

**Economics**

**EOCT**

**Review**

# Which of the following is a likely result of a high unemployment rate in the United States?

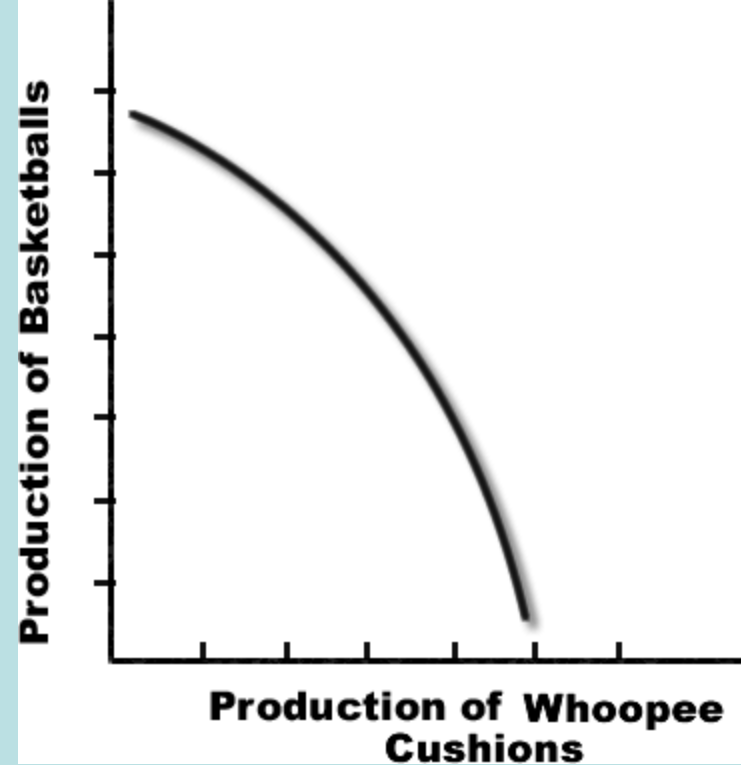
- A) increased demand for consumer goods
- B) increased production of capital goods
- C) increased revenues
- D) greater government expenditures for transfer payments

When more people are unemployed, the government must provide more in the way of social services (transfer payments). Therefore high unemployment usually results in greater government expenditures for transfer payments.

**The graph is a  
production**

**possibilities chart.**

**Which of the following  
might cause the line  
to move to the right?**



- A) an increase in prices**
- B) shortage of required resources**
- C) improved technology in whoopee cushion production**
- D) higher labor costs**

**If the production possibilities line "expands" (moves to the right), production is increased. Improved technology in whoopee cushion production might cause such an increase.**

**The new oven in Mr. Brown's bakery allows him to produce bread more efficiently and more cheaply. What is the likely effect?**

- A) the price drops and the quantity demanded decreases**
- B) the price rises and the quantity demanded decreases**
- C) the price drops and the quantity demanded increases**
- D) the price rises and the quantity demanded increases**

**The price drops and quantity demanded increases. The efficiency of the new oven allows Mr. Brown to reduce his prices. The lower prices would likely create an increase in the quantity demanded for the product.**

**The market for a particular product is considered to be an example of pure competition. This is MOST LIKELY because**

- A) the market is dominated by a few buyers.**
- B) the market is dominated by one seller.**
- C) the market is dominated by two sellers.**
- D) the market is not dominated by either buyers or sellers.**

**Pure competition exists when the market is not dominated by any one or group of buyers or sellers.**

**The financial institution that generally charges the lowest rates on loans is a**

- A) credit union.**
- B) savings and loan association.**
- C) finance company.**
- D) commercial bank.**

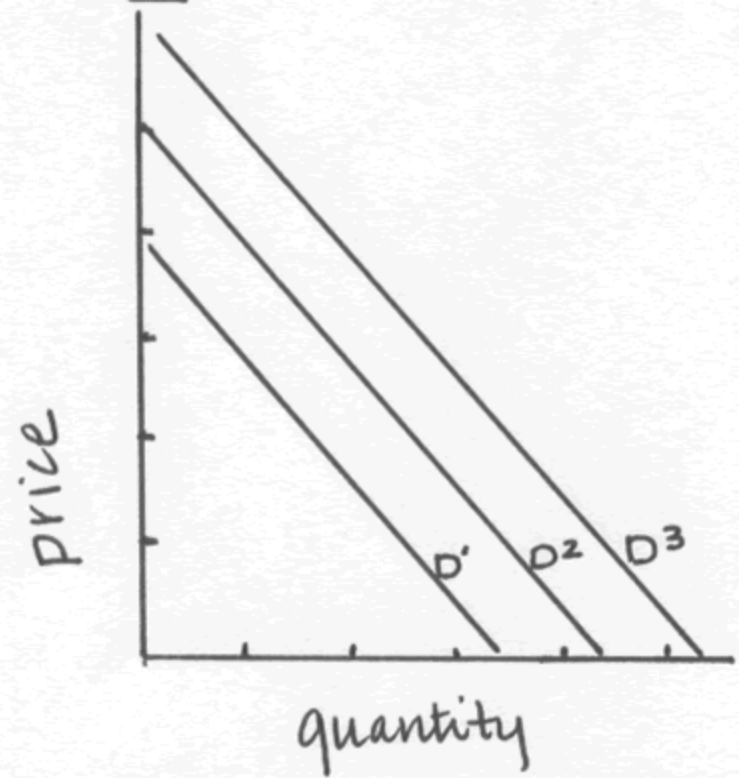
**Credit unions typically charge the lowest rates on loans.**

**The investment option with the highest rate of return and highest degree of risk is**

- A) U.S. treasury bills.**
- B) junk bonds.**
- C) investment-grade bonds.**
- D) common stock.**

**The investment option with the highest rate of return and highest degree of risk is junk bonds.**

**The purpose of the graph is to show:**



- A) equilibrium price**
- B) quantity demanded at various prices**
- C) production possibilities with available resources**
- D) labor required for a specific project**

