

## Basic Concepts Test

1. The main economic problem that every economy faces is:

- (A) limited wants and unlimited money.
- (B) unlimited wants and limited money.
- (C) limited wants and limited resources.
- (D) unlimited wants and limited resources.
- (E) unlimited resources and limited money.

2. In economics, it is important to consider the opportunity cost of a decision. The opportunity cost can best be described as:

- (A) the dollar value of a decision.
- (B) the next best option that has to be given up by making a decision.
- (C) the decision whether or not to use capital or labor resources.
- (D) the decision whether or not the decision will make you happy.
- (E) the chance that consumers want this good.

3. The real cost of producing a good or product does not include which of the following?

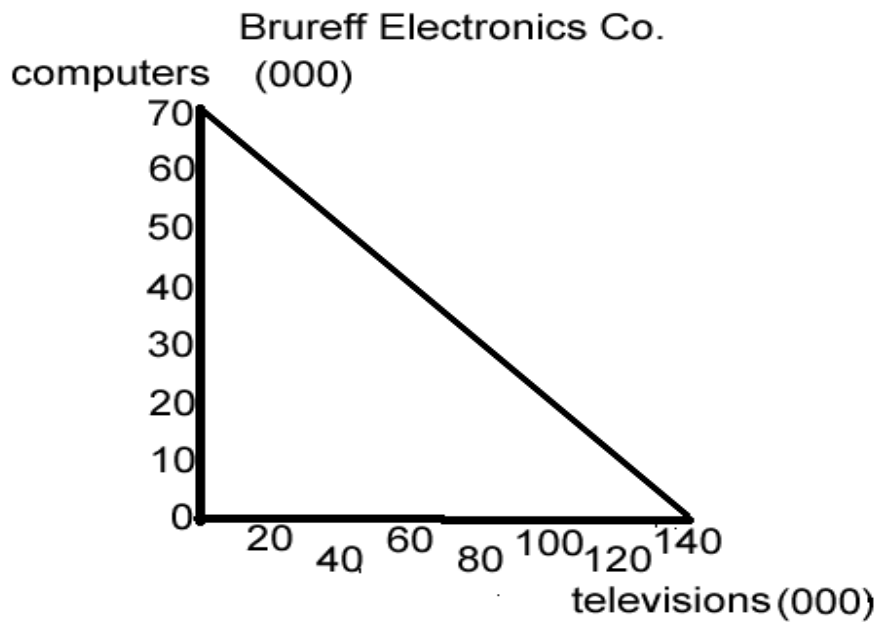
- (A) the dollar cost of production.
- (B) the labor cost of production.
- (C) the resource cost of production.
- (D) the capital cost of production.
- (E) the land cost of production.

4. The production possibilities model illustrates the:

- (A) the consumption possibilities in an open economy.
- (B) the labor cost of producing a good.
- (C) only an economy that is at full employment.
- (D) the opportunity cost of producing a good.
- (E) the dollar cost of producing a good.

