit costs
(B) total revenue minus opportunity costs
(C) normal profits minus opportunity costs
**(D) total revenue minus explicit and opportunity costs**
(E) normal profits minus explicit and opportunity costs

2151. Which of the following equations is economically correct?

(A) Normal profit = accounting profit + economic profit
(B) Explicit costs = economic profit – accounting profit
**(C) Economic profit = accounting profit – implicit costs**
(D) Accounting profit = economic profit – implicit costs
(E) Implicit costs = economic profit – accounting profit

1383. Base your answer to the following question on the graph below, which shows the long-run cost and revenue curves for a profit-maximizing firm.




In the long run, this firm's average fixed cost

(A) may equal or be less than average total cost
(B) will always be less than its marginal cost
(C) will always be less than its average total cost
(D) may equal or exceed average total cost
**(E) will not exist**

1786. How many costs need to be fixed in order for the time frame to be considered "short run?"

**(A) Zero inputs**
(B) One inputs
(C) 50% of physical inputs
(D) A majority of the five basic inputs
(E) All inputs

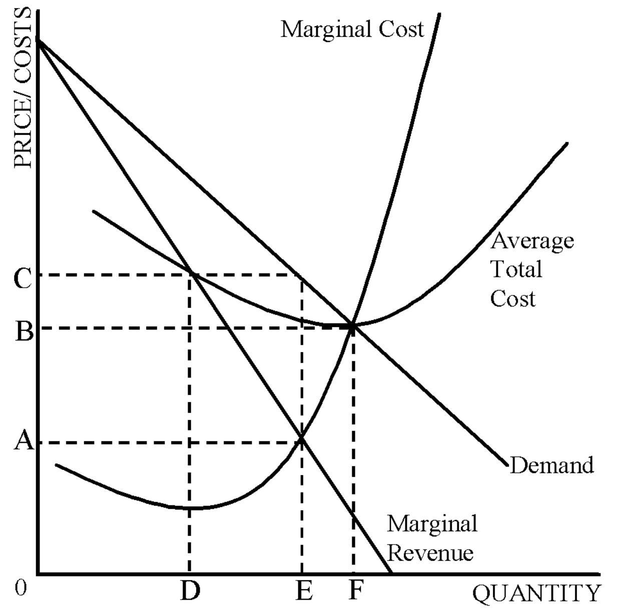
1848. Compared to the long run, industry supply curves tend to be less responsive to price changes in the short run because

**(A) in the short run, some costs are fixed and unavoidable**
(B) the long run is not subject to government interference
(C) long run supply is more inelastic than short run supply
(D) productivity always increases in the long run
(E) at higher levels of output, firms are employ more variable inputs

2241. In a market, long run normal profits

(A) guarantee that firms will enter the industry
(B) guarantee that firms will exit the industry
(C) cannot occur in the absence of economic profits
(D) always occur in the absence of economic profits
**(E) are sufficient to keep all the industry's firms open**

1860. Base your answer to the following question on the graph below, which shows the production function for an imperfectly competitive firm.




The firm's long-run supply curve is most closely approximated by the portion of the

**(A) marginal cost curve above price 0B**
(B) average total cost curve above price 0B
(C) average total cost curve to the right of quantity 0D
(D) marginal cost curve to the right of quantity 0E
(E) average total cost curve above price 0A

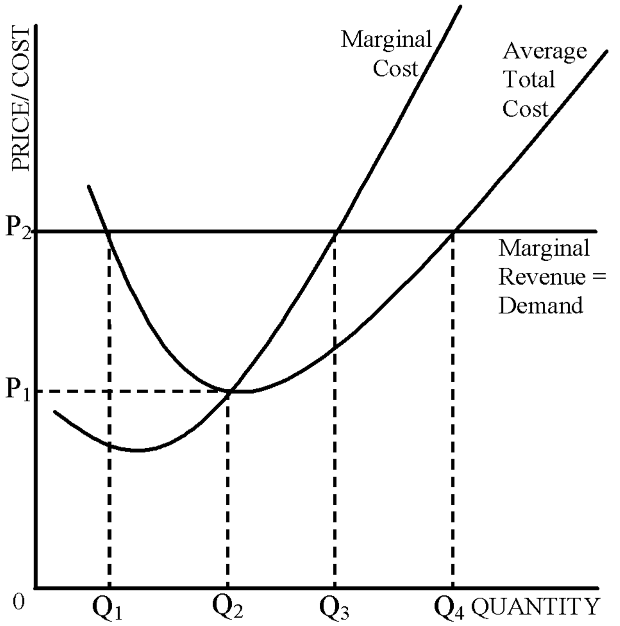
1986. Economists define the "short-run" as the period in which

**(A) at least some costs are fixed**
(B) prices are likely to be changed by market forces
(C) the next six months will occur
(D) inflation and unemployment are legitimate threats to market stability
(E) the government has no control over markets

2012. Which of the following best describes a firm's supply curve in the short run and in the long run?

**(A) In the short run it will be relatively inelastic, and in the long run it will be relatively elastic.**
(B) In the short run it will be relatively inelastic, and in the long run it will be unit elastic
(C) It will be equally elastic in the long run and in the short run.
(D) In the short run it will be unit elastic, and in the long run it will be inelastic.
(E) In the short run it will be unit elastic, and in the long run it will be more elastic.

1599. Base your answer to the following question on the graph below, which shows the short-run costs and revenues incurred by perfectly competitive Firm X.




If this graph represents the production function for Firm X's normal good, which of the following best describes the market demand curve facing the entire perfectly competitive market?

(A) Perfectly inelastic in the long run
(B) Perfectly elastic in the short run
**(C) Downward sloping**
(D) Upward sloping
(E) Backwards-bending

1840. Assume there is perfect competition. Which of the following accurately describes the demand curve for the industry and the demand curve facing an individual firm?

**(A) The demand curve for the industry is downward sloping, and the demand curve for the firm is perfectly elastic.**
(B) The demand curve for the industry is downward sloping, and the demand curve for the firm is perfectly inelastic.
(C) The demand curve for the industry is perfectly elastic, and the demand curve for the firm is perfectly elastic.
(D) The demand curve for the industry is perfectly inelastic, and the demand curve for the firm is downward sloping.
(E) The demand curve for the industry is perfectly elastic, and the demand curve for the firm is downward sloping.