**The quantity demanded at various prices is displayed on a demand curve such as the one shown. Most demand curves slope downward.**



**Imposing some sort of cost on trade that raises the price of the traded products is MOST LIKELY an example of**

- A) international trade.**
- B) a trade barrier.**
- C) a trade surplus.**
- D) a trade deficit.**

**Imposing some sort of cost on trade that raises the price of the traded products is MOST LIKELY an example of a trade barrier.**

**Jacob is saving his money to buy a new saxophone. This is an example of:**

- A) fiat money**
- B) money as a store of value**
- C) legal Barter**
- D) tender**

**Money (unlike things like bananas) can be saved and spent later. This is referred to as money as a store of value.**

**A new MP3 music player comes on the market. It is determined that a scarcity of the new music players exists. This is MOST LIKELY because**

- A) the producer did not make enough music players for all the people who want to buy one.**
- B) the producer made too many music players and there is not enough demand.**
- C) most consumers do not want the music player because it is undervalued.**
- D) most consumers buy the music player because it is priced below the market price.**

**A scarcity exists MOST LIKELY because the producer did not make enough music players for all the people who want to buy one.**

**As one of the factors of production,  
capital is defined as:**

- A) the raw materials necessary to produce goods.**
- B) the equipment and factories needed to produce goods.**
- C) the supply of labor needed to produce goods.**
- D) the goods and services produced.**

The factors of production are land, labor, capital, and entrepreneurship. Capital is defined as the equipment and factories needed to produce goods.

**Demand is based on consumer purchases, whereas supply is based:**

- A) the willingness of producers to supply a product**
- B) the willingness to purchase a product**
- C) offering a wide range of prices**
- D) whether or not a complementary product is available**

**The willingness of producers to supply a product determines supply. The definition of supply in economics is the quantity which producers are willing to produce.**

**Inflation is defined as a rise in the general level of prices. When inflation occurs, the buying power of the dollar would**

- A) increase.**
- B) decrease.**
- C) remain stable.**
- D) not be affected by inflation.**

**When inflation occurs, the buying power of the dollar would decrease.**

# Which of the following relationships is the **BEST** example of the law of supply?

- A) The quantity of a good supplied rises as the price rises.
- B) The quantity of a good supplied rises as the price falls.
- C) The quantity of a good supplied falls as the price falls.
- D) The quantity of a good supplied is not impacted by price.

This is a microeconomic law that states if everything else is equal, as the price of a good increases, the quantity of that good offered by suppliers increases. This is done to maximize profits.

**Cayla is applying for an automobile loan.  
( Because she did not win “the car.”) The  
lender considers Cayla creditworthy  
MOST LIKELY because she**

- A) has many credit cards already.**
- B) has a home mortgage loan.**
- C) has a new job.**
- D) has made on-time payments to other loans.**

**The lender considers Cayla creditworthy MOST  
LIKELY because she has made on-time payments to  
other loans.**



**Cayla (who did not win “the car”) has decided to save money to buy a car. She would like to buy a car in the next six months. All of the following options allow her to save money. Which option is NOT a good choice for her short-term needs?**

- A) checking account**
- B) money market account**
- C) IRA**
- D) savings account**

**An IRA, or individual retirement account, is not a good choice for short-term saving.**

**Tarah wants a new cellular phone that many other people also want to buy. There are not enough phones produced to fill the demand.**

**This is known as**

- A) Scarcity**
- B) rarity.**
- C) opportunity cost.**
- D) production cost.**

**Scarcity is when unlimited wants (for the cell phone) exceed limited productive resources.**

# **Which of the following would most likely cause an increase in the price of an item?**

- A) An increase in the cost of raw materials for that item**
- B) Improved technology in the production of that item**
- C) Declining popularity of the item**
- D) A decrease in the price of a substitute product**

**The price of an item is largely determined by the cost of production of that item. Thus, an increase in the cost of raw materials would likely cause the price of that item to rise.**

# What is a main goal of the Federal Reserve in its monetary policy?

- A) to curb recessions
- B) lowering taxes
- C) increasing government spending
- D) regulation of the stock market

The actions of the Federal Reserve have two main goals - controlling inflation and curbing recession.

# The Law of Supply states that:

- A) when the supply of a product decreases, the price of the product falls.
- B) when the supply of a product increases, the price of the product rises.
- C) the quantity supplied of a product will increase when the price of that product increases.
- D) the supply of a product is not affected by its price.

The Law of Supply states that the quantity supplied of a product will increase as the price increases and will decrease as the price decreases.

**Which of the following is a primary characteristic of a planned economy?**

- A) free access to the marketplace for producers**
- B) free access to the marketplace for consumers**
- C) centralized decision-making about what will be produced**
- D) competition among suppliers in the market**

**Centralized decision-making about what will be produced as well as about how things will be produced is a primary characteristic of planned economies. (Command Economies)**

# The equilibrium price is

- A) a situation in which the quantity demanded is greater than the quantity supplied.
- B) a situation in which the quantity supplied is greater than the quantity demanded.
- C) a situation in which a partial temporary reduction in prices occurs.
- D) a situation in which there is neither shortage nor surplus; the price "clears the market".

The equilibrium price (equal price) is a situation in which there is neither shortage nor surplus, the price "clears the market"; also called "market clearing price."