5. A machine used to cut and shape wood would be categorized as what type of input?

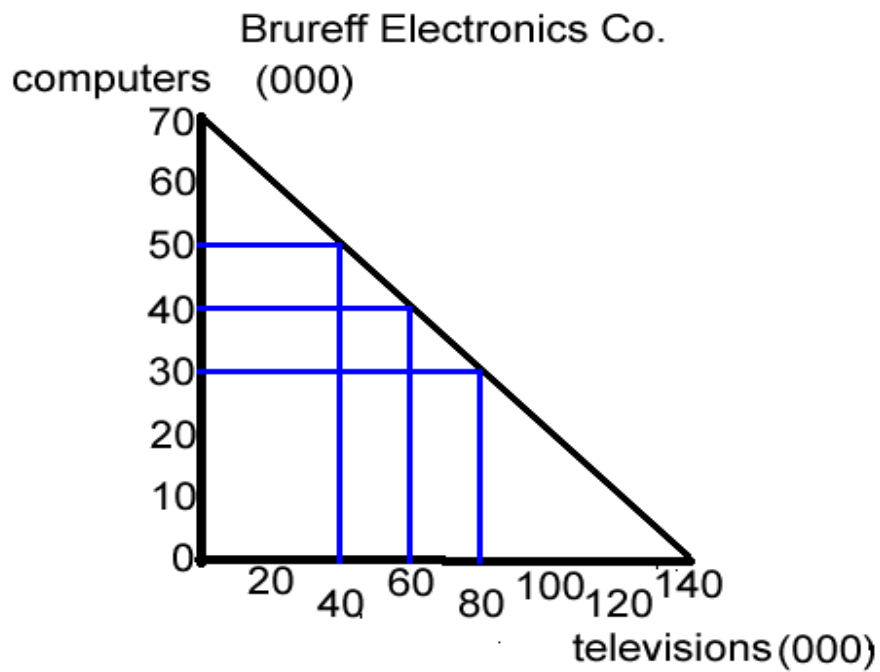
- (A) labor resource
- (B) capital resource
- (C) human resource
- (D) financial resource
- (E) service resource



6. Refer to the Brureff Electronics Co. Graph above.

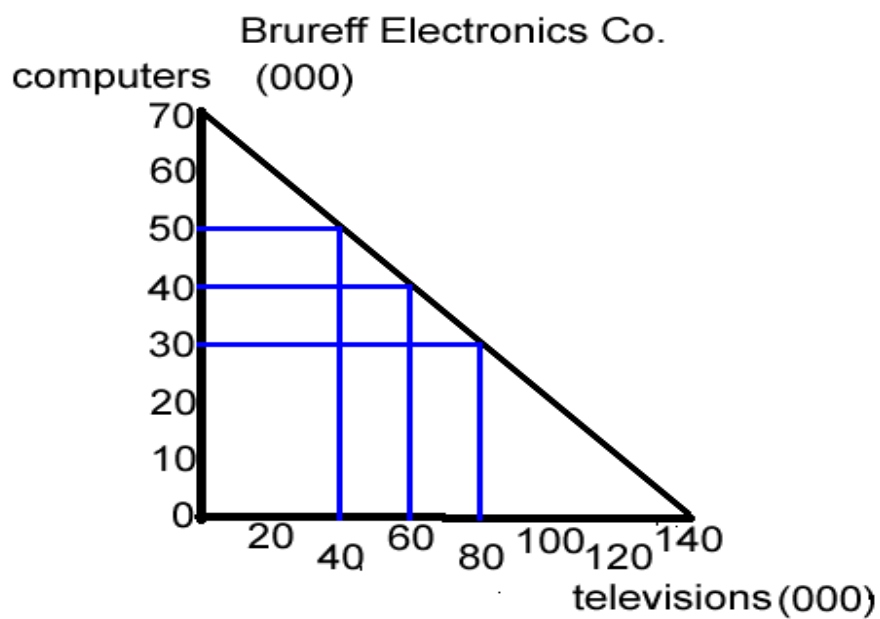
This production possibilities graph illustrates the maximum quantity of televisions and computers that the Brureff Electronic Company can produce. If the company is efficient and employs all of its available resources it can produce:

- \_\_\_ (A) 70 computers and 140 televisions.
- \_\_\_ (B) 70,000 computers and 140,000 televisions.
- \_\_\_ (C) Only 70 computers or only 140 televisions.
- \_\_\_ (D) Only 70,000 computers or only 140,000 televisions.
- \_\_\_ (E) 70,000 computers or 140,000 televisions or some combination of both that falls on the production possibilities curve.