1847. Which of the following best describes the supply curve of a perfectly competitive industry?

(A) Higher elasticity in the short run than in the long run
**(B) Higher elasticity in the long run than in the short run**
(C) Always perfectly inelastic in the short run
(D) Always perfectly elastic in the short run
(E) Always unit elastic in the long run

1939. If a firm in a perfectly competitive market increases its price by 15%, revenues will

(A) increase by 15%
(B) increase by more than 15%
(C) increase by less than 15%
**(D) decrease**
(E) not change

1940. If a perfectly competitive industry earns only normal profits in the long run, then

(A) firms will exit because of accrued losses
(B) firms will enter until revenues begin to rise
**(C) the industry is allocatively efficient**
(D) the industry is considered a market failure
(E) the industry has been underdeveloped

1950. Which of the following statements is NOT true of perfect competitors?

(A) The marginal cost of a firm's last unit of output equals the marginal revenue the firm generates by its sale.
(B) Firms can enter or exit the market without incurring prohibitive costs.
**(C) A firm that lowers its price even a slight bit can increase its market share greatly.**
(D) Firms sell identical products and have no use for marketing or advertising.
(E) Firms may shut down periodically if the market price falls or costs get too high.

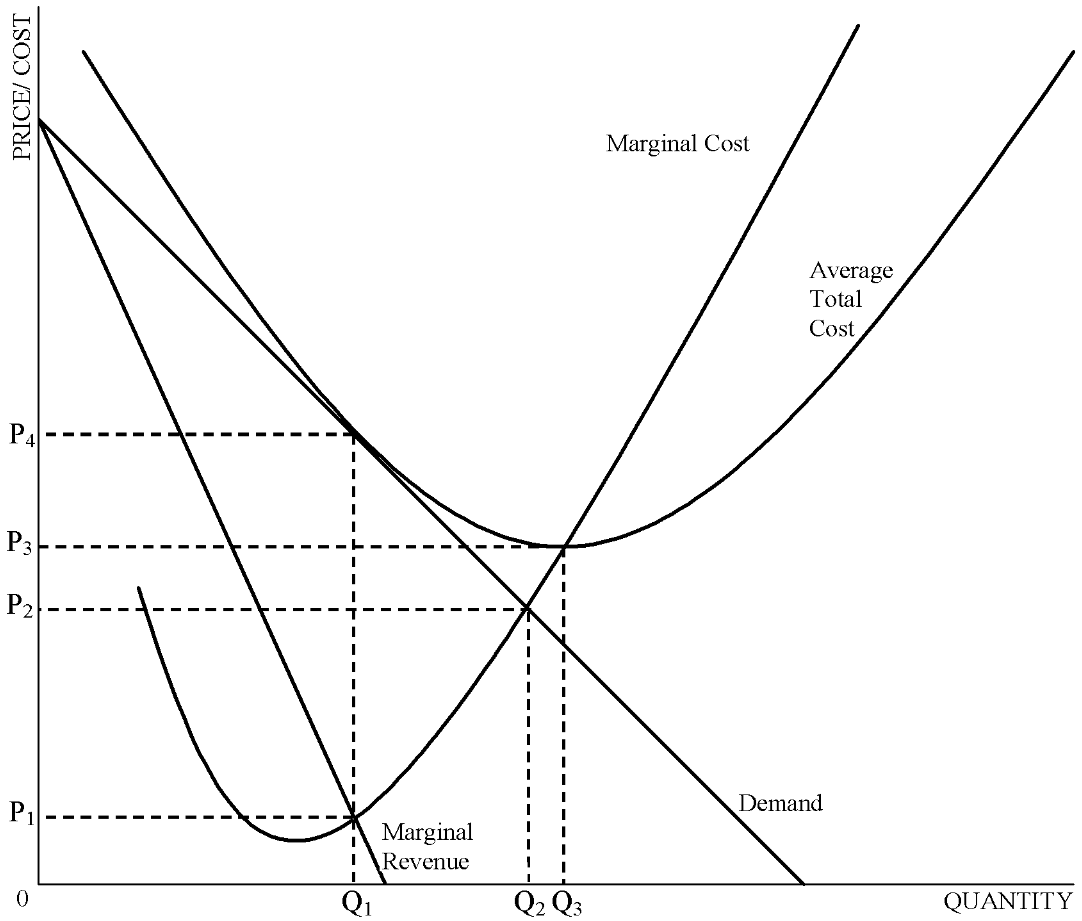
1976. For a perfectly competitive market in equilibrium, the marginal revenue curve is the same as the

(A) Phillips curve
**(B) market demand curve**
(C) market supply curve
(D) social indifference curve
(E) production possibilities curve

2046. In the long run, a perfectly competitive market

(A) experiences economic profits
(B) suffers from fixed costs
(C) will begin to create barriers to entry
(D) always generates positive externalities
**(E) produces at the allocatively efficient level**

1389. Base your answer to the following question on the graph below, which shows the cost and revenue curves for a natural monopoly.




This graph most likely demonstrates the long-run curves for which type of market structure?

**(A) Monopoly**
(B) Oligopoly
(C) Monopolistic competition
(D) Perfect competition
(E) Monopsony

836. One of the greatest challenges facing the United States economy in the 1980's has been

(A) expanding food production
(B) replenishing dwindling coal supplies
(C) increasing the number of imports
**(D) adjusting to a service economy**
(E) dealing with the Cold War

1344. Which of the following does NOT constitute a barrier to entry?

(A) Patents and copyrights
(B) Control of resources
(C) Economies of scale
(D) Licenses
**(E) Product differentiation**

1419. Which of the following market structures are capable of selling a standardized, homogenous product?

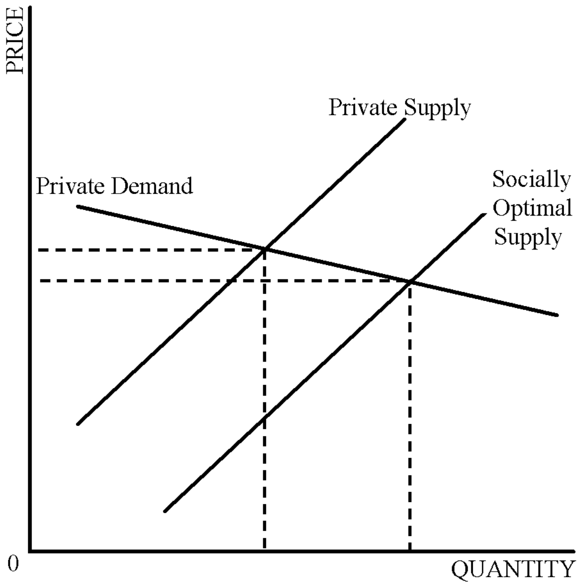
I. Perfect competition
II. Monopolistic competition
III. Oligopoly
IV. Monopoly

(A) I and II only
(B) III and IV only
**(C) I, II, and III only**
(D) II and III only
(E) II, III, and IV only

1444. In which of the following types of markets would it be most beneficial to advertise one's product on television?

(A) Monopsony
(B) Oligopoly
**(C) Monopolistic competition**
(D) Perfect competition
(E) Monopoly

1595. Base your answer to the following question on the graph below, which shows the market supply, private consumer demand, and socially optimal supply for Product X.