**If the supply of computer engineers increases at the same time that the demand for these workers decreases, what would be the expected effect on wages for these workers?**

- A) Wages would increase as competition for these workers increases.**
- B) Wages would decline as the competition for jobs increases.**
- C) Wages would stay the same and the job opportunities would increase.**
- D) Wages would increase as the number of workers increases.**

**Wages would decline as the competition for jobs increases. Workers and their wages follow the same laws of supply and demand as other products in the market.**



**Which of these is LEAST LIKELY to determine credit worthiness?**

- A) length of employment**
- B) payment history**
- C) personal educational background**
- D) personal health history**

**Personal health history is not reflected in credit worthiness. There are many other factors that determine credit worthiness other than the ones listed... like annual income, type of occupation, and length of credit history.**

**While the balance of trade is the difference between the monetary value of exports and imports, the balance of payments**

- A) counts only goods.**
- B) counts only the financial transactions between countries.**
- C) counts goods and the financial transactions between countries.**
- D) counts goods, services, and financial transactions between countries.**

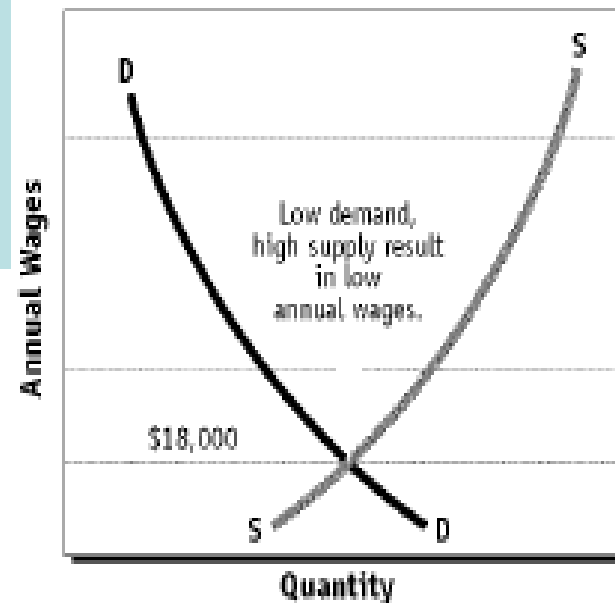
**While the balance of trade is the difference between the monetary value of exports and imports, the balance of payments counts goods, services, and financial transactions between countries.**

# What generalization can be made using the graphs?

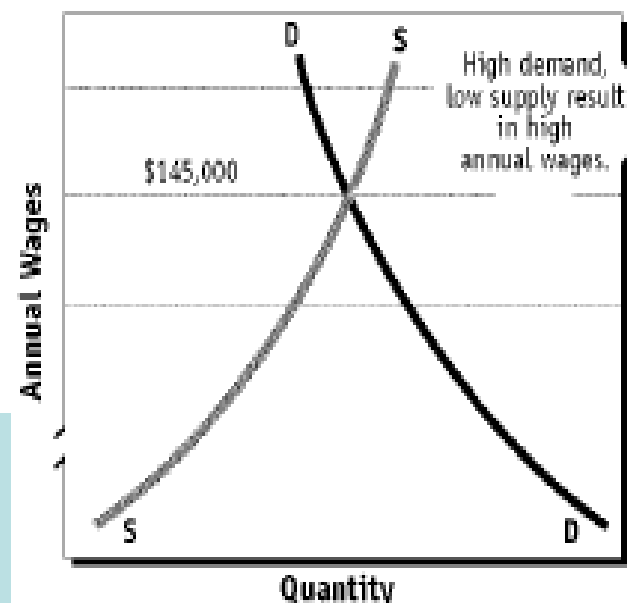
- A) Unlike the janitors, the graph for surgeons shows high demand and high supply.
- B) Unlike the janitors, the graph for surgeons shows high demand and low supply.
- C) Like the janitors, the graph for surgeons shows high demand and high supply.
- D) Like the janitors, the graph for surgeons shows high demand and low supply.

Unlike the janitors, the graph for surgeons shows high demand and low supply.

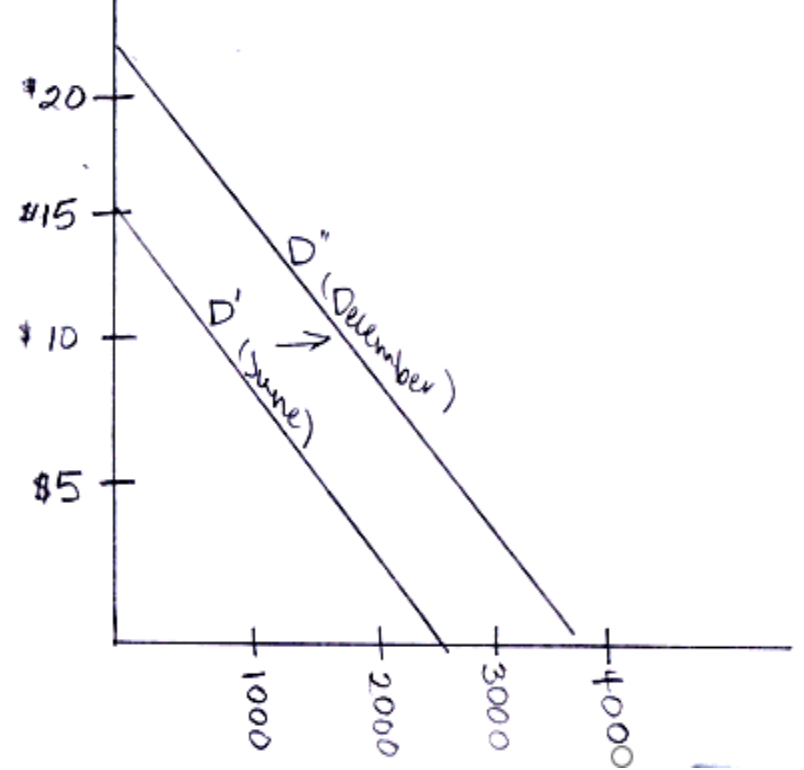
A Janitors



B Surgeons



The graph shows the demand for Twinkie-Doodles in the months of June and December. The demand curve has moved to the right on the graph. This shows that:



- A) the price for Twinkie-Doodles went down
- B) the supply of Twinkie-Doodles has decreased
- C) the demand for Twinkie-Doodles has increased
- D) buyers and sellers cannot agree on a price

On a graph showing price and demand, when the demand curve moves to the right, that indicates that demand has increased.

