
Practice Test of

Economics

1. The study of how firms, nations, and individuals best allocate their limited resources is called what?

- A. Circular Economic Activity
- B. Economics
- C. Factoring Production
- D. Supply and Demand Analysis

2. Computers, trucks, hammers, and other man-made materials would be with factor of production?

- A. Capital
- B. Entrepreneurship
- C. Labor
- D. Land

3. Logan starts a restaurant using his own money to purchase a building and cooking supplies such as ovens and grills. This is an example of which of the following economic terms?

- A. Entrepreneurship
- B. Productivity
- C. Specialization
- D. Investment

4. What term do we use to describe items that are necessary for our survival?

- A. Scarcity
- B. Shortage
- C. Need
- D. Want

5. Which of the following best describes factors of production?

- A. The resources necessary to produce goods and services
- B. The number of steps it takes to make a product
- C. The mathematical equations that determine GDP
- D. The goods and services that a country produces

6. What is entrepreneurship in a capitalist economy?

- A. Maximizing manpower needed to produce goods and services
- B. Using all the goods and services in production
- C. Minimizing the social and economic risk in government
- D. Making a profit by taking a risk to satisfy a perceived market need

7. A purchase of four new pairs of a highly sought-after shoe could be described as fulfilling a:

- A. Good
- B. Service
- C. Want
- D. Need

8. Of the following, who would *most likely* earn the highest wage/salary?

- A. An unskilled blue collar worker
- B. A skilled white collar worker
- C. Someone who graduated from high school and has little additional training
- D. Someone who works as a hired hand on a farm

9. Using current resources that could be spent immediately for some greater benefit at a later time is:

- A. Productivity
- B. Capital Good
- C. Diminishing Returns
- D. Investment

10. Producers have an incentive to produce what consumers want, because this will make them money. This is known as:

- A. Free Choice of Market
- B. Open Opportunity of Market
- C. Profit Motive
- D. Perfect Competition

11. What is the basic economic concept that indicates there are always going to be wants that go unfulfilled?

- A. Inflation of Goods
- B. Rationing of Goods
- C. Scarcity of Goods
- D. Trade-off of Goods

12. A clothing company manufacturers 500 anniversary editions of a shirt. Since there are so few shirts to sell, what effect will this likely have on the price of the shirt?

- A. The price will remain constant
- B. The price will be high
- C. The price will be low
- D. The price fluctuates

13. You went to the store over the holiday season to purchase a television. The attendant at the store told you that televisions will be sold out until Monday. What is this situation classified as?

- A. Scarcity
- B. Long-term shortage
- C. Short-term shortage
- D. Price fluctuation due to CPI

14. Which best describes the groups affected by scarcity in the United States?

- A. Only Economic professors, high school students, and those who study Economics
- B. Poor and indigent families
- C. All households who consume the good that is scarce (directly or indirectly)
- D. The United States is not subject to scarcity. There is a large amount of supply in the United States, unlike many third world nations.

15. An individual who purchases goods and services is commonly known as

_____.

- A. The end user of a good/service
- B. The retailer of a good/service
- C. The provider of a good/service
- D. The consumer of a good/service

16. Samantha's parents pay for her piano lessons. Instead of going to a movie, Samantha plays the piano at her lesson on Saturday. What type of cost has occurred for Samantha?

- A. Marginal Cost
- B. Fixed Cost
- C. Opportunity Cost
- D. Residual Cost

17. How would one best describe the opportunity cost associated with investments in the stock market?

- A. The investor gets a chance to earn profits in a company through stock purchase
- B. The money spent on stocks can no longer earn interest in another asset
- C. The opportunity of wealth has been used due to the financial crisis of 2008
- D. The stock's purchaser assumed full liability for the company's costs

18. Costs that can change depending on circumstances are known to businesspeople as:

- A. Variable Costs
- B. Fixed Costs
- C. Marginal Costs
- D. Total Costs

19. What does the cartoon below hope to convey?



- A. A combination of stimulus and legislation will move the economy forward
- B. A stimulus bill that combines government spending and tax cuts will move the economy forward
- C. The economy is an unpredictable force that amounts to little more than luck
- D. Stimulus bills are lucky at best, and those who pass them are simply hoping they work

20. The cost of producing each additional unit of a particular product is called:

- A. Fixed Cost
- B. Total Cost
- C. Marginal Cost
- D. Variable Cost

21. Roy attends college. He gives up his ability to earn money in a job to attend college. Roy's lost earnings are example of:

- A. Trade-offs
- B. Opportunity Costs
- C. Marginal Costs
- D. Marginal Benefits

