

Unit 2 (Chapters 4-6, & 38)

1. Most output in the United States is produced by:
 - A) cooperatives.
 - B) partnerships.
 - C) sole proprietorships.
 - D) corporations.

2. According to the concept of comparative advantage, a good should be produced in that nation where:
 - A) its domestic opportunity cost is greatest.
 - B) money is used as a medium of exchange.
 - C) its domestic opportunity cost is least.
 - D) the terms of trade are marginalized.

3. A public good:
 - A) can be produced profitably by private firms.
 - B) is available to all and cannot be denied to anyone.
 - C) is characterized by rivalry and excludability.
 - D) produces no spillover costs or spillover benefits.

4. If the Japanese yen appreciates relative to the Swedish krona, then the krona:
 - A) will be more expensive to the Japanese.
 - B) may either appreciate or depreciate relative to the yen.
 - C) will appreciate relative to the yen.
 - D) will depreciate relative to the yen.

5. Which of the following creates a supply of Canadian dollars in foreign exchange markets?
 - A) a Frenchman redeems a bond issued by a British manufacturer
 - B) a Canadian exporter buys insurance from a U.S. firm
 - C) an American student takes a summer trip to Canada
 - D) a U.S. importer buys 500 cases of Canadian maple syrup

6. Which of the following would be a "credit" or "inpayment" to the United States?
 - A) gold flows into the United States
 - B) U.S. firms sell insurance to Brazilian shippers
 - C) U.S. sends foreign aid to developing countries
 - D) U.S. imports German automobiles

7. The distribution of income among individual households is known as:
- A) income differentials.
 - B) the personal distribution of income.
 - C) the functional distribution of income.
 - D) the concentration ratio.
8. If a nation's goods exports are \$55 billion, while its goods imports are \$50 billion, we can conclude with certainty that this nation has a:
- A) balance of trade (goods) surplus.
 - B) balance of payments surplus.
 - C) positive balance on capital account.
 - D) positive balance on goods only.
9. The physical export of motorcycles from the United States to Mexico best illustrates a:
- A) goods and services flow or also known as a trade flow.
 - B) resource flow.
 - C) financial flow.
 - D) technology flow.
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10. The building of a production plant in China by an American firm best illustrates a(n):
- A) trade flow.
 - B) resource flow.
 - C) financial flow.
 - D) information flow.
11. Specialization in production is economically beneficial primarily because it:
- A) allows everyone to have a job which they like.
 - B) permits the production of a larger output with fixed amounts of resources.
 - C) facilitates trade by bartering.
 - D) guarantees full employment.
12. The major source of tax revenue for the Federal government is:
- A) personal income taxes.
 - B) property taxes.
 - C) corporate income taxes.
 - D) sales and excise taxes.

13. Barter:
- A) is the major means of exchange in centrally planned economies.
 - B) accounts for over 30 percent of the dollar volume of all exchange in the U.S. economy.
 - C) entails the exchange of goods for goods.
 - D) is used to circumvent the problem of a lack of coincidence of wants among potential buyers and sellers.
14. A nation's official reserves account:
- A) compensates for differences in the current and capital accounts.
 - B) is always positive.
 - C) is always zero.
 - D) is always negative.
15. Appreciation of the Mexican peso will:
- A) make Mexico's exports and imports both more expensive.
 - B) make Mexico's exports more expensive and its imports less expensive.
 - C) make Mexico's exports less expensive and its imports more expensive.
 - D) increase Mexican exports.
16. A group of plants that is owned and operated by a single firm and that consists of oil fields, refineries, and gasoline stations best illustrates a:
- A) trust.
 - B) holding company.
 - C) vertically integrated firm.
 - D) multinational corporation.
17. If yesterday \$1 would buy 800 South Korean won, but today \$1 will only buy 790 won; the:
- A) dollar has appreciated in value.
 - B) dollar has depreciated in value.
 - C) demand for dollars in the foreign exchange market has increased relative to the supply of won.
 - D) won price of dollars has gone up.
18. Purchases of land in the United States by people from Canada create a:
- A) supply of U.S. dollars and a demand for Canadian dollars.
 - B) both a supply of U.S. dollars and a demand for U.S. dollars.
 - C) demand for Canadian dollars and a supply of U.S. dollars
 - D) demand for U.S. dollars and a supply of Canadian dollars.