**Homer wants to borrow money from the Springfield Bank to buy a new trampoline. The bank requires collateral for a loan. What is collateral?**

- A) something of value which the bank will receive if the loan is not repaid**
- B) a signed statement that the loan will be repaid**
- C) money deposited in the bank which is greater than the amount of the loan**
- D) an increased interest rate for a high risk loan**

**When banks lend money they often require collateral, something of value which the bank will receive if the loan is not repaid. Collateral is usually property owned by the borrower.**

**If the federal government spends more than it collects in revenue, then:**

- A) the inflation rate should decline**
- B) it is running a surplus**
- C) it is running a deficit**
- D) the unemployment rate may increase**

**A government is running a deficit when there is more money going out than coming in.**

# **In a market economy, a high price is a signal for**

- A) producers to supply less and consumers to buy less.**
- B) producers to supply less and consumers to buy more.**
- C) producers to supply more and consumers to buy less.**
- D) producers to supply more and consumers to buy more.**

**In a market economy, a high price is a signal for producers to supply more and consumers to buy less.**

**The law of demand is one of the most famous laws in economics. It states that when the price of a good rises, the amount demanded \_\_\_\_\_, and when the price of a good falls, the amount demanded \_\_\_\_\_.**

- A) rises, rises**
- B) falls, falls**
- C) rises, falls**
- D) falls, rises**

**The law of demand is one of the most famous laws in economics. It states that when the price of a good rises, the amount demanded falls, and when the price of a good falls, the amount demanded rises.**

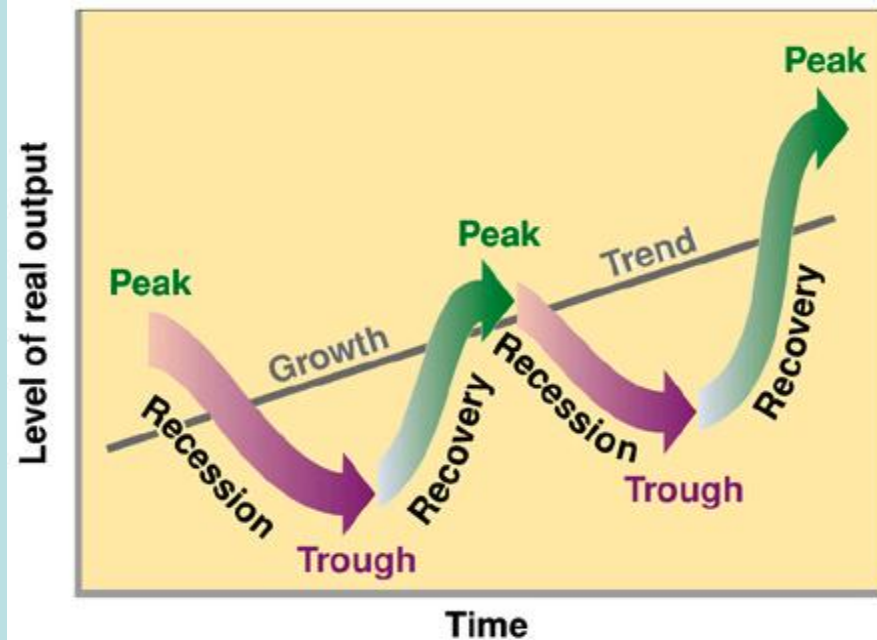


**In 1999, the U.S. announced trade sanctions worth \$116.8 million, targeting goods from France, Germany, Italy and Denmark. The sanctions were in retaliation for a ban on U.S. hormone-treated beef by which organization?**

- A) ASEAN**
- B) EU**
- C) NAFTA**
- D) WTO**

**In 1999, the U.S. announced trade sanctions worth \$116.8 million, targeting goods from France, Germany, Italy and Denmark. The sanctions were in retaliation for a ban on U.S. hormone-treated beef by the EU, or European Union.**

# In the business cycle model, a recession is MOST LIKELY



- A) a turnaround point where the real GDP stops going down.
- B) a turnaround point where the real GDP stops going up.
- C) a period during which the real GDP increases for two quarters in a row.
- D) a period during which the real GDP decreases for two quarters in a row.

In the business cycle model, a recession is MOST LIKELY a period during which the real GDP (Gross Domestic Product )decreases for two quarters in a row.

**If OPEC decided to cut oil production for the coming year, what would be the likely effect?**

- A) oil prices would probably rise**
- B) oil prices would probably decline**
- C) prices would not change**
- D) the price for substitute products would decline**

**If OPEC (Organization of Petroleum Producing Countries) reduced production, oil prices would probably rise in response to the reduced supply.**

**A technology company needs 10 workers experienced in a newly developed programming language. Plenty of applicants express interest in the job; however, only 3 have the necessary education and experience to complete the work. The remaining unemployed individuals are an example of**

- A) cyclical unemployment.**
- B) frictional unemployment.**
- C) seasonal unemployment.**
- D) structural unemployment.**

**This is an example of structural unemployment because there is a mismatch between the good (qualified) workers looking for jobs and the vacancies available.**

**The union has demanded a cost-of-living adjustment clause in the new contract. What is the purpose of a cost-of-living adjustment?**

- A) to counter the effects of inflation**
- B) to ensure job security**
- C) to ensure on-the-job training**
- D) guaranteed stock options for employees**

**A cost-of-living adjustment shifts wages to reflect changes in price levels. Therefore, the purpose of a cost-of-living adjustment is counter the effects of inflation.**

# **Why will there always be scarcity because?**

- A) people and their tools are inefficient**
- B) natural disasters create shortages**
- C) while humans' needs and wants are unlimited, earthly resources are limited**
- D) governments create scarcity to keep people wanting more**

**While the needs and wants of people are unlimited, the resources needed to satisfy those demands are limited.**

**Which of the following BEST explains why the early 20th century federal government did little to deal with problems relating to monopoly of industry, labor unrest, and abuses by large businesses?**

- A) Congress was weak because the committee system divided its powers.**
- B) Presidents during this period were exceptionally weak.**
- C) Political power between the major parties was so evenly divided that neither could pass its agenda.**
- D) the firm belief that government should keep its hands off the economic area, especially business-laissez-faire.**

