

Exam

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Aggregate demand is defined by the equation:

A) $AD = C + I + G + X$

B) $AD = C + I + G$

C) $AD = C + I + G + X + M$

D) $AD = C + I + G + X - M$

1) _____

Answer: D

Explanation: A)
B)
C)
D)

2) In economics, the term 'capital' refers to:

A) things that have been produced and are used to produce other things

B) the current value of the firm's shares on the stock exchange

C) the process by which inputs are transformed into outputs

D) the value of a firm to its shareholders

2) _____

Answer: A

Explanation: A)
B)
C)
D)

3) A point inside a production possibility curve is:

A) not achievable and inefficient

B) achievable and efficient

C) not achievable with the current level of resources and technology

D) achievable but inefficient

3) _____

Answer: D

Explanation: A)
B)
C)
D)

4) The study of economics:

A) is concerned with proving that capitalism is better than socialism

B) focuses on what products businesses should produce and in what quantities

C) is narrowly focused on only parts of the economy

D) is a way of analysing decision-making processes caused by scarcity

4) _____

Answer: D

Explanation: A)
B)
C)
D)

- 5) Studying how the management of Telstra decides what price to charge customers for its G3 mobile network is a _____ issue. 5) _____
- A) positive economics
 - B) macroeconomics
 - C) normative economics
 - D) microeconomics

Answer: D

Explanation: A)
B)
C)
D)

- 6) If the opportunity costs of producing a good increase as more of that good is produced, the economy's production possibility curve will be: 6) _____
- A) a negatively sloped straight line
 - B) a positively sloped straight line
 - C) negatively sloped and 'bowed inward' toward the origin
 - D) negatively sloped and 'bowed outward' from the origin

Answer: D

Explanation: A)
B)
C)
D)

- 7) The problem of scarcity occurs: 7) _____
- A) only in recent times as the rate of resource use has increased
 - B) only in poor countries
 - C) only in wealthy countries due to high levels of consumer demand
 - D) in all countries

Answer: D

Explanation: A)
B)
C)
D)

- 8) The reason that opportunity costs arise is that: 8) _____
- A) an economy relies on money to facilitate exchange of goods and services
 - B) there are no alternative decisions that could be made
 - C) people have unlimited wants
 - D) resources are scarce

Answer: D

Explanation: A)
B)
C)
D)

- 9) If a full-time student decides to spend a day at the beach, the opportunity cost of this decision: 9) _____
- A) is best measured by the wage rate that the student could have earned had she/he decided to work full-time instead of studying
 - B) is equal to the cost of food and drinks purchased at the beach
 - C) equals the cost of the beach outing plus the value of the student's alternative use of the time, such as studying
 - D) is zero, since the student would have stayed in bed had she/he not decided to go to the beach

Answer: C

- Explanation: A)
B)
C)
D)

- 10) A production possibility curve shows the: 10) _____
- A) production changes that would be possible if the economy invested in new technology
 - B) various possible output combinations of two goods
 - C) percentage of resources that are used inefficiently
 - D) substitution possibilities between labour and capital

Answer: B

- Explanation: A)
B)
C)
D)

- 11) Consider two countries, Germany and Sweden. Germany devotes a larger portion of its production to investment. Which of the following statements is most likely true? 11) _____
- A) Germany's production possibility curve will shift outwards and to the right further and faster than Sweden's.
 - B) Germany will move up its production possibility curve faster than Sweden.
 - C) Sweden is producing inside its production possibility curve, while Germany is producing at a point on its production possibility curve.
 - D) Germany is a poorer country than Sweden.

