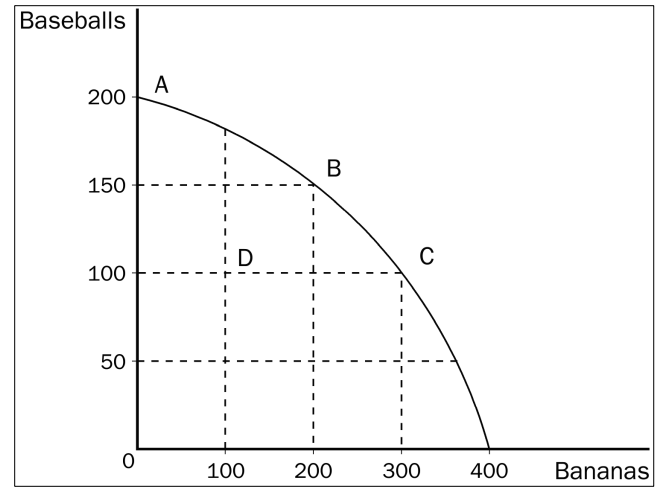


**ARE 201 Sample Exam #1**  
**Topics: Chapters 1—3**

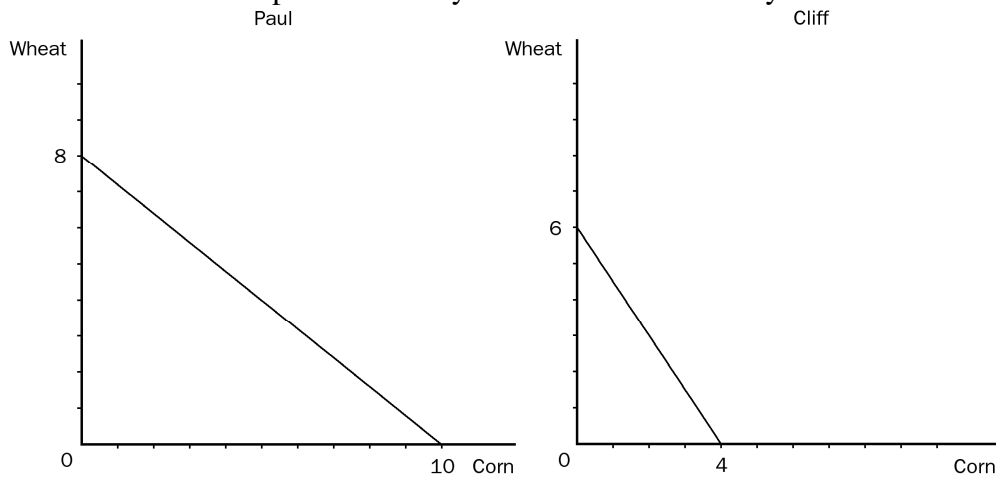
**MULTIPLE CHOICE (3 points each)**

1. The word economy comes from the Greek word for
  - a. “environment.”
  - b. “one who manages a household.”
  - c. “one who participates in a market.”
  - d. “conservation.”
2. Efficiency means that
  - a. society is conserving resources in order to save them for the future.
  - b. society’s goods and services are distributed fairly among society’s members.
  - c. society has lessened its dependence on foreign energy sources.
  - d. society is getting the most it can from its scarce resources.
3. When government policies such as the welfare system try to help the most needy members of society, it
  - a. increases equity and reduces efficiency.
  - b. reduces charitable contributions in an economy.
  - c. increases the productivity of the needy in the society.
  - d. causes market failure to occur.
4. The decisions of firms and households are guided by profit and self-interest in a
  - a. command economy.
  - b. traditional economy.
  - c. market economy.
  - d. All of the above are correct.
5. If the average income of an Australian is higher than the average income of a Russian, it is most likely because
  - a. productivity is higher in Australia than in Russia.
  - b. Australia has a more industrial economy than Russia.
  - c. there is more competition in Australia than in Russia.
  - d. labor unions are more aggressive in Australia than in Russia.
6. Productivity is defined as the
  - a. amount of goods and services produced from each hour of a worker’s time.
  - b. number of workers required to produce a given amount of goods and services.
  - c. amount of labor which can be saved by replacing workers with machines.
  - d. actual amount of effort workers put into an hour of working time.
7. When economists attempt to simplify the real world and make it easier to understand they make
  - a. assumptions.
  - b. mistakes in judgment.
  - c. predictions.
  - d. evaluations.
8. Which is the best statement about the roles of economists?