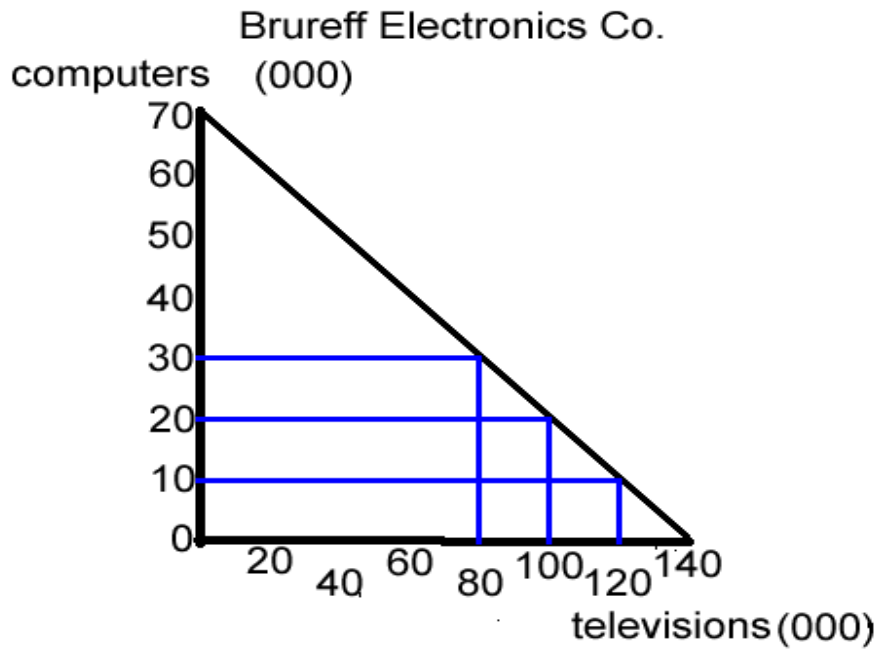
7. Refer to the graph above. If the Brureff Electronic Company decides to produce 30,000 computers the maximum amount of televisions that it can also produce is:

- (A) 0
- (B) 60,000
- (C) 80,000
- (D) 100,000
- (E) 140,000



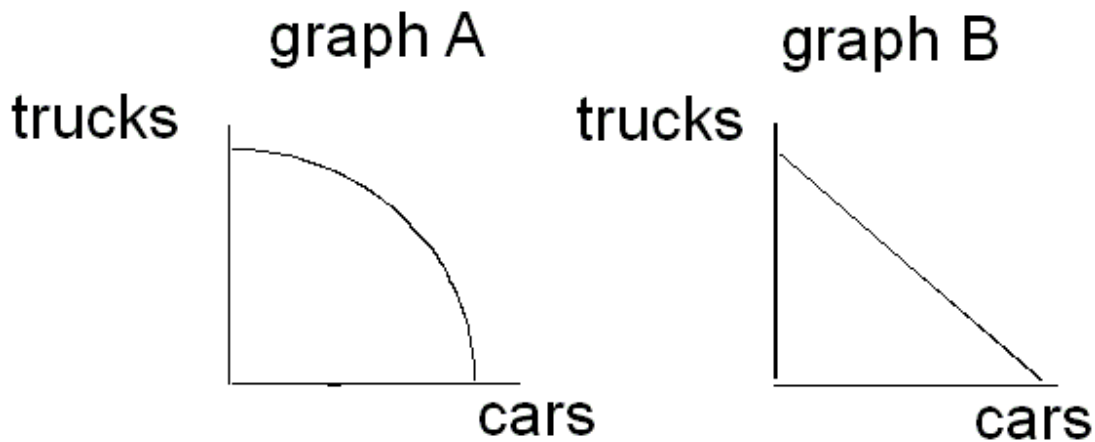
8. Refer to the graph above. If the Brureff Electronic Company fully utilized all of its resources and wanted to change the quantity of computers produced from 30,000 to 40,000, the opportunity cost would be:

- (A) there is no opportunity cost
- (B) 20,000 televisions
- (C) 40,000 televisions
- (D) 60,000 televisions
- (E) 80,000 televisions



9. Refer to the graph above. the Brureff Electronic Company is at full production and producing 100,000 televisions. It decides to increase the production of televisions what will be the opportunity cost of each additional television that it produces?