22. Why would the owner of a business assign teams to perform several specific tasks in that business?

- A. To increase productivity through efficiency of labor
- B. To create higher wages and salaries for workers
- C. To increase the profit margins of his or her business by *twenty percent*
- D. To improve the working conditions of his or her employees and meet OSHA requirements

23. Division of labor is:

- A. Breaking a job into smaller tasks
- B. Comparative advantage of production
- C. Greater productivity
- D. Human-made resources in a good or service

24. Why would the owner of an automobile dealership likely invest in training for his or her employees?

- A. To lower the tax burden on the dealership by receiving tax credits for training of his or her workers
- B. To promote a positive public image that shows the employer cares about employee advancement and education
- C. To increase the productivity of salespeople at the dealership and ultimately increase profit margins
- D. To comply with federal requirements established by the Equal Opportunity Employment Commission.

25. Henry Ford, founder of the Ford Automotive Company, is credited with creating the assembly line. The assembly line gave each worker one task at which they could work and improve their skills. What economic concept is Ford credited with creating?

- A. Utilizing human capital
- B. Reducing supply shortages
- C. Improving the efficiency of workers
- D. Creating a highly specialized workforce

26. Which best demonstrates the characteristics of human capital?

- A. Purchasing additional land and supplies to expand production capacity at a factory
- B. Increasing productivity through training or education for workers
- C. Raising the salaries of supervisors and managers purchasing stock in several corporations
- D. Harvesting a crop of wheat to produce larger amounts of bread to feed the homeless

27. Alfred is a mechanic. He hires an assistant and finds that profits increase by *sixty percent*. He then hires another assistant and profits increase by *thirty percent*. Alfred finally hires yet another assistant and finds that profits increase again, but this time only by *ten percent*.

He notices that his output to input ratio is decreasing. Alfred's situation is best described by which economic principle?

- A. The Invisible Hand
- B. The Producer Price Index
- C. The Law of Diminishing Returns
- D. The Benefit of Education and Training

28. Complete the relationship below.

Wool : Land

Education and Training : _____

- A. Productivity
- B. Inputs
- C. Trade-Offs
- D. Human Capital

29. Nikki owns an ice-cream parlor at the beach. During the summer months, she spends large amounts of money to maintain ice cream and cold drink supplies.

During the winter, the costs of maintaining her supply drops because she does not sell as much as the summer. Meanwhile, the rent she pays for her store space and equipment are the same *year round*.

Which of the following is true?

- A. The money Nikki spends on her equipment is known as variable cost
- B. The money Nikki spends on ice-cream, cold drinks, equipment, and rent combined is her marginal cost
- C. The money Nikki spends to keep her store stocked is her fixed cost
- D. Nikki's total costs minus her variable costs equal her fixed costs

30. Complete the chart below by calculating the Marginal Return with each additional worker hired. When finished, answer the question below.

Number of Workers	Amount Produced	Marginal Return
0	0	
1	4	
2	6	
3	9	
4	7	

When should this company stop hiring additional workers?

- A. One Worker
- B. Two Workers
- C. Three Workers
- D. Four Workers

31. Country A, because of its superior technology, is better able to manufacture computers than Country B.

Country A has a _____ over Country B in manufacturing computers.

- A. Opportunity Cost
- B. Comparative Advantage
- C. Scarcity
- D. Shortage

32. What is a common trait that mixed and market economies share with one another?

- A. Competition
- B. Nationalization of business
- C. Self-sufficiency
- D. Dictatorship

33. Under which economic system would the factors of production *most likely* be owned by the government?

- A. Market Economy
- B. Command Economy
- C. Traditional Economy
- D. Mixed Economy

34. Which of these occurs in a mixed economy?

- A. Private enterprises compete with the government for economic dominance
- B. The government and private enterprise exist together as major economic participants
- C. All businesses are publicly owned, but privately managed
- D. The government directs all economic activity

35. Generations of farming have defined this type of economy:

- A. Market Economy
- B. Mixed Economy
- C. Command Economy
- D. Traditional Economy

36. The economy of the United States is often described as:

- A. A command economy
- B. A market economy
- C. A mixed economy
- D. A traditional economy

Answer Key

1. B
2. A
3. A
4. C
5. A
6. D
7. C
8. B
9. D
10. C
11. C
12. B
13. C
14. C
15. D
16. C
17. B
18. A
19. B
20. C
21. B
22. A
23. A
24. C
25. C
26. B
27. C
28. D
29. D
30. C
31. B
32. A
33. B
34. B
35. D
36. C