19. The dollar votes of consumers ultimately determine the composition of output and the allocation of resources in a market economy. This statement best describes the concept of:
- A) derived demand.
 - B) consumer sovereignty.
 - C) the invisible finger.
 - D) market failure.
20. If a nation has a current account surplus and its official reserves account balance is zero, it must have a:
- A) surplus in its capital account.
 - B) balance of payments deficit.
 - C) balance of payments surplus.
 - D) deficit in its capital account
21. When the production or consumption of a good involves an externality:
- A) resources are necessarily overallocated to the product.
 - B) resources are necessarily underallocated to the product.
 - C) someone not involved in buying or selling the good is affected.
 - D) the market will efficiently allocate resources to its production.
22. Travel by U.S. citizens within Europe creates a:
- A) demand for euros and a supply of dollars.
 - B) both a supply of dollars and a demand for dollars.
 - C) demand for dollars and a supply of euros.
 - D) supply of euros and a demand for dollars.
23. The market system's answer to the fundamental question "What will be produced?" is essentially:
- A) "Goods and services that are profitable."
 - B) "Low cost goods and services."
 - C) "Goods and service that can be produced using round-about production."
 - D) "Goods and services that possess lasting value."
24. The market system's answer to the fundamental question "Who will get the goods and services?" is essentially:
- A) "Those willing and able to pay for them."
 - B) "Those who physically produced them."
 - C) "Those who most need them."
 - D) "Those who get utility from them."

25. The advantages of the corporate form of business include:
- A) the ability to raise financial capital by selling stocks and bonds.
 - B) the fact that owners are subject to unlimited liability.
 - C) the elimination of the principal-agent problem.
 - D) single taxation of corporate earnings.
26. A firm's economic profit is:
- A) usually lower than its normal profit.
 - B) profit over and above that which it needs to compensate for the time and other resources the owner supplies to the business.
 - C) a cost of production.
 - D) a signal to the firm that it is producing too much output.
27. Mexican imports of U.S. goods:
- A) create a supply of pesos.
 - B) create a supply of dollars.
 - C) reduce the demand for dollars.
 - D) have no effect on the peso-dollar exchange rate.
28. Which of the following is *NOT* a characteristic of the market system?
- A) private property
 - B) freedom of enterprise
 - C) government ownership of the major industries
 - D) competition in product and resource markets
29. In the U.S. balance of payments, U.S. purchases of assets abroad are a:
- A) U.S. dollar outflow or "debit".
 - B) U.S. dollar inflow.
 - C) current account item.
 - D) debit, or outpayment

Use the following to answer questions 30-32:

Answer the next question(s) on the basis of the following production possibilities tables for countries Alpha and Beta:

Alpha					Beta				
Production Possibilities					Production Possibilities				
Product	A	B	C	D	Product	A	B	C	D
X	3	2	1	0	X	6	4	2	0
Y	0	4	8	12	Y	0	4	8	12

30. Refer to the above tables. According to the concept of comparative advantage:
- A) Alpha should specialize in X; Beta in Y.
 - B) Beta should produce some X and some Y.
 - C) Alpha should produce some X and some Y.
 - D) Beta should specialize in X; Alpha in Y.
31. Refer to the above tables. The domestic opportunity cost of producing one unit of X in Alpha is:
- A) 2 units of Y.
 - B) 4 units of Y.
 - C) 1 unit of Y.
 - D) 3 units of Y.
32. Refer to the above tables. The domestic opportunity cost of producing one unit of X in Beta is:
- A) 2 units of Y.
 - B) 4 units of Y.
 - C) 1 unit of Y.
 - D) 3 units of Y.
33. The use of money contributes to economic efficiency because:
- A) governmental direction of the production and distribution of output can be avoided by using money.
 - B) roundabout production could not occur without the availability of money.
 - C) it is necessary for the creation of capital goods.
 - D) it promotes specialization by overcoming the problems with barter.
34. A firm that makes computer chips at several locations across the country best illustrates a:
- A) vertically integrated firm.
 - B) multinational corporation.
 - C) multiplant firm.
 - D) conglomerate.
35. The capital account balance is a nation's:
- A) net investment income minus its net transfers.
 - B) exports of goods and services minus its imports of goods and services.
 - C) sale of real and financial assets to people living abroad minus its purchases of real and financial assets from foreigners.
 - D) domestic investment spending minus domestic saving.