Answer: A

- Explanation: A)
B)
C)
D)

- 12) In a barter economy: 12) _____
- A) services are exchanged for other services, but goods are exchanged for money
 - B) labour is unrewarded
 - C) goods are exchanged for other goods, but services are exchanged for money
 - D) goods and services are exchanged for other goods and services

Answer: D

- Explanation: A)
B)
C)
D)

- 13) Opportunity cost is best defined as the: 13) _____
- A) next best alternative that is not chosen
 - B) cost to producers resulting from a failed investment opportunity
 - C) leisure time that is lost due to increased hours at work
 - D) price paid for a good or service

Answer: A

- Explanation: A)
B)
C)
D)

- 14) A cut in company tax rates intended to encourage more investment by firms would be called: 14) _____
- A) a microeconomic policy
 - B) a demand-side policy
 - C) a supply-side policy
 - D) an incomes policy

Answer: C

- Explanation: A)
B)
C)
D)

- 15) In the real world, economic systems of most nations are distinguished by: 15) _____
- A) the degree of government intervention in the economy
 - B) fluctuations between complete central planning and a complete free-market
 - C) whether or not there is a completely free-market economy
 - D) whether or not there is central planning

Answer: A

- Explanation: A)
B)
C)
D)

- 16) A retired individual decides to spend the day golfing. The opportunity cost of this decision: 16) _____
- A) is equal to the cost of the golf outing
 - B) is best measured by using the wage rate this individual earned prior to retirement
 - C) is zero, since the individual is retired and is not forgoing any income to spend his time golfing
 - D) equals the cost of the golf outing plus the value of the individual's alternative use of time

Answer: D

- Explanation: A)
B)
C)
D)

- 17) Which of the following is an element of a centrally planned economy? 17) _____
- A) production decisions are centralised.
 - B) The market decides what will be consumed.
 - C) The market decides the distribution of income.
 - D) The market decides what will be produced.

Answer: A

- Explanation: A)
B)
C)
D)

- 18) Aggregate supply is the total amount of: 18) _____
- A) goods and services produced by a particular industry
 - B) goods and services produced in an economy
 - C) goods and services produced by the government
 - D) labour supplied by all households

Answer: B

- Explanation: A)
B)
C)
D)

- 19) A production possibility curve will move outwards if there is: 19) _____
- A) a change in consumer preferences
 - B) an increase in the number of people wishing to work
 - C) a decrease in unemployment
 - D) an increase in the money supply

Answer: B

- Explanation: A)
B)
C)
D)

- 20) During times of war, many of a country's resources are often destroyed. This would be shown on a production possibility curve (PPC) by: 20) _____
- A) a movement down along the PPC
 - B) a shift of the PPC back and to the left
 - C) a movement up along the PPC
 - D) a movement of production levels from a point on the PPC to some point inside the PPC

Answer: B

- Explanation: A)
B)
C)
D)

- 21) Economists define inflation as: 21) _____
A) a decrease in the overall price level
B) a decrease in the overall level of economic activity
C) an increase in the overall level of economic activity
D) an increase in the overall price level

Answer: D

- Explanation: A)
B)
C)
D)

- 22) The opportunity cost of being a full-time student is: 22) _____
A) having to miss out on lots of parties while you are busy studying all the time
B) the loss of earnings had you chosen to work instead
C) the cost of accommodation and food during your time studying
D) the loss of earnings had you chosen to work instead plus student fees

Answer: D

- Explanation: A)
B)
C)
D)

- 23) An institution through which buyers and sellers interact and engage in exchange is a: 23) _____
A) central authority
B) production curve
C) market
D) circular flow model

Answer: C

- Explanation: A)
B)
C)
D)

- 24) An improvement in education levels in Australia will cause: 24) _____
A) the economy to move from a point inside its production possibility curve to a point on the curve
B) Australia's production possibility curve to shift outwards
C) Australia's production possibility curve to shift inwards
D) the economy to move down along the production possibility curve

Answer: B

- Explanation: A)
B)
C)
D)

- 25) As more of a good, such as television sets, is produced, the opportunity cost of producing it increases. This most likely occurs because: 25) _____
- A) as more of a good is produced the inputs used to produce that good will increase in price
 - B) resources are not equally well-suited to producing all goods and as more of a good is produced it is necessary to use resources less well-suited to the production of the good
 - C) as more of a good is produced the quality of the technology available to produce additional units of the good declines and therefore the costs of production increase
 - D) consumers would be willing to pay higher prices for the good as more of the good is produced