- a. Economists are best viewed as policymakers.
  - b. Economists are best viewed as scientists.
  - c. In trying to explain the world, economists are policymakers; in trying to improve the world, they are scientists.
  - d. In trying to explain the world, economists are scientists; in trying to improve the world, they are policymakers.
9. In the production possibilities frontier shown, what is the opportunity cost to society of moving from point B to point D?
- a. 100 bananas
  - b. 50 baseballs
  - c. both 100 bananas and 50 baseballs
  - d. Nothing, since this economy would have unused resources.
10. In the production possibilities frontier shown, the movement from point C to point D was most likely caused by
- a. unemployment.
  - b. a decrease in society's preference for bananas.
  - c. fewer resources available for production.
  - d. All of the above are correct.
11. The field of economics is traditionally divided into two broad subfields,
- a. national economics and international economics.
  - b. consumer economics and producer economics.
  - c. private sector economics and public sector economics.
  - d. microeconomics and macroeconomics.
12. Which of the following is an example of a positive statement?
- a. Prices rise when the government prints too much money.
  - b. If welfare payments increase, the world will be a better place.
  - c. Inflation is more harmful to the economy than unemployment.
  - d. The benefits to the economy of improved equity are greater than the costs of reduced efficiency.
13. Tariffs and quotas are
- a. policies that restrict trade.
  - b. are implemented to increase trade efficiency.
  - c. opposed by almost all economists.
  - d. Both a and c are correct.
  - e. Both a and b are correct.
14. A rancher can produce only hamburgers, and a farmer can produce only french fries. The rancher and the farmer both like both foods. They
- a. cannot gain from trade.
  - b. could gain from trade under certain circumstances, but not always.
  - c. could gain from trade because each would enjoy a greater variety of food.



- d. could gain from trade only if each were indifferent between hamburgers and french fries.
15. Without trade
- a country is better off because it will become self-sufficient.
  - a country's production possibilities frontier is also its consumption possibilities frontier.
  - a country can still benefit from international specialization.
  - more product variety is available in a country.



16. According to the graph, if Paul divides his time equally between corn and wheat, he will be able to produce
- 2 bushels of wheat and 2 bushels of corn.
  - 3 bushels of wheat and 3 bushels of corn.
  - 4 bushels of wheat and 5 bushels of corn.
  - 4 bushels of wheat and 6 bushels of corn.
17. According to the graph, the opportunity cost of 1 bushel of wheat for Cliff is
- $1/3$  bushel of corn.
  - $2/3$  bushel of corn.
  - 1 bushel of corn.
  - $3/2$  bushels of corn.
18. The country that has a comparative advantage in a product
- should import that product.
  - should export that product.
  - would be better off keeping the product for domestic use since it is relatively inexpensive to produce.
  - None of the above are correct.
19. Economists generally support
- trade restrictions.
  - government management of trade.
  - export subsidies.
  - free international trade.

20. Use the accompanying table to answer the following questions:

	Labor hours needed to make one unit of		Amount produced in 40 hours	
	Cheese	Bread	Cheese	Bread
England	1	2	40	20
Spain	2	8	20	5

According to the table, the opportunity cost of 1 unit of cheese in England is

- a. 4 breads.
- b. 2 breads.
- c. 1/2 bread.
- d. 1/4 bread.

**TRUE/FALSE (2 points each)**

1. Economics is the study of how fairly goods and services are distributed within society.
2. A market economy cannot produce a socially desirable outcome because individuals are motivated by their own selfish interests.
3. Productivity is the primary determinant of a country's living standards.
4. An economic model can accurately explain how the economy is organized because it is designed to include every feature of the real world.
5. "Society would be better if the welfare system were abolished" is a normative statement, not a positive statement.
6. A survey of business, government, and academic economists revealed widespread disagreement on ten propositions about economic policy.
7. Two variables which are negatively related will move in opposite directions.
8. Trade allows a country to consume outside its production possibilities frontier.
9. It takes Barbara 3 hours to make a pie and 4 hours to make a shirt. It takes Gary 2 hours to make a pie and 5 hours to make a shirt. Barbara should specialize in making shirts and Gary should specialize in making pies, then they should trade.
10. If it takes U.S. workers fewer hours to produce every good than it takes German workers, the United States cannot gain from trade with Germany.

**SHORT ANSWER**

**APPLICATION/SCENARIO (10 points each)**

1. Define opportunity cost. What is the opportunity cost to you of attending college? What was your opportunity cost of coming to class today?

2. Explain the difference between absolute advantage and comparative advantage. Which is more important in determining trade patterns, absolute advantage or comparative advantage? Why?