If the government attempted to change the supply of the good by taxing producers, which of the following would occur to the consumer and producer surpluses?

(A) Both would increase, but total consumer surplus would increase more than total producer surplus.
(B) Both would decrease, but total consumer surplus would decrease more than total producer surplus.
**(C) Both would decrease, but total producer surplus would decrease more than total consumer surplus.**
(D) Both would increase equally.
(E) Both would decrease equally.

1637. When the government places a tax on a product that has an inelastic demand curve,

**(A) the majority of tax incidence falls upon consumers**
(B) the majority of tax incidence falls upon producers
(C) the supply curve shifts to the right
(D) the deadweight loss is equal to the lost producer surplus
(E) the deadweight loss is equal to the lost consumer surplus

1638. When the government taxes the sale of a product for which the demand curve is elastic,

(A) the tax incidence falls mainly upon consumers
**(B) the tax incidence falls mainly upon producers**
(C) the deadweight loss is equal to the lost producer surplus
(D) the deadweight loss is equal to the lost consumer surplus
(E) the deadweight loss is nonexistent

1665. For which of the following products would a government sales tax most burden consumers?

(A) Jewelry
**(B) Cigarettes**
(C) Exotic plants
(D) Grape juice
(E) Theater tickets

1666. If the government enacts a sales tax on a product that has an inelastic demand curve, which of the following would best describe the tax incidence?

**(A) The consumers would bear most, but not all, of the tax burden.**
(B) The producers would bear most, but not all, of the tax burden.
(C) The consumers would bear all of the tax burden.
(D) The producers would bear all of the tax burden.
(E) The producers and the consumers would share the burden equally.

1667. Which of the following best describes the tax incidence when the government enacts a sales tax on a good that has a unit elastic demand curve?

(A) The consumers bear most, but not all, of the tax burden.
(B) The producers bear most, but not all, of the tax burden.
(C) The producers bear all of the tax burden.
(D) The consumers bear all of the tax burden.
**(E) The producers and the consumers equally share the tax burden.**

1908. Pill A is a medicine with no real substitutes. Of the following, who would bear most of the burden of a state-imposed tax on Pill A?

**(A) Patients who have prescriptions for Pill A**
(B) The pharmaceutical company that makes Pill A
(C) The doctors who prescribe Pill A
(D) The state that imposes the tax on Pill A
(E) The pharmacist who collects the payment for Pill A

2175. When a tax is levied on a product, consumers will bear the complete burden of the tax if the demand curve is

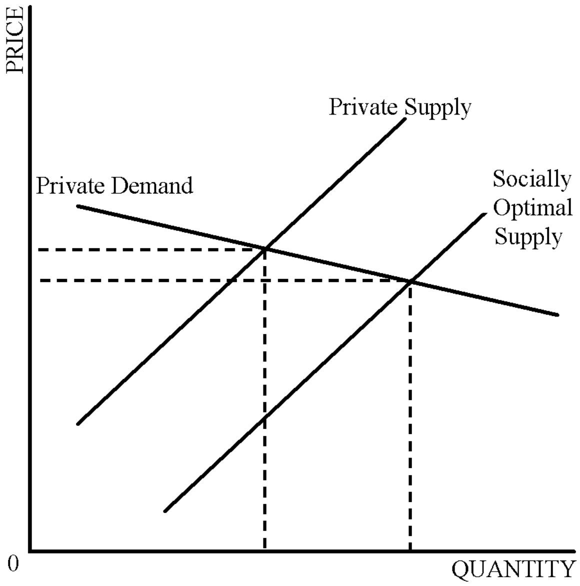
**(A) perfectly inelastic**
(B) elastic
(C) inelastic
(D) unit elastic
(E) perfectly elastic

2176. When a tax is levied on a product, producers will bear the complete burden of the tax if the demand curve is

(A) perfectly inelastic
(B) elastic
(C) inelastic
(D) unit elastic
**(E) perfectly elastic**

1504. In the presence of negative externalities, a perfectly competitive firm's marginal private costs
(A) exceed marginal social costs
**(B) fall short of marginal social costs**
(C) equal marginal social benefits
(D) exceed marginal revenues
(E) fall short of marginal social benefits

1593. Base your answer to the following question on the graph below, which shows the market supply, private consumer demand, and socially optimal supply for Product X.



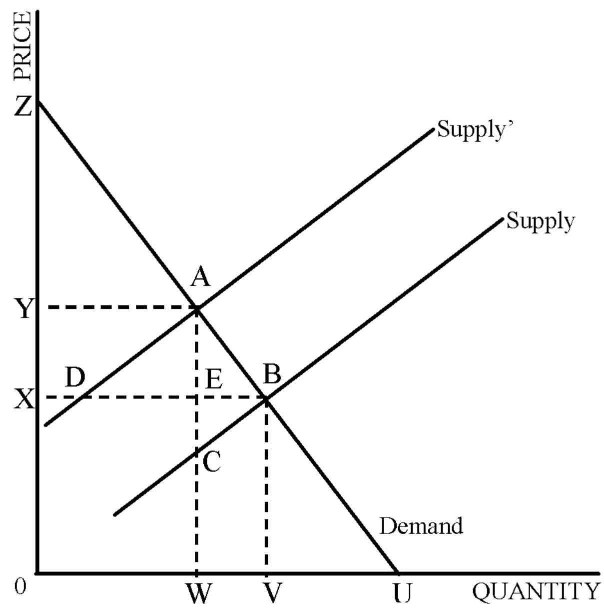

The existence of a gap between private and socially optimal supply indicates which of the following?
(A) Allocative efficiency
(B) Productive efficiency
**(C) Market failure**
(D) Tax incidence
(E) Negative externalities

1639. If a good generates a negative externality, which of the following statements is true?
(A) The price is accurately reflecting both total social and private demand, and resources are overallocated to the good's production.
(B) The price is too low, and resources are underallocated to the good's production.
(C) The price is accurately reflecting private demand, and resources are underallocated to the good's production.
(D) The price is accurately reflecting total social demand, and resources are overallocated to the good's production.
**(E) The price is too low, and resources are overallocated to the good's production.**

1821. When the marginal social cost of a product exceeds its marginal production costs, the product is said to have generated
**(A) a negative externality**
(B) a positive externality
(C) an internality
(D) an excise
(E) a moral hazard