Answer: B

- Explanation: A)
B)
C)
D)

- 26) The idea of choice would not be needed if: 26) _____
- A) capital were eliminated
 - B) scarcity did not exist
 - C) we were just looking at one person's lifestyle
 - D) no one was poor

Answer: B

- Explanation: A)
B)
C)
D)

- 27) Which of the following would NOT shift an economy's production possibility curve? 27) _____
- A) a doubling of the number of machines
 - B) a doubling of the money supply
 - C) more advanced technology
 - D) a doubling of the number of university graduates

Answer: B

- Explanation: A)
B)
C)
D)

- 28) The devastating earthquake which hit Haiti in 2010 most probably caused: 28) _____
- A) the production possibility curve for Haiti to shift outwards
 - B) a movement along Haiti's production possibility curve
 - C) a movement from a point on the production possibility curve for Haiti, to a point inside the curve.
 - D) the production possibility curve for Haiti to shift inwards

Answer: D

- Explanation: A)
B)
C)
D)

- 29) The study of why a person may decide to go to university instead of accepting a \$40 000 a year job would be considered a/an _____ issue. 29) _____
- A) microeconomics
 - B) industrial relations
 - C) macroeconomics
 - D) public sector economics

Answer: A

Explanation: A)
B)
C)
D)

- 30) A society can produce two goods: bread and biscuits. The society's production possibility curve is negatively sloped and "bowed outward" from the origin. As this society moves down its production possibility frontier and produces more and more units of biscuits, the opportunity cost of producing biscuits: 30) _____
- A) remains constant
 - B) could increase or decrease depending on the technology
 - C) increases
 - D) decreases

Answer: C

Explanation: A)
B)
C)
D)

- 31) Which of the following is NOT true about an economy's production possibility curve (PPC)? 31) _____
- A) Consumers receive equal benefits from the consumption of either good.
 - B) The PPC shows the maximum amount of any two goods that can be produced from a given quantity of resources.
 - C) Tradeoffs between the production levels of the two goods occur along a PPC.
 - D) Inefficient use of resources can cause production to occur at a point inside the PPC.

Answer: A

Explanation: A)
B)
C)
D)

- 32) The factors of production include: 32) _____
- A) labour, land and raw materials and capital
 - B) labour, land and raw materials
 - C) land, labour, raw materials and money
 - D) land, raw materials and capital

Answer: A

Explanation: A)
B)
C)
D)

- 33) Two factors which can cause a nation's production possibility curve to move inwards are: 33) _____
- A) war and natural disasters
 - B) unemployment combined with a more skilled workforce
 - C) natural disasters and increased investment
 - D) war and increased investment

Answer: A

Explanation: A)
B)
C)
D)

- 34) Although perfectly competitive markets are seldom found in the real world, we study this market structure: 34) _____
- A) to gain insight into the way free markets function
 - B) because perfect competition demonstrates ideal outcomes which provide a point of comparison with real world outcomes
 - C) because many real world markets approximate perfect competition
 - D) all of the above answers are correct

Answer: D

Explanation: A)
B)
C)
D)

- 35) Which of the following is NOT true of a completely free-market economy? 35) _____
- A) Firms' production methods are regulated.
 - B) Workers choose where to work and how much to work.
 - C) Millions of individual economic decisions determine economic outcomes.
 - D) The interaction between buyers and sellers answers the basic economic questions of what gets produced, how it gets produced, and who gets it.