- \_\_\_ (A) 70 computers
- \_\_\_ (B) 10,000 computers
- \_\_\_ (C) 1/2 of a computer
- \_\_\_ (D) 70,000 computers
- \_\_\_ (E) 2 computers



10. Refer to the two graphs for the production of trucks and cars. Which of the following statements accurately describes these two graphs?

- (A) Graph A depicts an increasing cost production possibilities and Graph B depicts a constant cost production possibilities.
- (B) Graph A depicts a constant cost production possibilities and Graph B depicts an increasing cost production possibilities
- (C) Both graphs depict constant cost production possibilities.
- (D) Both graphs depict increasing cost production possibilities
- (E) On either graph only trucks have increasing cost production possibilities.

11. Given that haddock (a type of fish) is experiencing serious decline in its population resulting from too many being taken by fisherman; and that chickens are not experiencing a serious decline in population despite being slaughtered and brought to market in large quantities.

Which of the following gives the best economic explanation of the flocks of chicken and the depletion of schools of haddock?

- (A) A hen will produce more offspring than a haddock.
- (B) People eat more haddock than they eat chicken.
- (C) Fisherman have private property rights to haddock but chicken farmers do not have private property rights to chickens.
- (D) Chicken farmers have private property rights to chickens but fisherman does not have private property rights to haddock.
- (E) There are not enough consumers willing to eat haddock.

12. If a country can now produce more consumer goods and more military goods without developing new technologies that would make its factors more productive, it must have been:

- (A) outside its production possibilities curve
- (B) inside its production possibilities curve
- (C) on its production possibilities curve
- (D) defying the concept of opportunity cost
- (E) overproducing consumer goods

13. If you stoop to pick up a dime on the sidewalk, then an economist would conclude that:

- (A) You are in desperate need of a dime.
- (B) You are unemployed.
- (C) Your marginal cost of picking up the dime exceeded your marginal benefit.
- (D) Your marginal benefit of picking up the dime exceeded or equaled your marginal cost.
- (E) Your marginal benefit equaled but did not exceed your marginal cost.

14. An opportunity cost is

- (A) only an explicit cost.
- (B) only an implicit cost.
- (C) only a monetary cost.
- (D) an explicit and an implicit cost.
- (E) only the choice that did not appeal to you.

**BROWN FARM  
PRODUCTION CHOICES  
TONS**

WHEAT:	0	1	2	3	4	5	6
CORN:	20	19	17	14	10	5	0

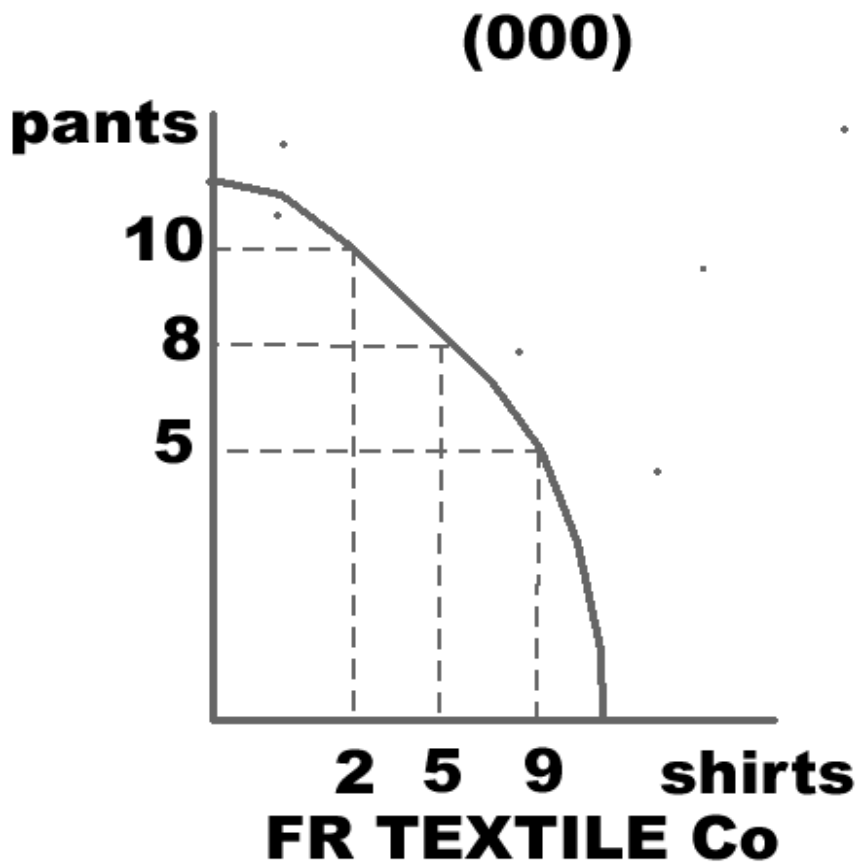
15. Refer to the production table for Brown farm.