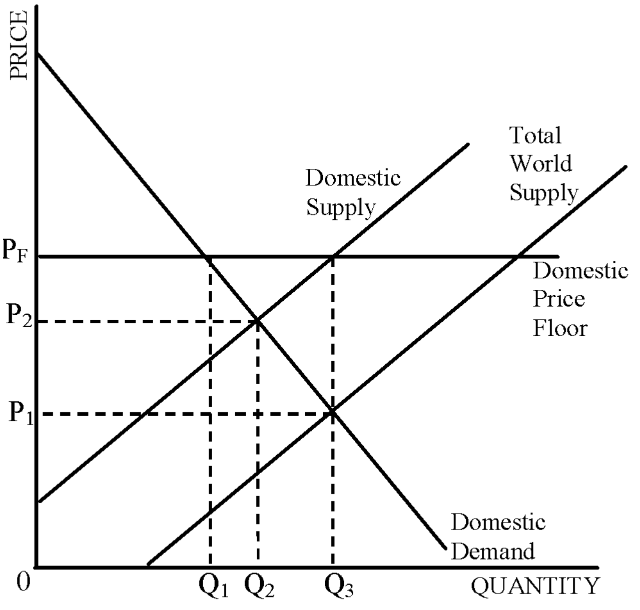
1845. Which of the following is NOT an example of a negative externality?
**(A) Cheyenne's aesthetically pleasing flower garden is visible from the street in front of her house.**
(B) Coal miners uproot several 400–year-old trees that were a popular tourist attraction.
(C) Carbon dioxide is released from a tailpipe and into the atmosphere.
(D) A plastic coffee cup is found on the beach.
(E) A rock band's loud music forces the store next to the concert venue to close early.

1874. Base your answer to the following question on the graph below, which shows the market demand curve for a product and two different market supply curves.




Suppose the shift in supply from S to S' was caused when a negative externality was corrected. Which of the following statements must be true?
**(A) At equilibrium point B, resources were over allocated to production of the good.**
(B) At equilibrium point A, there is no consumer surplus
(C) At equilibrium point B, marginal social costs were less than marginal private costs.
(D) Point E is the socially optimal equilibrium point.
(E) At equilibrium point A, resources are underallocated to production of the good.

1649. the graph below, which shows the domestic supply and domestic demand of Product X for Xanadu, a hypothetical nation. The graph also shows the total world supply of Product X.




(a) There is currently a price floor of $P_F$ imposed on the domestic market.

(i) What is the size of the demand-shortfall surplus if Xanadu does not trade with other nations?

(ii) Ceteris paribus, how would the size of the surplus change if Xanadu opened its markets to foreign producers of Product X?

(iii) Identify one method of economic intervention (besides removing it) that the government of Xanadu could pursue to correct the inefficiency caused by the price floor.

(b) Assume that the price floor has been removed, but there is no international trade and the market clears at price $P_2$ and quantity $Q_2$. Describe the change in deadweight loss (increase, decrease, or remain the same) for each of the following isolated policy actions undertaken by Xanadu's government:

(i) Imposition of a price ceiling at $P_1$

(ii) Taxing domestic producers of Product X

(iii) Opening of the market to foreign competition

(c) Suppose the government of Xanadu removes all restrictions on free trade, and eliminates the price floor on the market for Product X.

(i) Describe the change in quantity supplied for Xanadu's market.

(ii) Describe the change in product price in Xanadu's market.

1740. The government decides to levy a per-unit sales tax on cigarettes, the demand for which is perfectly inelastic.

(a) Draw a supply and demand graph that shows the market for cigarettes. Clearly indicate the following.

(i) Change in equilibrium price

(ii) Change in equilibrium quantity

(iii) Area of government tax revenue

(b) Describe a situation in which the government tax policy described above might actually increase allocative efficiency in the economy.

(c) After the government implements the tax, will total pre-tax revenues increase, decrease, or remain the same for firms that sell cigarettes? How can you tell?

Suppose the government taxes the sale of Product X at 5%, but government revenues from the tax are zero.

(d) Describe a possible state of the market for Product X.

256. Each January the XYZ Company issues a catalog, in which it lists the price of each product as P"(CPI/100), where P" is the target real price and CPI is the consumer price index. How does this pricing system reduce the costs of inflation?
 **(A) The pricing system increases the variability of real prices.**
 (B) The pricing system decreases the variability of nominal prices.
 (C) The pricing system reduces the difference between the target real price and the actual real price of each product.
 (D) The pricing system increases the frequency with which the firm must print a new catalog.
 (E) The pricing system decreases the nominal price of each product

306. If nominal national gross domestic product is increasing at 10 percent per year and real gross domestic product is increasing at 4 percent per year, which of the following is true?
 (A) Employment is decreasing
 (B) The goverment is accruing a national debt
 **(C) The price level is increasing**
 (D) Exports are greater than imports
 (E) The economy is experiencing a severe recession

328. Which of the following explains stagflation?
 (A) A decline in inflationary expectations
 **(B) Negative supply shocks causing input prices to increase**
 (C) An increase in government spending without an increase in taxes
 (D) An increase in taxes without an increase in government spending
 (E) Teenagers not participating in the labor force

717. All of the following are potential problems with per capita real GDP as a measure of economic growth EXCEPT
 (A) GDP ignores the underground economy
 (B) quality adjustments are ignored in computing GDP
 (C) some of the components needed to compute per capita GDP are estimates which are subject to revision and errors
 (D) GDP ignores the production of bads which occur over time
 **(E) price changes are ignored when computing real GDP**

947. If the demand for one good decreases as the price of another good falls, they are
 **(A) substitute goods**
 (B) complement goods
 (C) corresponding goods
 (D) unrelated goods
 (E) inferior goods

948. If the demand for a good decreases as household income increases it is considered a(n)
 (A) substitute good
 **(B) inferior good**
 (C) normal good
 (D) complement good
 (E) perfect substitute

949. A normal good is one that
 (A) is common in most households
 (B) has a constant demand
 **(C) changes directly with income**
 (D) has no substitutes
 (E) can be replaced with another good

950. If the price of a good is expected to rise in the future, what will happen to demand in the present?
 **(A) It ill increase**
 (B) It will decrease
 (C) It will remain the same
 (D) It depends on the price
 (E) More information is needed

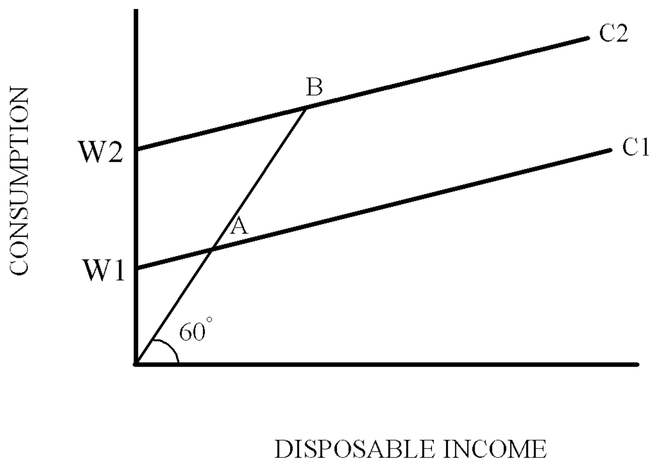
951. Which of the following would not shift the demand curve?
 (A) A change in income
 (B) A change in preferences
 (C) A change in the price of complement goods
 **(D) A change in the price of the good**
 (E) A change in the price of substitute goods