**The firm belief that government should keep its hands off the economy.**

**An unincorporated business owned by a single person, which may or may not have employees, is an example of a(n)**

- A) sole proprietorship.**
- B) entrepreneurship.**
- C) partnership.**
- D) corporation.**

**Sole proprietorship is an unincorporated business owned by a single person. An example would be your cousin's lawn mowing business he runs in the summers.**



**Established in 1967 in Thailand with more than 500 million members, one of the largest regional markets in the world is**

- A) NAFTA.**
- B) ASEAN.**
- C) OPEC.**
- D) NATO.**

**The Association of Southeast Asian Nations, or ASEAN, is one of the largest regional markets in the world with 10 member nations – Thailand is in Southeast Asia**

**The theory that the government can best stimulate the economy by helping businesses produce more:**

- A) Keynesian economics**
- B) Marxism**
- C) supply-side economics**
- D) mercantilism**

**The theory of supply-side economics holds that supply dictates demand: kind of “if you make it, they will buy it.”**

# **Which of the following relationships is the BEST example of the law of supply?**

- A) The quantity of a good supplied rises as the price rises.**
- B) The quantity of a good supplied rises as the price falls.**
- C) The quantity of a good supplied falls as the price falls.**
- D) The quantity of a good supplied is not impacted by price.**

**This is a microeconomic law that states if everything else is equal, as the price of a good increases, the quantity of that good offered by suppliers increases. This is done to maximize profits.**

# **HMOs are MOST LIKELY associated with which of the following types of insurance?**

- A) Property Insurance**
- B) Health Insurance**
- C) Life Insurance**
- D) Disability Insurance**

**Health Maintenance Organizations, or HMOs are MOST LIKELY associated with health insurance plans. HMOs are a type of managed care health insurance plan.**

# Which of the following is not allowed in a command economy?

- A) government regulation of the economy
- B) environmental controls
- C) minimum wage
- D) ownership of corporate stock

Command economies do not allow privately owned business and therefore would not allow the ownership of corporate stock.

**According to the information, one U.K. pound is worth approximately**

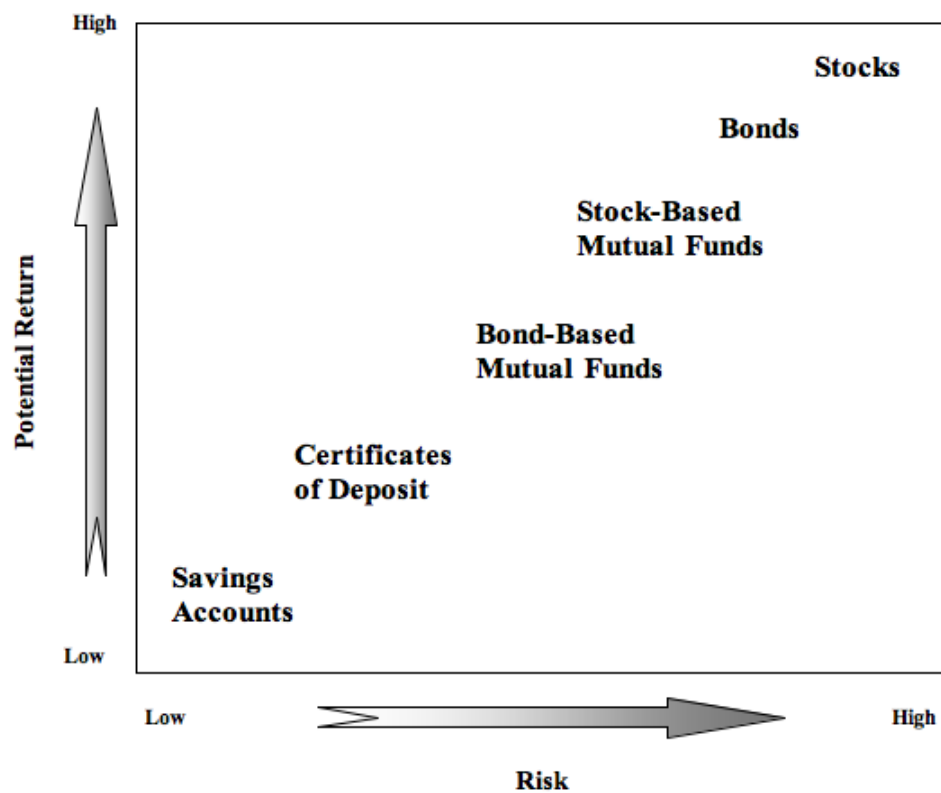
**Foreign Exchange Rates  
(Tuesday, July 31, 2007)**

<b>Country/ Currency</b>	<b>Foreign Currency in U.S. Dollars</b>	<b>U.S. Dollars in Foreign Currency</b>
UK/ Pound	2.0292	.4928
Japan/ Yen	.0084	118.9599
India/ Rupee	.0248	40.3950
Canada/ Dollar	.9394	1.0645

- A) one-half of one U.S. dollar.**
- B) one U.S. dollar.**
- C) two U.S. dollars.**
- D) four U.S. dollars.**

**According to the information, one U.K. pound is worth approximately two U.S. dollars. Look at the entry at the top left of the chart.**

# Why do investors require higher returns for some investments?



- A) To compensate for greater risk.
- B) To offset the amount of money invested.
- C) To compensate for less risk.
- D) To invest less funds for less risk.

To compensate for greater risk, investors require higher returns for some investments.

# **The unemployment rate is usually calculated as the number of unemployed individuals**

- A) divided by the total number of people in a society.**
- B) divided by the total number of people in a labor force.**
- C) multiplied by the total number of people in a society.**
- D) multiplied by the total number of people in a labor force.**

**Unemployed divided by total number of employable people – the actual labor force equals the unemployment rate**



# Which of the following is a likely result of apartment rent controls?

- A) an increase in the supply of available apartments
- B) a shortage of apartments
- C) a dramatic increase in rental rates
- D) increased mobility of workers

Rent controls usually result in rents below the equilibrium price. When this happens, there will be a shortage of apartments.