If the Brown farm is employing all of its resources and producing two tons of wheat and 17 tons of corn decides that it will begin producing three tons of wheat, the opportunity cost to the Brown farm will be:

- (A) 14 tons of corn
- (B) 17 tons of corn
- (C) 3 tons of corn
- (D) 6 tons of corn
- (E) 1 ton of wheat

16. Given the information in the table of production choices for the Brown Farm located above, we can conclude that the Brown Farm is experiencing

- (A) constant cost production possibilities
- (B) increasing cost production possibilities
- (C) no opportunity costs
- (D) no problems with scarce resources
- (E) decreasing cost production possibilities

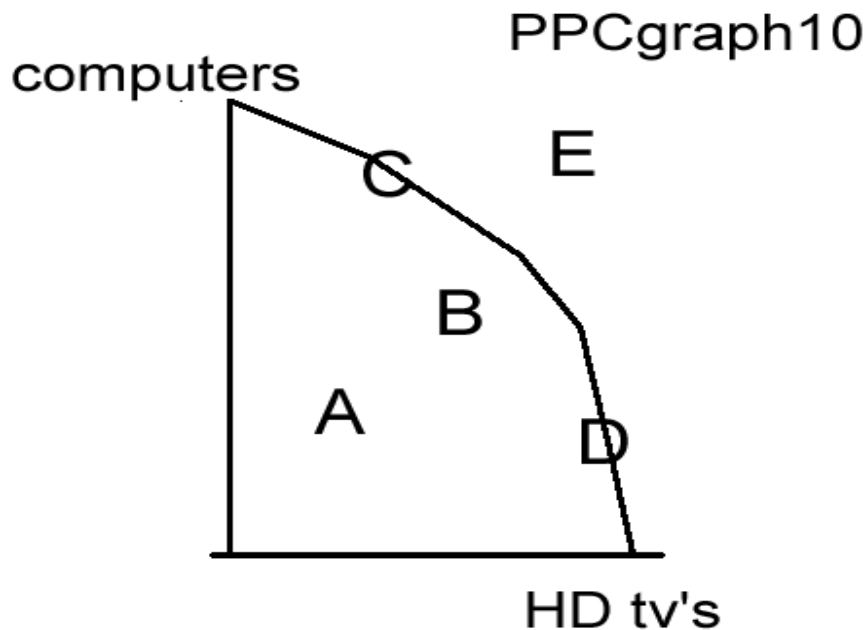


17. Given the production possibilities graph for the FR Textile Co., the opportunity cost of increasing production of pants from 5,000 to 8,000 if the firm is currently efficiently employing all of its resources is:

- (A) 5,000 shirts
- (B) 2,000 shirts
- (C) 3,000 shirts
- (D) 5,000 pants
- (E) 4,000 shirts

18. Refer to the production possibilities graph for the FR TEXTILE Co. The company is efficiently using all of its factors of production and decides to increase production of shirts from 2,000 to 5,000. In order to do this without additional factors and with the present technology the firm will have to forego:

- (A) 10,000 pairs of pants
- (B) 2,000 pairs of pants
- (C) 5,000 pairs of pants
- (D) 3,000 pairs of pants
- (E) 2,000 shirts



19. Given the ppc graph for computers and HD TV's, increasing production from point A to point B would

- (A) not have an opportunity cost of foregone goods because the firm has increased its technology.
- (B) not have an opportunity cost of foregone goods because the firm is not using all of its available resources at point B.
- (C) not have an opportunity cost of foregone goods because the firm is not using all of its resources at point A.
- (D) not have an opportunity cost of foregone goods because the firm is outside its production possibilities curve.
- (E) There is an opportunity cost of foregone computers but it cannot be determined.