952. If the supply of a good increases, it could be possible that
 (A) the demand for substitue goods has decreased
 (B) demand for the good has increased
 (C) the price of the good has decreased
 **(D) production costs have decreased**
 (E) more resources are available

953. A farmer is planting both corn and tomatoes on the same plot of land. A decrease in the price of corn would cause
 (A) a decrease in the price of tomatoes
 **(B) an increase in the supply of tomatoes**
 (C) a decrease in the supply of tomatoes
 (D) an decrease in the demand for corn
 (E) an increase in the price of tomatoes

954. Which of the following would not cause a shift of the supply curve for a good?
 (A) A change in the cost of production of the good
 (B) A change in the price of a substitute good
 **(C) A change in the price of the good**
 (D) A change in technology
 (E) A change in price of a complement good

263. Mrs. AB is initially consuming at point A on consumption function C1. Over time both Mrs. AB's income and wealth increase along line segment AB, and she is now consuming at point B. on consumption function C2.




How does Mrs. AB's marginal propensity to consume (MPC) and her average propensity to consume (APC) change from point A to point B?

(A) Both Mrs. AB's MPC and her APC increase from point A to point B.
(B) Both Mrs. AB's MPC and her APC decrease from point A to point B.
**(C) Mrs. AB's MPC and her APC do not change as she moves from point A to point B.**
(D) Mrs. AB's MPC increases and her APC decreases from point A to point B.
(E) Mrs. AB's MPC decreases and her APC increases from point A to point B.

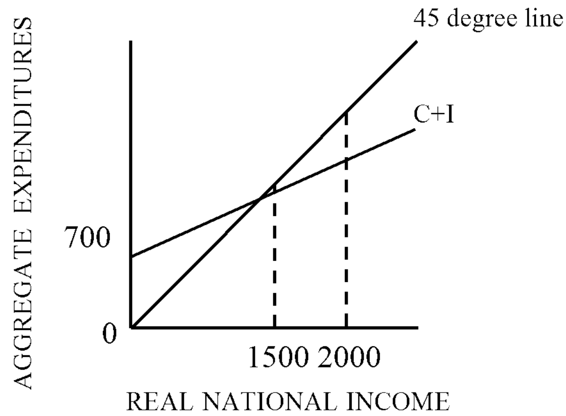
333. What would happen to gross domestic product (GDP) if the purchases of social services were counted as investment rather than consumption?

(A) Increase, because investment is a part of gross domestic product whereas consumption is not
(B) Increase, because consumption is a part of gross domestic product whereas consumption is not
(C) Decrease, because consumption is weighted more heavily than investment in the calculation
(D) Decrease, because investment is weighted more heavily than consumption in the calculation
**(E) No change, because total expenditures remain the same**

358. The sum of the marginal propensity to save (MPS) and the marginal propensity to consume (MPC) always equals

(A) 0
(B) 1/2
**(C) 1**
(D) 10
(E) 100

316. Base your answer to the following question on The graph below shows an economy's aggregate expenditures, assuming no foreign sector and that government expenditures are initially zero.




The economy is currently in a state of

(A) expansion
(B) inflation
(C) exponential growth
(D) stagflation
**(E) recession**

336. Disposable income is $1,500, consumption is $800 and the marginal propensity to consume (MPC) is 0.7. If disposable income then increases by $200, consumption and savings will equal which of the following:

(A) Consumption: $700 Savings: $800
(B) Consumption: $840 Savings: $660
**(C) Consumption: $940 Savings: $560**
(D) Consumption: $1040 Savings: $460
(E) Consumption: $1140 Savings: $360

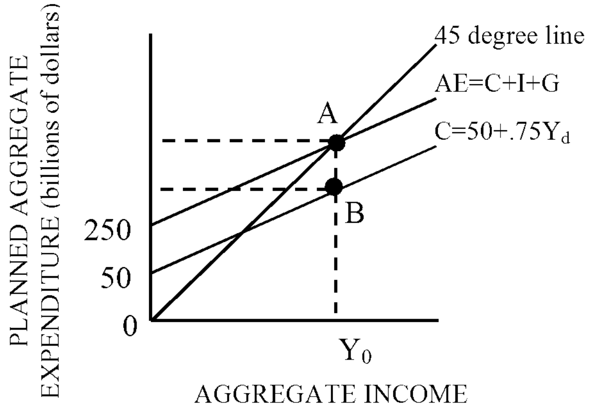
353. Aggregate output is

(A) the total quantity of goods or services exported in a given period
**(B) the total quantity of goods and services produced in a given period**
(C) the part of a household's income that it does not consume
(D) the fraction of the change in income that is consumed, or spent
(E) the part of a household's income that it consumes

354. All of the following are main determinants of aggregate consumption EXCEPT

(A) households' expectations about the future
(B) interest rates
(C) household wealth
**(D) social programs**
(E) household income

Base your answers to questions **501** through **504** on Refer to the graph below. (The amount of government spending is financed by a gift from Azerbaijan).




501. Assume that there are no taxes in this economy. Y = C + I + G. What is the value of autonomous expenditures?
   (A) There is insufficient information to answer the question
   (B) 200
   **(C) 250**
   (D) 700
   (E) 1000

502. Assume that there are no taxes in this economy. Y = C + I + G. What is the equilibrium output ($Y_0$)?
   (A) There is insufficient information to provide an answer
   **(B) 1000**
   (C) 1666
   (D) 700
   (E) 1875

503. Assume that the government imposes a lump-sum tax of \$100, while embracing a balanced-budget fiscal policy strategy. How much is the value of autonomous expenditures under these circumstances?
   **(A) 175**
   (B) 250
   (C) 200
   (D) 1,000
   (E) There is insufficient information to arrive at an answer

504. Assume that the government imposes a lum-sum tax of \$100, while embracing a balanced-budget fiscal policy. How much is the value of $Y_0$ under these circumstances?
   (A) 1300
   (B) 175
   (C) 1000
   **(D) 700**
   (E) There is insufficient information to answer

510. The large federal government deficits of the 1980 were due to

   I. Lower personal income taxes
   II. Higher interest payments as a percentage of GDP
   III. A large defense buildup

   (A) I only
   (B) II only
   (C) I and II
   (D) I and III
   **(E) I, II and III**

511. Which of the following is/are true about the United States national debt?

   I. Some of the securities the government issues end up being held by the government itself
   II. To finance the debt, the government issues securities to the public
   III. The federal debt rose substantially during the 1980s and fell sharply during the 1990s
   IV. The federal debt is the sum of accumulated budget deficits minus surpluses over time

   (A) I only
   (B) IV only
   (C) II and IV
   (D) I, II and IV
   **(E) I, II, III and IV**

512. Which of the following is correct about the federal budget?
   (A) The government has complete control over the revenue side of the budget, but not complete control over the expenditure side.
   (B) The government has complete control over the expenditure side of the budget, but not complete control over the revenue side.
   **(C) The government does not have complete control of either the revenue side or the expenditure side of the budget.**
   (D) The side and balance (surplus or deficit) of the government budget is controlled entirely by Congress, not the economy.
   (E) Higher inflation and higher interest rates tend to decrease the size of the budget.

