

Practice Micro 1

1. A production possibilities curve shows:

- A. that resources are unlimited.
- B. that people prefer one of the goods more than the other.
- C. the maximum amounts of two goods that can be produced assuming the full use of available resources.
- D. combinations of capital and labor necessary to produce specific levels of output.

Answer the next question(s) on the basis of the data given in the following production possibilities table:

	Production Possibilities (Alternatives)					
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>
Capital Goods	5	4	3	2	1	0
Consumer Goods	0	5	9	12	14	15

2. Refer to the above table. If the economy is producing at production alternative C, the opportunity cost of the tenth unit of consumer goods will be:

- A. 4 units of capital goods.
- B. 2 units of capital goods.
- C. 3 units of capital goods.
- D. $\frac{1}{3}$ of a unit of capital goods.

3. Refer to the above table. A total output of 3 units of capital goods and 4 units of consumer goods:

- A. is irrelevant because the economy is capable of producing a larger total output.
- B. will result in the maximum rate of growth available to this economy.
- C. would involve an inefficient use of the economy's scarce resources.
- D. is unobtainable in this economy.

4. Refer to the above table. For this economy to produce a total output of 3 units of capital goods and 13 units of consumer goods it must:

- A. achieve economic growth.
- B. use its resources more efficiently than the data in the table now indicate.
- C. allocate its available resources most efficiently among alternative uses.
- D. achieve the full employment of available resources.

5. Refer to the above table. For these data the law of increasing opportunity costs is reflected in the fact that:

- A. the amount of consumer goods that must be sacrificed to get more capital goods diminishes beyond a point.
- B. larger and larger amounts of capital goods must be sacrificed to get additional units of consumer goods.
- C. the production possibilities data would graph as a straight downsloping line.
- D. the economy's resources are presumed to be scarce.

6. A fundamental difference between the command system and the market system is that, in command systems:

- A. the division of output is decided by central planning rather than by individuals operating freely through markets.
- B. all economic decisions are made by the government, whereas there is no government in a market system.
- C. scarcity does not exist, as it does in a market system.
- D. money is not used, whereas it is in a market system.

7. The two basic markets shown by the simple circular flow model are:
- capital goods and consumer goods.
 - free and controlled.
 - product and resource.
 - household and business.
8. Government may lessen income inequality by:
- providing transfer payments to the poor.
 - directly modifying market prices as, for example, by establishing a legal minimum wage.
 - using the tax system to tax the wealthy relatively more heavily than the poor.
 - doing All of these.
9. Positive externalities refer to:
- benefits that accrue to parties other than the producer and buyer of a good.
 - the benefits that resource suppliers obtain from the production and sale of a good.
 - the benefit that a consumer receives from buying a good.
 - the combined benefits that buyer and seller receive from a voluntary market transaction.
10. When the price of a product falls, the purchasing power of our money income rises and thus permits consumers to purchase more of the product. This statement describes:
- an inferior good.
 - the rationing function of prices.
 - the substitution effect.
 - the income effect.
11. In 2007 the price of oil increased, which in turn caused the price of natural gas to rise. This can best be explained by saying that oil and natural gas are:
- complementary goods and the higher price for oil increased the demand for natural gas.
 - substitute goods and the higher price for oil increased the demand for natural gas.
 - complementary goods and the higher price for oil decreased the supply of natural gas.
 - substitute goods and the higher price for oil decreased the supply of natural gas.
12. Assume the demand curve for product X shifts to the right. This might be caused by:
- a decline in income if X is an inferior good.
 - a decline in the price of Z if X and Z are substitute goods.
 - a change in consumer tastes that is unfavorable to X.
 - an increase in the price of Y if X and Y are complementary goods.
13. Assume product A is an input in the production of product B. In turn product B is a complement to product C. We can expect a decrease in the price of A to:
- increase the supply of B and increase the demand for C.
 - decrease the supply of B and increase the demand for C.
 - decrease the supply of B and decrease the demand for C.
 - increase the supply of B and decrease the demand for C.
14. Assume a drought in the Great Plains reduces the supply of wheat. Noting that wheat is a basic ingredient in the production of bread and that potatoes are a consumer substitute for bread, we would expect the price of wheat to:
- rise, the supply of bread to increase, and the demand for potatoes to increase.
 - rise, the supply of bread to decrease, and the demand for potatoes to increase.
 - rise, the supply of bread to decrease, and the demand for potatoes to decrease.
 - fall, the supply of bread to increase, and the demand for potatoes to increase.
15. A price floor means that:
- inflation is severe in this particular market.
 - sellers are artificially restricting supply to raise price.
 - government is imposing a maximum legal price that is typically below the equilibrium price.
 - government is imposing a minimum legal price that is typically above the equilibrium price.

Answers: C D C A B A C D A D B A A B D