# **Productivity is defined as**

- A) a measure of the amount of output produced by a given amount of inputs in a specific period of time.**
- B) a period when a nation's total output of goods and services increases over time.**
- C) a market where producers sell their goods and services to consumers.**
- D) an economic reliance on others to provide the goods and services a society consumes.**

**How much can be produced with a certain amount of resources**

**An obvious defect in the nation's banking system that was exposed during the Great Depression was**

---

- A) an excessive amount of currency in circulation.**
- B) the lack of protection for funds deposited by individuals in banks.**
- C) excessive government regulation of banks.**
- D) private ownership of banks.**

**An obvious defect in the nation's banking system that was exposed during the Great Depression was the lack of protection for funds deposited by individuals in banks. Hundreds of banks were failing each year due to poor banking practices and governmental oversight.**

Hayden is an exchange student living in Japan. She wants to buy a new-release movie for 2,000 Japanese yen. When she calls home and talks to Rob, she discovers the movie sells for \$25. Hayden decides to

Foreign Exchange Rates  
(Tuesday, July 31, 2007)

Country/ Currency	Foreign Currency in U.S. Dollars	U.S. Dollars in Foreign Currency
UK/ Pound	2.0292	.4928
Japan/ Yen	.0084	118.9599
India/ Rupee	.0248	40.3950
Canada/ Dollar	.9394	1.0645

- A) wait to buy the movie in the U.S. because it is relatively less expensive in the U.S.
- B) buy the movie in Japan because it is relatively less expensive than in the U.S.
- C) wait because the movie costs relatively the same amount in both countries.
- D) buy the movie in the U.S. and pay \$10 to ship it because the total cost will still be less.

**"This regulation lays down the principle that exports from the European Community to third countries are free...they are not subject to any quantitative restrictions."**

**Based on this passage, the European Union has established \_\_\_\_\_.**

- A) trade barriers for imports**
- B) free trade for imports**
- C) trade barriers for exports**
- D) free trade for exports**

**Although members of the EU may establish their own trade barriers, the European Union established free trade for exports.**

# **An exchange rate is used to**

- A) determine the price of one country's currency in terms of another country's currency.**
- B) determine the price of one country's imports in terms of another country's imports.**
- C) promote the free trade argument.**
- D) promote the use of subsidies on foreign goods.**

**How much money in one country equals how much money in another**

# **Land, labor, capital, and entrepreneurs are the:**

- A) results of supply and demand**
- B) basis of employment**
- C) result of production**
- D) factors of production**

**Land, labor, capital, and entrepreneurs are the factors necessary to produce any good or service in an economy.**

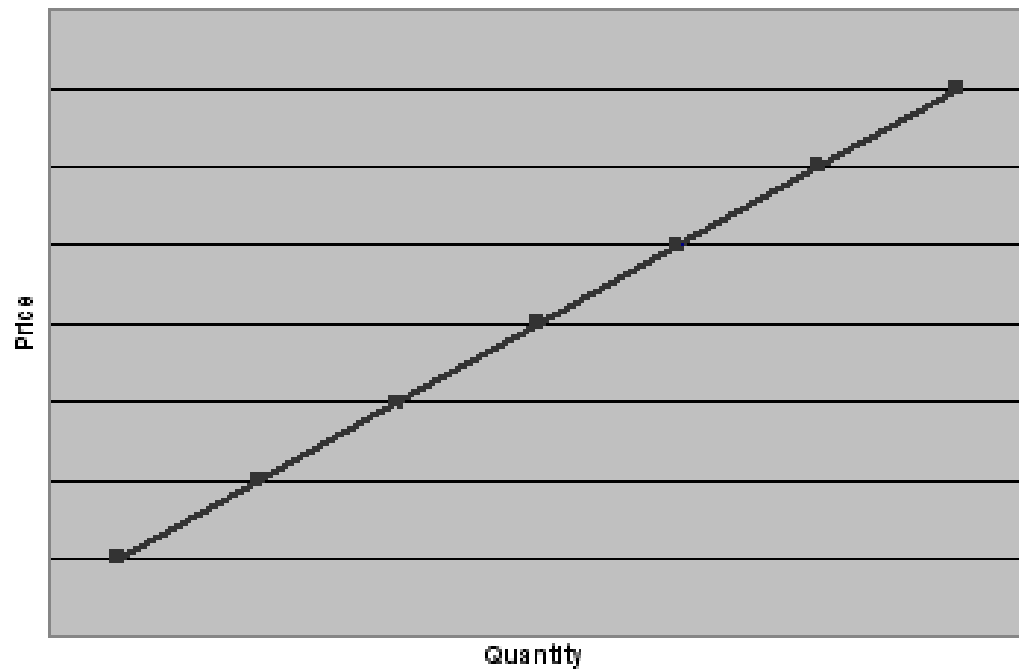
**Bart is able to buy 50 water balloons with the \$5 bill he received for his allowance. This is an example of money as:**

- A) a store of value**
- B) a medium of exchange**
- C) fiat money**
- D) an investment**

**Because money can be exchanged for goods or services it is a medium of exchange.**



Assuming that the graph follows the normal laws of economics, the line represents



- A) equilibrium price
- B) Demand
- C) Supply
- D) production possibilities

According to the law of supply, as price increases, supply increases. Thus supply curves almost always slope upward.

# Which of the following would most likely cause an increase in the price of an item?

- A) An increase in the cost of raw materials for that item
- B) Improved technology in the production of that item
- C) Declining popularity of the item
- D) A decrease in the price of a substitute product

The price of an item is largely determined by the cost of production of that item. Thus, an increase in the cost of raw materials would likely cause the price of that item to rise.