513. When the economy reaches full employment, the budget deficit is
   (A) a combination of cyclical and structural deficits
   (B) zero
   (C) equal to the cyclical deficit
   **(D) equal to the structural deficit**
   (E) always averted by higher tax revenues

517. Assume an economy with a government but no taxes. C=a+bY. The formula for autonomous expenditures is
   (A) a + b + I
   (B) bY + S + G
   (C) bY + I + G
   **(D) a + I + G**
   (E) a + S + G

55. The hypothetical nations of Aurea and Argentea are on a gold standard. The currencies of Aurea and Argentea are the rand and the peso, respectively. The Treasury of Aurea announces that it is willing to exchange one ounce of gold for 20 rand, and the Treasury of Argentea announces that it will exchange one ounce of gold for 80 pesos. Suppose that the exchange rate between the two currencies is initially 2 pesos for 1 rand. If the transport of gold from Aurea to Argentea is costless, then
   (A) the money supply in Argentea will decrease
   (B) the money supply in Aurea will increase
   (C) the equilibrium exchange rate must be 2 pesos for 1 rand
   **(D) the equilibrium exchange rate must be 4 pesos for 1 rand**
   (E) there will be a net movement of gold from Argentea to Aurea

56. If a nation is on a gold standard, then the discovery of large deposits of gold would result in

   I. an increase in the money supply
   II. a rise in the price level
   III. a gradual disinflation

   (A) I only
   (B) II only
   **(C) I and II only**
   (D) II and III only
   (E) I, II, and III

57. On a fictitious island nation, depositors at a local bank can deposit money in the form of gold, silver, and bronze tokens. These tokens are similar to time deposits, and each token has a different maturity: gold, silver, and bronze tokens have maturities of 3 months, 1 month, and 2 weeks, respectively. Based only on the maturity, which token is the most liquid and which token would probably offer the highest interest rate?
   (A) The bronze token is the most liquid and offers the highest interest rate.
   **(B) The bronze token is the most liquid, and the gold token would offer the highest interest rate.**
   (C) The gold token is the most liquid, and the bronze token would offer the highest interest rate.
   (D) The bronze token is the most liquid, but all tokens would offer the same interest rate.
   (E) All tokens are equally liquid, but the gold token would offer the highest interest rate.

68. Assume that the long-term sustainable growth rate of real GDP is about 2.5% and that the velocity of M2 is constant. If the rate of inflation is currently 5% and the Fed wishes to reduce it to 2%, then, according to the quantity theory of money, what should be the target growth rate of M2?
   (A) -3%
   (B) 2.5%
   (C) 3%
   **(D) 4.5%**
   (E) 5%

58. The Bretton Woods system of fixed exchange rates existed for 25 years following World War II. Which of the following is a reason for the collapse of the Bretton Woods system?
   (A) The U.S. trade deficit declined, because of the increase in government spending that accompanied the Vietnam War.
   (B) Unlike the United States, European nations could not adjust the par values of their currencies
   (C) Like the U.S. dollar, European currencies were directly convertible into gold.
   **(D) The U.S. dollar became overvalued, resulting in large debts to other nations.**
   (E) Nations with a surplus in the balance of payments frequently revalued their currencies upward, thereby exacerbating the large deficits experienced by the United States.

69. If the velocity of money increases, then
   **(A) a given increase in the monetary base will result in a greater increase in nominal GDP**
   (B) money will circulate in the economy at a slower rate
   (C) then real GDP will increase, even though the effect on nominal GDP is uncertain
   (D) both the short-run and long-run aggregate supply curve will shift to the right
   (E) the demand for real money balances will decline

85. Suppose that economists observe the following values for the third quarter of 2003: real GDP, $5 trllion; GDP deflator, 200; M1, $500 billion; M2, $1 trillion. According to the equation of exchange, what are the velocities of M1 and M2?
   **(A) The velocity of M1 is 20, and the velocity of M2 is 10.**
   (B) The velocity of M1 is 10, and the velocity of M2 is 5.
   (C) The velocity of M1 is 10, and the velocity of M2 is 20.
   (D) The velocity of M1 is 5, and the velocity of M2 is 10.
   (E) The velocities of M1 and M2 are both equal to 10.

118. The opportunity cost of holding money in the form of M2
   (A) is negatively correlated to short-term interest rates
   (B) is negatively correlated to long-term interest rates
   (C) is unrelated to the velocity of M2
   **(D) can be estimated as the difference between the 3-month Treasury bill rate and the average interest rate paid on M2**
   (E) has increased steadily since the 1980's

887. Unanticipated expansionary monetary policy will
   (A) raise prices and output in the long-run
   **(B) raise prices in the long-run and output in the short-run**
   (C) raise prices in the short-run and output in the long-run
   (D) lower prices in the short-run and output in the short-run
   (E) lower prices in the short-run and output in the long-run

896. Which of the following would necessarily result from an increase in real money balances?

   I. Decreased interest rate
   II. Increased output
   III. Increased investment spending

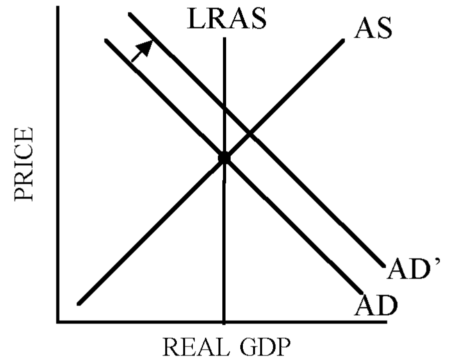
   (A) I only
   (B) II only
   (C) III only
   (D) I and III
   **(E) I, II and III**

898. Expansionary monetary policy that is announced in advance will have what effect on output in the short-run and what effect in the long-run?
   (A) Output increases in short-run and decreases in long-run.
   (B) Output is not affected in short-run and increases in long-run.
   (C) Output increases in both the short-run and the long-run.
   **(D) Output is not affected in either the short-run or the long-run.**
   (E) Expansionary monetary policy does not affect output, only prices.