20. Refer to the PPC graph for computers and HD tv.s. Which of the following statements gives the most accurate description of how production at level E could occur in the future?

- (A) An increase in the technology for producing computers is developed.
- (B) An increase in the technology for producing HD TV is developed
- (C) An increase in technology is developed.
- (D) An increase in technology that increases the productivity of factors used in the production of computers and HD TV's is developed.
- (E) An increase in the supply of money.

21. The three basic economic questions that every economy must decide concerning its use of available resources are which of the following?

- A. What money is available?
- B. What do we make with our resources?
- C. How do we combine our resources to make what we need?
- D. For whom do we make our products and services?
- E. How do we get everyone what they want?

\_\_\_ (A) A,B,C

\_\_\_ (B) B,C,D

\_\_\_ (C) C,D,E

\_\_\_ (D) A,B,E

\_\_\_ (E) B,C,E

22. The economic problem of scarcity exist because:

\_\_\_ (A) wants are limited but resources are not.

\_\_\_ (B) wants are unlimited and so are resources.

\_\_\_ (C) wants are unlimited and resources are limited.

\_\_\_ (D) not every economic system is a market economy

\_\_\_ (E) not every individual, firm, or country is rich

**Table B**  
**BROWN FARM**  
**PRODUCTION CHOICES**  
**TONS**

WHEAT:	0	1	2	3	4	5	6
CORN:	12	10	8	6	4	2	0

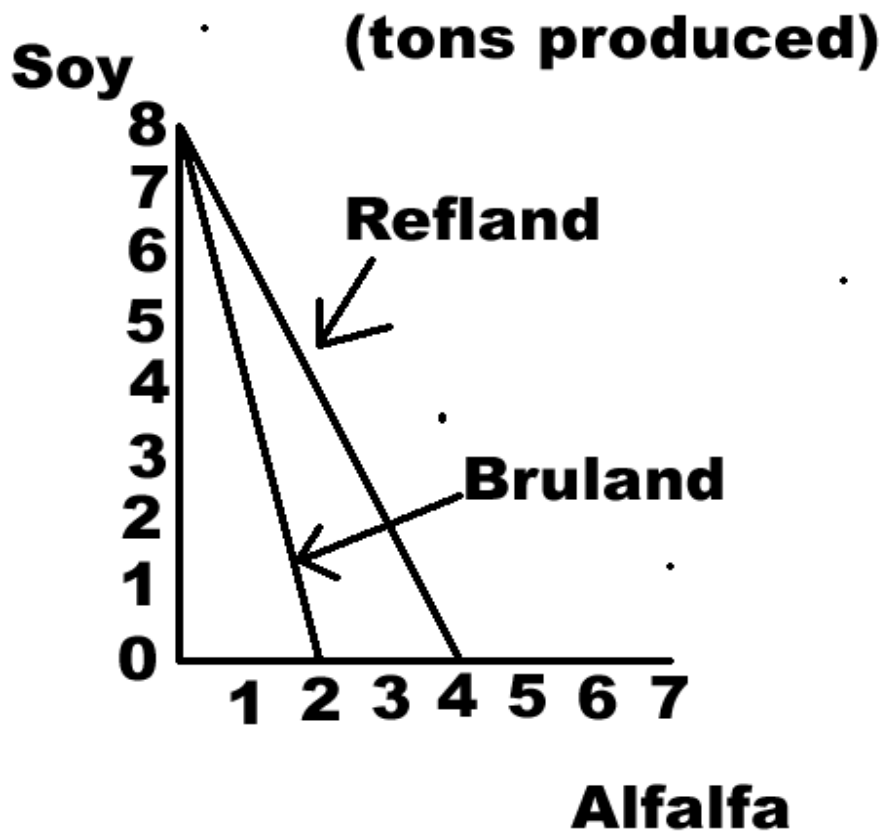
23. Refer to Table B for the Brown Farm.