36. The division of labor means that:
- A) labor markets are geographically segmented.
 - B) unskilled workers outnumber skilled workers.
 - C) workers specialize in various production tasks.
 - D) each worker performs a large number of tasks.
37. A nation's capital account:
- A) contains "credit" items, but not "debit" items.
 - B) includes service exports and service imports.
 - C) includes both "credit" inflows and "debit" outflows.
 - D) includes net investment income and net transfers.
38. The three basic legal forms of business enterprise are:
- A) monopolists, competitors, and enterprises.
 - B) proprietorships, partnerships, and corporations.
 - C) vertical, horizontal, and conglomerate corporations.
 - D) conglomerates, multinationals, and partnerships.
39. Spillovers or externalities:
- A) relate to costs only.
 - B) relate to benefits only.
 - C) relate to both costs and benefits.
 - D) have been legislated out of existence.
40. An example of a quasi-public good is:
- A) public higher education (i.e. the university system).
 - B) an automobile.
 - C) a DVD player.
 - D) national defense.
41. If the exchange rate changes from $\$1 = 2$ euros to $\$1 = 3$ euros:
- A) the dollar has appreciated in value.
 - B) the dollar has depreciated in value.
 - C) the dollar has neither appreciated nor depreciated, but the euro has appreciated in value.
 - D) U.S. exports to Europe will increase.

42. In the U.S. balance of payments, foreign purchases of assets in the United States are a:
- A) foreign currency outflow or "debit".
 - B) foreign currency inflow or "credit".
 - C) current account item.
 - D) debit, or outpayment
43. The pursuit of self-interest:
- A) is highly detrimental to the market system.
 - B) means the same as "selfishness."
 - C) is reflected in the behavior of firms, but not in the behavior of consumers.
 - D) gives direction to the market system.
44. Which of the following concepts provides the basic rationale for international trade?
- A) increasing opportunity costs.
 - B) consumer sovereignty.
 - C) comparative advantage.
 - D) the law of supply.
45. The advent of DVDs threatens to eventually demolish the market for videocassettes. This is an example of:
- A) creative destruction.
 - B) derived demand.
 - C) capital accumulation.
 - D) the difference between normal and economic profits.

Use the following to answer questions 46-49:

Alpha's production possibilities:

	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>
Steel (tons)	60	45	30	15	0
Wheat (tons)	0	15	30	45	60

Omega's production possibilities:

	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>
Steel (tons)	20	15	10	5	0
Wheat (tons)	0	15	30	45	60

46. Refer to the above data. On the basis of the above information:
- A) Alpha should export both steel and wheat to Omega.
 - B) Omega should export both steel and wheat to Alpha.
 - C) Omega should export steel to Alpha and Alpha should export wheat to Omega.
 - D) Alpha should export steel to Omega and Omega should export wheat to Alpha.
47. Refer to the above data. The domestic opportunity cost of producing 1 ton of steel in Alpha is:
- A) $\frac{1}{2}$ ton of wheat.
 - B) 1 ton of wheat.
 - C) 15 tons of wheat.
 - D) 30 tons of wheat.
48. Refer to the above data. Alpha has a comparative advantage in producing:
- A) neither steel nor wheat.
 - B) both steel and wheat.
 - C) steel.
 - D) wheat.
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49. Refer to the above data. The domestic opportunity cost of producing 1 ton of steel in Omega is:
- A) $\frac{1}{2}$ ton of wheat.
 - B) 2 tons of wheat.
 - C) 3 tons of wheat.
 - D) 5 tons of wheat.
50. The current account in a nation's balance of payments includes:
- A) its goods exports and imports, and its services exports and imports.
 - B) changes in its official reserves.
 - C) purchases of foreign assets, and foreign purchases of assets.
 - D) all of the above.