970. Which of the following would most likely cause a leftward shift in an economy's aggregate supply curve in the long-run?
   (A) An unanticipated increase in interest rates
   **(B) An unanticipated decrease in interest rates**
   (C) An anticipated increase in investment spending
   (D) An anticipate decrease in investment spending
   (E) An anticipated increase in interest rates

971. If the Federal Reserve decides to buy back government securities without notice, the aggregate supply curve will
   **(A) shift down in the short-run, and remain the same in the long-run**
   (B) shift up in the short-run, and not be affected in the long run
   (C) not be affected in the short-run, and shift down in the long-run
   (D) not be affected in the short-run or the long-run
   (E) not be affected in the short-run, and shift up in the long run

980.




Which of the following would cuase an economy to be at point A in the short-run in the above diagram?
   (A) The Federal Reserve unexpectedly lowering the reserve requirement.
   (B) An anticipated rise in interest rates.
   (C) An announced increase in taxes.
   **(D) An anticipated increase in the money supply.**
   (E) An increase in the marginal propensity to consumer.

982. By lowering the discount rate, the Federal Reserve can
   **(A) increase the money supply**
   (B) decrease the money supply
   (C) raise interest rates
   (D) lower reserve requirements
   (E) cause a recession

984. Which of the following will result in increased inflation in the long-run?

   I. An unexpected decrease in the reserve requirement
   II. An unexpected decrease in the federal discount rate
   III. An anticipated decrease in real money balances

   (A) I only
   (B) II only
   (C) III only
   (D) II and II
   **(E) I, II and III**

985. Which of the following would result in increased output in the short run?

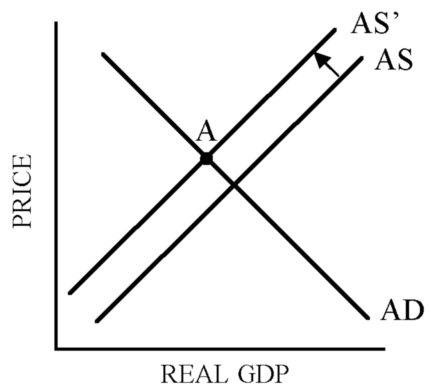
   I. An unexpected increase in the discount rate
   II. An expected increase in real money balances
   III. An unexpected decrease in reserve requirements

   (A) I only
   **(B) III only**
   (C) I and III
   (D) I and II
   (E) I, II and III

893. Which of the following situations would most likely cause an economy to be in stagflation?

(A) The government implements fiscal policy contrary to expectations.
(B) The government implemets fiscal policy in accordance with expectations.
**(C) The AS curve shifts upward as a result of a lack of resources.**
(D) The reserve requirement increases.
(E) The unemployment rate increases by more than the inflation rate.

894.




A shift from equilibrium to point A in the above diagram would be a result of

(A) anticipated expansionary fiscal policy
**(B) stagflation**
(C) the Phillips curve
(D) an inflationary gap
(E) inflation

1208. Increased energy costs leading to higher prices and reduction in output as well as unemployment is known as

(A) demand-pull inflation
(B) galloping inflation
(C) hyperinflation
**(D) stagflation**
(E) superinflation

1209. Stagflation is best described as

**(A) the slowing of the economy that result from increase input prices**
(B) the contraction in the money supply due to an open market sale by the FOMC
(C) a sudden increase in unemployment due to changing market structure
(D) a sudden decrease in aggregate demand due to increased taxes
(E) a spike in interest rates due to an increase in money demanded

1210. A high rate of inflation combined with unemployment and a recession best describes

(A) complete crowding out
(B) the substitution effect
**(C) stagflation**
(D) negative externalities
(E) the trickle down effect

1211. The combination of cost-push inflation and a decrease in real GDP results in

(A) demand-pull inflation
(B) crowding out
(C) increased savings
(D) decreased unemployment
**(E) stagflation**

1212. Keynesian economics predicts that stagflation is impossible because

(A) supply shocks have no effect on price level due to rational expectations
**(B) high unemployment lowers the demand for goods which lowers the price level**
(C) the monetary markets will always adjust to relieve changes in aggregate supply
(D) jobs will form in order to relieve unemployment due to the higher price level
(E) firms will continue to produce at the same levels because labor costs fall due to the rise in resource input costs

1213. High unemployment in addition to cost-push inflation is called

(A) hyperinflation
(B) crowding out
(C) substitution
(D) liquidity
**(E) stagflation**

1214. OPEC price increase in the 1970's led to which of the following in the macroeconomy of the United States?

(A) complete crowding out
(B) an increase in the money supply
(C) increased taxes
**(D) stagflation**
(E) voodoo economics

1215. When cost-push inflation causes output to decreases as firms layoff workers, which of the following is occurring?

**(A) stagflation**
(B) demand-pull inflation
(C) monetary deficit
(D) falling price level
(E) rising consumption

217. Which of the following would most likely contribute to economic growth?
   (A) a large increase in the population
   **(B) a rise in the amount of human capital per worker**
   (C) the elimination of inventories
   (D) a decrease in the capital stock
   (E) the conservation of depletable resources

220. Thomas Malthus had predicted that the amount of food available per person would decline as the population increased, resulting in widespread starvation. Which of the following explains the basis for Malthus's prediction?
   (A) The inputs used in the production of food are not specialized, therefore all land areas are equally suitable to agricultural use.
   (B) There are increasing returns to scale in the production of food.
   (C) There are constant returns to scale in the production of food.
   **(D) The marginal product of labor in the production of food declines as the population increases, because the amount agricultural land is limited.**
   (E) The population tends to grow arithmetically but the food supply tends to grow geometrically.