If you were to convert this table to a production possibilities graph, the production possibilities frontier (curve) would be:

- (A) convex
- (B) concave
- (C) inverted
- (D) horizontal
- (E) straight

24. Refer to Table B for the Brown Farm. Which of the following statements is always true given the information in this table?

- (A) There is a constant cost in producing corn or wheat.
- (B) It is better to produce corn.
- (C) It is better to produce wheat.
- (D) The opportunity cost of increasing production of wheat from 3 tons to 4 tons is 6 tons of corn.
- (E) The opportunity cost of producing wheat is constant but the opportunity cost of producing corn is increasing.



25. Refer to the PPC graph of Refland and Bruland. Assume that both countries have equal amounts of resources.

Based on this graph, which of the following statements is true:

- (A) Refland has the absolute advantage in the production of soy and alfalfa.
- (B) Bruland can produce an equal amount of Soy as does Refland but with fewer resources.
- (C) Bruland has the absolute advantage in the production of soy.
- (D) Bruland has the absolute advantage in the production of alfalfa.
- (E) Refland has the absolute advantage in the production of alfalfa.

26. Refer to the PPC graph for Refland and Bruland.

Which of the following statements is true?

- (A) Refland has the comparative advantage in the production of soy.
- (B) Bruland has the comparative advantage in the production of soy.
- (C) Neither country has the comparative advantage in the production of soy.
- (D) Neither country has the comparative advantage in the production of alfalfa.
- (E) Bruland has the absolute advantage in the production of alfalfa.

27. Refer to the PPC graph of Refland and Bruland.

Bruland's opportunity cost of producing a ton alfalfa is

- (A) to forego 8 tons of soy.
- (B) to forego 8 tons of soy.
- (C) to forego 4 tons of soy.
- (D) to forego 1/2 ton of soy.
- (E) to forego 2 tons of soy.

28. Refer to the PPC graph for Refland and Bruland.

Refland's opportunity cost of producing 1 ton of alfalfa is:

- (A) 1/2 ton of soy
- (B) 8 tons of soy
- (C) 4 tons of soy
- (D) 2 tons of soy
- (E) 1/4 ton of soy

29. Refer to the PPC graph for Refland and Bruland.

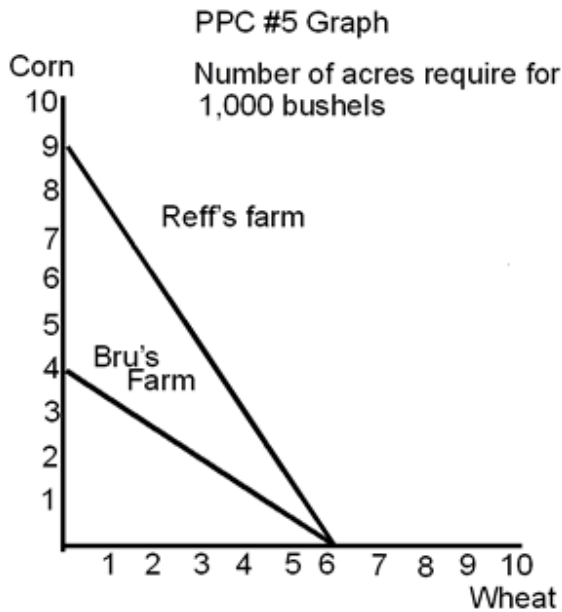
Based on a comparative advantage analysis, which of the following statements is true?

- (A) Both countries should produce soy and alfalfa.
- (B) Refland should specialize in the production of alfalfa.
- (C) Bruland should specialize in the production of alfalfa.
- (D) Bruland should specialize in the production of soy.
- (E) There are no possible terms of trade that would allow for specialization.