**Sarah is concerned about identity theft. She wants to check her overall credit worthiness. Sarah should MOST LIKELY**

- A) check her credit history from a credit reporting agency.**
- B) check her credit history from a bank.**
- C) check her credit history from a credit card company.**
- D) check her credit history from her employer.**

**Credit worthiness can be checked with a credit history from a credit reporting agency. It's called a credit report, and there are three major credit reporting agencies.**

**Using the information in the graph, one might speculate that:**



- A) W.W.I created increased job opportunities in the U.S.**
- B) the return of soldiers following W.W.II caused unemployment to increase in the U.S.**
- C) the New Deal programs of President Roosevelt created employment opportunities in the U.S.**
- D) the election of President Hoover in 1936 caused unemployment to decline.**

**Franklin Roosevelt was elected in 1932 and took office in 1933. He was convinced of the need for government intervention to combat the effects of the Great Depression. He immediately started government programs to give jobs to the unemployed.**

# **In a command economy, how is it determined what goods and services will be produced?**

- A) Businesses decide what to produce on the basis of market conditions.**
- B) Consumers decide through their behavior in the marketplace.**
- C) Central government planning decides what will be produced.**
- D) Supply and demand control production and price.**

**In a command economy central government planning decides what will be produced as well as how it will be produced.**

**In 1776 with *An Inquiry into the Nature and Causes of the Wealth of Nations*, Adam Smith challenged the prevailing belief in mercantilist policies. The characteristic of capitalism that buyers and sellers will freely and willingly exchange in market transaction is called**

- A) profit motive.**
- B) economic freedom.**
- C) voluntary exchange.**
- D) entrepreneurial spirit.**

**The characteristic of capitalism that buyers and sellers will freely and willingly exchange in market transaction is called voluntary exchange.**

# **If the government decided to subsidize the production of bobble-head dolls:**

- A) the price of bobble-head dolls will rise.**
- B) the supply curve will shift to the right.**
- C) the supply curve will shift to the left.**
- D) the cost of substitutes will rise.**

**A government subsidy will reduce production costs. Because of this, suppliers would be willing to produce more items. This will cause the supply curve to shift to the right.**

# Macroeconomics focuses on:

- A) government regulation in an economy
- B) corporate behavior
- C) the product market
- D) the use of resources in the entire nation

The branch of economics called macroeconomics focuses on a whole economy rather than individual parts of it. Thus macroeconomics looks at the use of resources in the entire nation.



**Unemployment insurance, welfare, medicare, medicaid, and Social Security are key components of**

- A) fiscal policy.**
- B) monetary policy.**
- C) wage-price controls.**
- D) supply-side policy.**

**Government programs to give out money/aid are part of the fiscal policy**

# Which of the following is not an economic indicator used to tell how an economy is doing?

- A) Consumer Price Index
- B) Unemployment rate
- C) Gross Domestic Product
- D) Equilibrium Price

The consumer price index, unemployment rate, and gross domestic product are all economic indicators which provide information about the relative "health" of an economy. The equilibrium price is not a term associated with macroeconomics.

**In 2002, Canada, Mexico, and Japan were the largest trading partners of the United States. The respective order is MOST LIKELY due to**

- A) ASEAN.**
- B) EU.**
- C) NAFTA.**
- D) OPEC.**

**Canada, Mexico, and Japan are the largest trading partners of the United States. The respective order is MOST LIKELY due to NAFTA, or the North American Free Trade Agreement.**

# Which of the following is NOT an advantage of a corporation?

- A) ability to raise capital
- B) limited liability of stockholders
- C) establishment of price ceilings
- D) ability to sell stock

Corporations are able to sell stock thus raising capital for the company. Stockholders have limited liability. The establishment of price ceilings is not an advantage of corporations, for it would likely mean that the demand was greater than the supply (a shortage).

# Which of the following will have an effect on the GDP of the country?

- A) Ned Flanders fixes Homer's car without buying any new parts.**
- B) Lisa loses \$20.00 in a bet with Bart.**
- C) Mr. Burns buys a Picasso painting.**
- D) The Springfield Whoopee Cushion company makes a thousand cushions which they export to China.**

**Because the whoopee cushions were produced within the borders of the country, their value will be counted in the GDP. Thus the GDP will be affected when the company makes a thousand cushions which they export to China.**

**In 2003, the Social Security component of the Federal Insurance Contributions Act (FICA) was 6.2 percent of wages and salaries up to \$87,000. After that amount, Social Security taxes were not collected, regardless of income. Because Social Security tax was capped in 2003, it was**

- A) regressive up to \$87,000**
- B) proportional up to \$87,000**
- C) regressive up to \$87,000**
- D) graduated up to \$87,000**

**Since everyone paid the same effective tax rate up to \$87,000, this would be a proportional tax.**

**Ben is choosing between two savings accounts. Both accounts pay 3% interest. Account X pays compound interest. Account Y pays simple interest. Ben should choose account X because**

- A) the interest rate would decrease over time.**
- B) the interest rate would increase over time**
- C) it would pay interest on interest.**
- D) the interest would be tax free.**

**Ben should choose account X because compound interest pays interest on interest. Simple interest only pays on the original balance.**

**The Acme Furniture Company has issued a statement that they will be expanding production to include office furniture. This statement addresses which basic economic question?**

- A) What will be produced?**
- B) How will items be produced?**
- C) For whom will items be produced?**
- D) How much will workers be paid?**

**What will be produced is one of the basic economic questions. The decision to produce office furniture addresses this question.**



**Which type of insurance pays an insured person an income when that person is unable to work because of accident or illness?**

- A) Property Insurance**
- B) Health Insurance**
- C) Life Insurance**
- D) Disability Insurance**

**When a person is unable to work because of accident or illness, disability insurance pays an income based on the amount of contributions and type of disability insurance.**

**Worldwide, Coca-Cola and Pepsi Cola dominate the market, selling significantly more beverage products than any other producers. This domination by only two producers is BEST DESCRIBED as a(n)**

- A) monopoly.**
- B) oligopoly.**
- C) modified competition.**
- D) pure competition.**

**Domination by only two producers is BEST DESCRIBED as an oligopoly – which means a few.**

# All of the following restrict international trade EXCEPT

- A) subsidies.
- B) trade deficits.
- C) quotas.
- D) embargoes

Although not beneficial for specific countries, trade deficits do not restrict international trade.