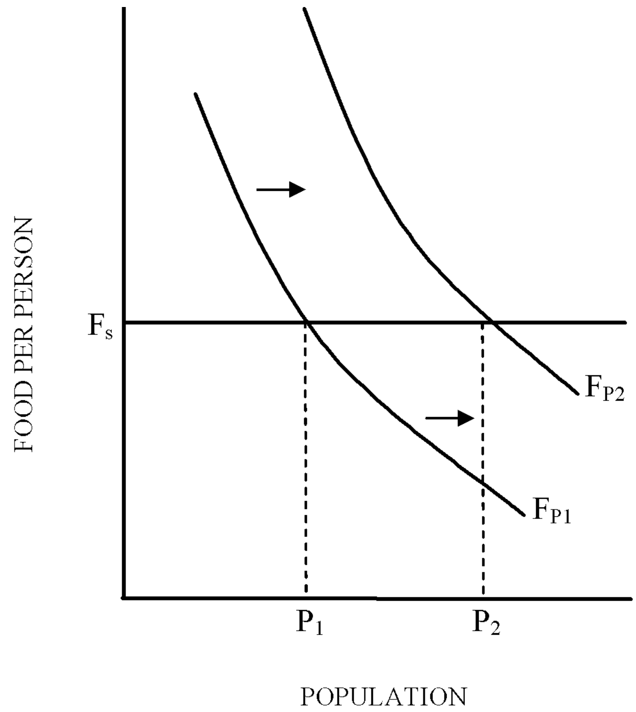
221. Thomas Malthus had predicted that the amount of food available per person would decline as the population increased. Why does Mathus's prediction appear to be largely incorrect?
   **(A) Rapid increases in agricultural productivity have offset the effects of diminishing returns to labor in the production of food.**
   (B) The percentage of the labor force involved in the production of food has gradually increased over the past two centuries.
   (C) Agriculturists now believe that the supply of land available for farming is unlimited.
   (D) Individuals spend a larger fraction of their incomes on the consumption of agricultural products.
   (E) There are increasing returns to scale in the production of food, such that farmers can quadruple the total amount of food produced by doubling the amount of inputs used.

257. An increase in which of the following would raise the marginal productivity of labor?

   I. the amount physical capital
   II. the amount of human capital
   III. the size of the labor force

   (A) I only
   (B) II only
   **(C) I and II only**
   (D) I and III only
   (E) I, II, and III

223. The population of Agriland is initially $P_1$, where the food supply per person is equal to the sustenance level of food production per person $F_S$. Improved cultivation methods bring about an increase in agricultural productivity, which shifts the food production schedule from $F_{P1}$ to $F_{P2}$.




How does the increase in agricultural productivity affect population growth over time?
   (A) The population growth rate will remain unchanged, and the population will remain constant at $P_1$.
   (B) The population growth rate will permanently increase, and the population will eventually exceed $P_2$..
   (C) The population growth rate will permanently decrease, and the population will fall below $P_1$.
   **(D) The population growth rate will increase markedly at first, but gradually decline as the population reaches its long-run equilibrium at $P_2$.**
   (E) The population growth rate will increase at first, but decline as the population reaches its long-run equilibrium at $P_1$.

678. Many economists are in favor of increased immigration of adult foreigners who possess high levels of skills and education. Why?
   (A) Economists are very caring individuals.
   (B) Economists believe this is a way to increase understanding among different ethnic groups.
   (C) Economists believe foreigners will work cheaper.
   **(D) Economists believe this will increase aggregate supply.**
   (E) Economists believe foreigns are less efficient.

1022. If fiscal policy in an open economy causes output and the real interest rate to rise and fall respectively, it follows that the policy is

**(A) expansionary, and will increase the supply of foreign currency**
(B) expansionary, and will decrease the supply of foreign currency
(C) contractionary, and will increase the supply of foreign currency
(D) contractionary, and will decrease the supply of foreign currency
(E) expansionary, and will not effect the supply of foreign currency

1023. In a situation where a country is experiencing a trade defecit, an advocate of fiscal policy would recommend

**(A) an increase in the taxes, causing imports to rise**
(B) a decrease in the taxes, causing imports to fall
(C) a decrease in the money supply, causing imports to rise
(D) a decrease in the money supply, causing imports to fall
(E) an increase in the money supply, causing imports to fall

1024. If US investors both at home and abroad increase their purchases of government securities, which of the following changes will take place?

**(A) Output will fall, and net foreign investment will increase.**
(B) Net exports will increase.
(C) The real interest rate and the exchange rate will appreciate.
(D) Output will increase.
(E) The exchange rate will depreciate.

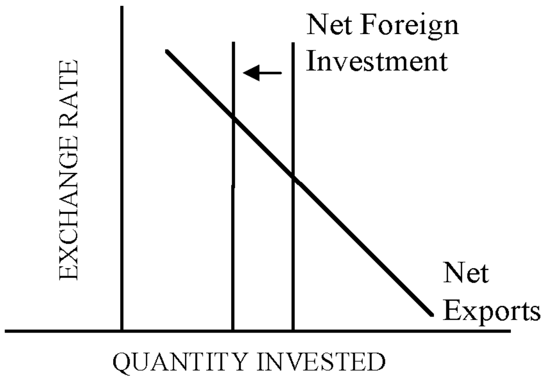
1025. In an open economy, what effect would a rise in the reserve requirement have on the real interest rate (r) and the exchange rate (e)?

(A) Increase r, decrease e
**(B) Increase r, increase e**
(C) Decrease r, decrease e
(D) Decrease r, increase e
(E) Increase r, no change in e

1026. In an open economy, if the Federal Reserve buys back government bonds, how will it affect the real exchange rate (e) and the trade defecit?

(A) Appreciate e, increase defecit
(B) Appreciate e, decrease defecit
**(C) Depreciate e, decrease defecit**
(D) Depreciate e, increase defecit
(E) Depreciate e, have no effect on defecit

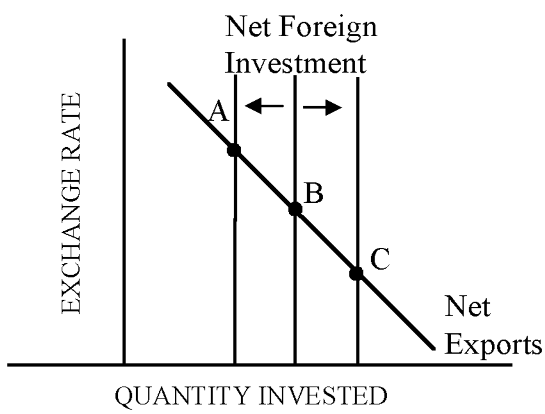
1028.




What type of open economic policy would cause the shift in the above diagram?

(A) Expansionary monetary policy, causing the real interest rate to rise.
(B) Expansionary monetary policy, causing the real interest rate to fall.
(C) Contractionary fiscal policy, causing the real interest rate to fall.
(D) Contractionary fiscal policy, causing the real interset rate to rise.
**(E) Contractionary monetary policy, causing the real interest rate to rise.**

Base your answers to questions **1029** and **1030** on the following diagram. Points A and C represent different shifts in the Net Foreign Investment (NFI) curve.




1029. A shift from point B to A represents

(A) expansionary monetary policy, resulting in a lower trade defecit
(B) expansionary monetary policy, resulting in a higher trade defecit
**(C) contractionary monetary policy, resulting in a lower trade defecit**
(D) contractionary monetary policy, resulting in a lower trade defecit
(E) contractionary monetary policy, with no effect on the trade defecit