30. Refer to the PPC graph for Refland and Bruland.

If each of the countries specializes in the production of the product that it has the comparative advantage in the production of, then which of the following terms of trade would encourage the countries to trade?

- (A) 8 soy for 1 alfalfa
- (B) 1 alfalfa for 1 soy
- (C) 2 alfalfas for 3 soys
- (D) 2 alfalfas for 5 soys
- (E) 1 soy for 1/5 alfalfa



31. Refer to PPC #5 Graph

Given that farmer Reff and farmer Bru can engage in mutually beneficial trade, which of the following statements is true?

- (A) Farmer Reff should specialize in the production of wheat and farmer Bru in the production of corn.
- (B) Farmer Bru should specialize in the production of wheat and Farmer Reff in the production of corn.
- (C) Neither farmer should produce wheat since neither has the comparative advantage in the production of wheat.
- (D) There is no way that either farmer could benefit from trade.
- (E) Both farmers are experiencing increasing cost in the production of corn.

32. Refer to PPC #5 graph.

Based on the information in PPC #5 graph, which of the following statement is true?

- (A) Reff's farm can produce more corn per acre than can Bru's farm.
- (B) Bru's farm can produce more corn per acre than can Reff's farm.
- (C) Reff's farm can produce more wheat per acre than can Bru's farm.
- (D) Bru's farm can produce more wheat per acre than can Reff's farm.
- (E) Neither farm has the comparative advantage in the production of wheat.

33. Refer to PPC #5 graph.

Which of the following statements is true?

- (A) Reff has the absolute advantage in the production of corn.
- (B) Bru has the absolute advantage in the production of corn.
- (C) Bru has the comparative advantage in the production of wheat.
- (D) Neither one has the comparative advantage in the production of wheat.
- (E) Neither one has the comparative advantage in the production of corn.

34. Refer to PPC #5 Graph

Reff's opportunity cost of producing 1 bushel of wheat is?

- (A) 1.5 bushels of corn
- (B) 2/3 bushel of corn
- (C) 9 bushels of corn
- (D) 9000 bushels of corn
- (E) 4000 bushels of corn

35. Refer to PPC #5 graph.

Who has the comparative advantage in the production of corn?

- (A) Both have the comparative advantage in the production of corn.
- (B) Neither one has the comparative advantage in the production of corn.
- (C) Bru has the comparative advantage in the production of corn.
- (D) Reff has the comparative advantage in the production of corn.
- (E) The farmer that foregoes the most wheat.

36. Refer to PPC #5 Graph.

Bru's opportunity cost of producing a bushel of wheat is?

- (A) 1.5 bushels of corn
- (B) 4 bushels of corn
- (C) 4000 bushels of corn
- (D) 9 bushels of corn
- (E) 9000 bushels of corn

37. A technology that improves labor productivity will always

- (A) increase the number of jobs.
- (B) increase the output per worker.
- (C) decrease the use of natural resources.
- (D) shift the production possibilities curve inward.
- (E) lower a worker's wage.

38. Which of the following is most likely to be Sally's opportunity cost for getting to school on time this morning?

- (A) The A she gets on the exam period 1.
- (B) The detention she avoids by being on time.
- (C) The extra half hour of sleep she would have had if she were late.
- (D) The jealous comments by classmates who only got a D on the exam period 1.
- (E) The satisfaction of doing the right thing.

39. The reason money is needed for a business start-up is:

- (A) It allows the business to hire the factors of production.
- (B) It guarantees the business a profit.
- (C) It guarantees the business revenues.
- (D) It is a symbol of wealth.
- (E) It is an economic resource.

40. Assume that there are two countries, Eden and Paradise that have potential for trade. Both countries can produce widgets or gadgets. Each country should specialize in the product that:

- (A) It has the absolute advantage in producing.
- (B) It has the greatest opportunity cost in producing.
- (C) It has the lowest opportunity cost in producing.
- (D) It uses the most resources to produce.
- (E) It has the least use for.