**You and two of your friends decide to open an e-business selling a product. Instead of all three partners creating the product, you each specialize in one aspect of the business. This is MOST reflects the concept of**

- A) absolute advantage.**
- B) comparative advantage.**
- C) exports.**
- D) imports.**

**Specialization of resources resulting in producing a product relatively more efficiently reflects the concept of comparative advantage.**

**The difference between money paid to, and received from, other nations in trade is the**

- A) comparative advantage.**
- B) absolute advantage.**
- C) balance of payments.**
- D) balance of trade.**

**While the balance of trade counts only the value of goods traded between nations, the balance of payments is the difference between all money paid to and received from other nations in trade.**

**Country X can produce 1,000 units of food and 2,000 units of clothes. Country Y can produce 1,000 units of food and 1,000 units of clothes. In order to maximize trade according to the principles of comparative advantage,**

- A) country X and Y should produce both food and clothes to meet their own needs.**
- B) country Y should produce both food and clothes, and import additional clothes from country X.**
- C) country X should produce food and import clothes from country Y.**
- D) country Y should produce food and import clothes from country X.**

**In order to maximize trade according to the principles of comparative advantage, country Y should produce food and import clothes from country X.**

**Tax rates in which the percentage of tax is the same regardless of the level of income is MOST LIKELY a**

- A) proportional tax.**
- B) progressive tax.**
- C) regressive tax.**
- D) value-added tax.**

**Tax rates in which the percentage of tax is the same regardless of the level of income is MOST LIKELY a proportional tax. Another term for this type of tax is a "flat tax."**

**Rationing is a system under which an agency such as the government decides everyone's "fair" share.**

**Rationing has often been used during wartime. If people receive a set ration regardless of the amount of work completed, how would this affect peoples'**

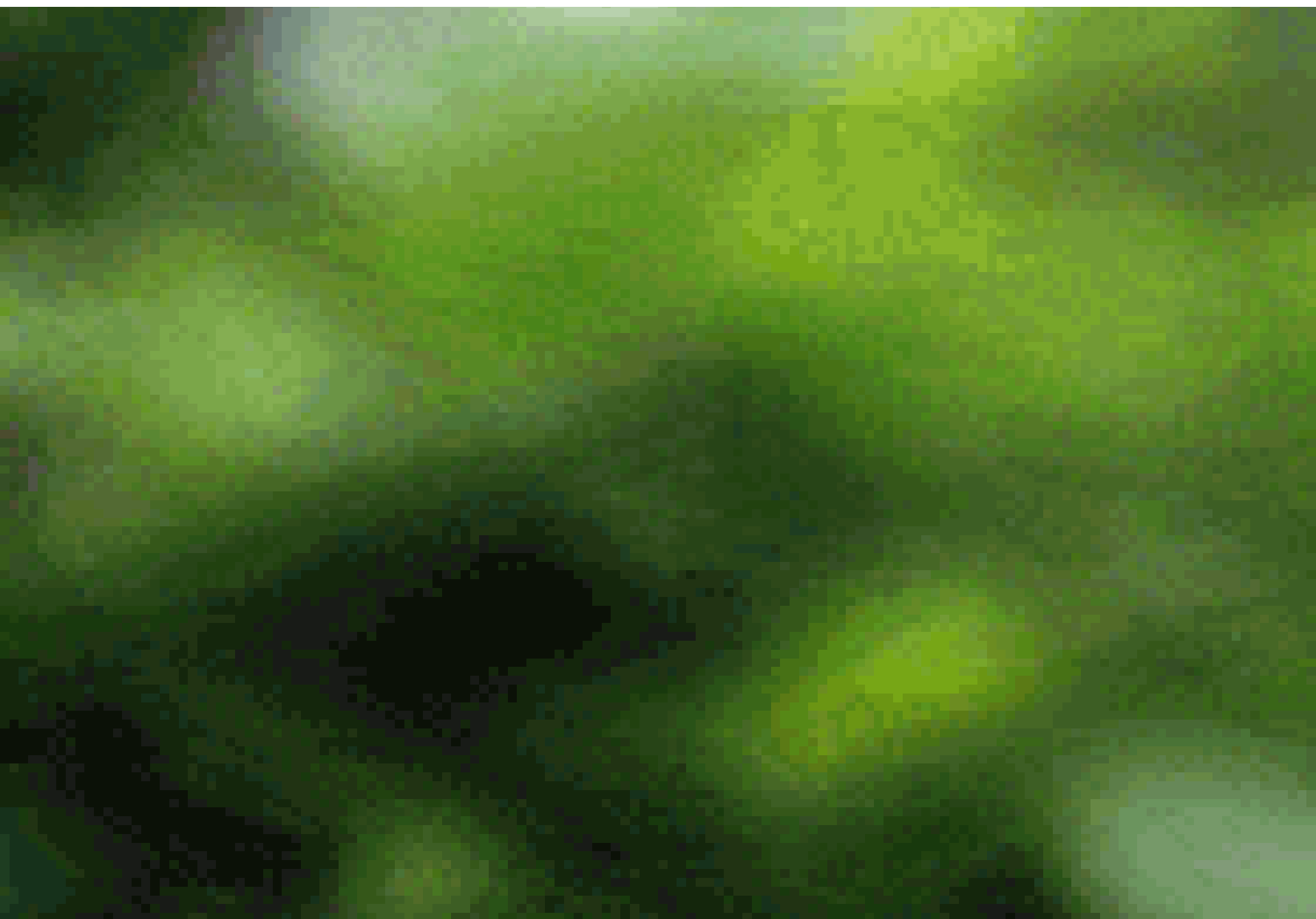
**incentive to work?**

- A) People might feel more inclined to work.**
- B) People might feel less inclined to work.**
- C) The incentive to work will not change.**
- D) The rationing system has no effect on the incentive to work.**

**Under the ration system, people might feel less inclined to work because additional work does not yield additional rations.**



**If you stare at it long enough you will see a giraffe.**





MORRISON DUBUQUE

TEST

WELL

10 FIG 418 VA