1. In the circular flow of production and spending, which of these is true?

    A. Businesses demand products, and households supply labor.
    B. Households demand products, and households supply labor.
    C. Income flows from businesses to households in product markets.
    D. Income flows to businesses in resource markets and to households in product markets.
   E. Businesses supply resources, and households demand resources.

2. The top three oil-producing countries in 2010 (measured in average barrels per day) were

    A. Saudi Arabia, Canada, and the United States.
    B. Saudi Arabia, Venezuela, and China.
    C. Saudi Arabia, Russia and Iran.
    D. Saudi Arabia, Russia, and the United States.
    E. Saudi Arabia, Iraq, and Venezuela .

3. If we divide United States households into fifths based on their income group (lowest 20%, then the next 20%, etc. by income size), which of the following economic measures will be the least equally distributed among the five groups?

    A. Total net wealth
    B. After-tax income
    C. Total consumption
    D. Food expenditures
    E. All of these are distributed about the same.

Use the diagram below to answer questions 4 and 5.
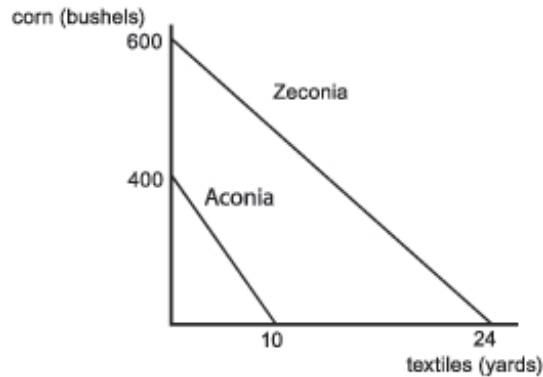
4. In the production possibilities of the only two countries of the world (Aconia and Zeconia), assuming efficient production, which of the following statements is true?

   A. Zeconia has a comparative advantage in both goods.
   B. Zeconia has a comparative advantage in corn.
   C. Aconia should specialize in producing corn.
   D. Specialization and trade can not increase output in this case.
   E. Zeconia gives up 2.5 yards of textiles for each 100 bushels of corn.

5. Assume that without specialization and trade, Zeconia produces and consumes 16 yards of textiles, and Aconia produces and consumes 6 yards of textiles. If they specialize completely and produce according to comparative advantage, then

   A. the production of corn will rise by 80 bushels.
   B. the production of corn will fall by 80 bushels.
   C. the production and consumption of corn and textiles rise by 40 and 2, respectively.
   D. the production of textiles will decrease by 2.
   E. not enough information is provided to know if the countries could be better off after trade.

6. Which of the following is not true about pure public goods?

   A. These goods are available to all in equal amounts.
   B. These goods are non-rival in consumption.
   C. These goods cannot easily be sold to individuals.
   D. The marginal cost of providing these goods to an additional consumer is zero.
   E. One person's consumption reduces the amount available for others.

7. What happened to the "Second Bank of the United States," created in 1816?

    A. Its demise began when President John Quincy Adams, who hated the idea of a central bank, refused to support it.
    B. It was broke and went out of business in the Civil War.
    C. Its demise began when President Andrew Jackson vetoed renewal and had government deposits placed in state banks.
    D. It was superseded by the "Third Bank of the United States."
    E. It ended in 1913 with the creation of the Federal Reserve System.

8. An *ad valorem* tariff on imports is

    A. an upper limit on the amount of a good that can be imported.
    B. an upper limit on the amount of a good that can be exported.
    C. a tax placed on the value of an exported good.
    D. a tax placed on the value of an imported good.
    E. a tax placed on the price of a good if the domestic price is lower than the world price.

9. The world has two countries, A and Z, which each produce two products, gadgets and whizbangs. Without world trade, the domestic price of gadgets in A is lower than the price of gadgets in Z. We can say that

    A. Country A has a comparative advantage in gadgets and should be exporting them.
    B. Country Z should specialize in producing gadgets.
    C. Country A has a comparative advantage in whizbangs and should be importing them.
    D. Country A has a comparative disadvantage in gadgets and should be exporting them.
    E. Country A has an absolute disadvantage in gadgets and should be exporting them.

10. When a country opens its markets for trading with the world and begins to specialize, then, within the country, we can say that

    A. everyone is better off, including all consumers and producers.
    B. domestic producers win, and consumers lose.
    C. overall benefits exceed overall costs for the country as a whole.
    D. everyone is worse off, both the producers and the consumers.
    E. domestic consumers win, and producers lose.

11. An asset price bubble

    A. can be identified early in the process.
    B. usually ends with a sharp rise in the asset prices.
    C. is fed by buyers' expectations of further increases in prices.
    D. reflects sharp increases in the fundamental value of an asset.
    E. ends in a sharp decline in the number of sellers of the asset.

12. All of the following are arguments for free trade and against protectionism except:

    A. Protectionism reduces the benefits to consumers.
    B. Free trade increases the world output.
    C. Under free trade, the amount of world output will be higher.
    D. Under protectionism, new industries can be sheltered.
    E. Free trade increases living standards in the trading countries.

13. Financial crises

    A. are a relatively new phenomenon of the last half of the 1900s.
    B. happen in emerging economies but not in developed economies.
    C. are contained within a particular national economy.
    D. are possible in all industrialized countries.
    E. are now of short duration because of economic policy.

14. The General Agreement on Tariffs and Trade (GATT)

    A. was created in 1934 to open a new era of free trade.
    B. was started after World War II to encourage countries to reduce trade barriers.
    C. is the set of United States laws on trade restrictions agreed upon by Congress.
    D. was violated when NAFTA was created.
    E. is enforced by the World Bank.

15. Over the last decade, the exchange rate for the United States dollar relative to the Euro

    A. has shown a steady increase.
    B. reached a low point in the recession of 2008.
    C. was controlled by the European governments.
    D. was controlled by the USA government.
    E. was unrelated to interest rates in the countries.

ANSWER KEY

1. B

2. D

3. A

4. C

5. C

6. E

7. C

8. D

9. A

10. C

11. C

12. D

13. D

14. B

15. B