Answer: A

Explanation: A)
B)
C)
D)

- 36) That which we forgo, or give up, when we make a choice or decision is called the _____ cost of that decision. 36) _____
- A) monetary B) marginal C) opportunity D) real

Answer: C

Explanation: A)
B)
C)
D)

- 37) Which of the following would NOT be called a resource by economists? 37) _____
 A) labour B) money C) buildings D) land
- Answer: B
 Explanation: A)
 B)
 C)
 D)
- 38) A movement from a point inside a production possibility curve to a point on the curve shows that: 38) _____
 A) the society has discovered new resources
 B) the society begins to produce goods and services more efficiently
 C) the society has learned to produce more using existing resources
 D) both B and C
- Answer: B
 Explanation: A)
 B)
 C)
 D)
- 39) In terms of Australia's production possibility curve (PPC), a rise in the level of unemployment 39) _____
 could be shown by:
 A) the PPC shifting inward
 B) a movement along the PPC
 C) a movement from a point on the PPC to a point inside the PPC
 D) the PPC shifting outward
- Answer: C
 Explanation: A)
 B)
 C)
 D)
- 40) The circular flow of goods and income diagram shows: 40) _____
 A) how households sell productive services to firms
 B) how firms sell goods to households
 C) how households produce services for their own use
 D) both A and B
- Answer: D
 Explanation: A)
 B)
 C)
 D)

- 41) Which of the following is NOT an opportunity cost of attending university? 41) _____
- A) the alternative uses of the time you spend studying
 - B) the income that you could have earned if you did not attend university
 - C) the cost of the food that you consume while you are attending university
 - D) the student fees that you pay

Answer: C

- Explanation: A)
B)
C)
D)

- 42) The bowed out shape of the production possibility curve illustrates: 42) _____
- A) constant opportunity costs
 - B) decreasing opportunity costs
 - C) increasing opportunity costs
 - D) the fact that different resources are equally useful in the production of different goods

Answer: C

- Explanation: A)
B)
C)
D)

- 43) Economists say that there is unemployment when: 43) _____
- A) there is excess demand in the labour market
 - B) at the going wage rate there are people who want to work but cannot find work
 - C) there are less unfilled vacancies than there are people seeking work
 - D) there are people who are not willing to work at the going wage rate

Answer: B

- Explanation: A)
B)
C)
D)

- 44) A change in the tax system designed to encourage single-parents to work is a/an: 44) _____
- A) anti-inflation policy
 - B) demand-side policy
 - C) supply-side policy
 - D) incomes policy

Answer: C

- Explanation: A)
B)
C)
D)

- 45) An economic model is: 45) _____
- A) a simplified representation of the real world used to understand relationships between economic variables
 - B) an overly simplified depiction of the real world, used only in introductory economics
 - C) a complex diagrammatic depiction of the real world used to confuse economic students
 - D) a complex mathematical analysis of the real world used only by experienced economists

Answer: A

- Explanation:
- A)
 - B)
 - C)
 - D)

- 46) Suppose you weigh the costs and benefits of an additional hour of study against those associated with spending an hour watching Desperate Housewives, and decide on the latter. You have: 46) _____
- A) made a decision based on imperfect information
 - B) made a rational decision
 - C) made a lazy decision
 - D) made an irrational decision

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)

- 47) The 'for whom' question is concerned with: 47) _____
- A) the combination of goods and services used in production
 - B) who demands what goods and services
 - C) the distribution of income
 - D) who produces what goods and services

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)

- 48) Which of the following is a reason to study economics? 48) _____
- A) to understand global affairs
 - B) to understand society
 - C) to be an informed consumer
 - D) all of the above

Answer: D

- Explanation:
- A)
 - B)
 - C)
 - D)

49) Which one of the following would directly lead to an outward shift of a country's production possibility curve? 49) _____
A) an increase in the general price level in the economy
B) an increase in the level of unemployment in the economy
C) an increase in the number of people in the economy who are of working age
D) none of the above

Answer: C

Explanation: A)
B)
C)
D)

50) In factor markets: 50) _____
A) factors of production flow from households to firms in exchange for wages and other payments
B) goods and services flow from households to firms in exchange for income
C) factors of production flow from firms to households in exchange for wages and other payments
D) goods and services are exchanged between firms and households

Answer: A

Explanation: A)
B)
C)
D)

51) For an economy to produce at a point beyond its current production possibility curve, the economy must: 51) _____
A) increase inputs
B) waste less
C) increase investment
D) reduce inputs

Answer: C

Explanation: A)
B)
C)
D)

52) Opportunity cost is defined as: 52) _____
A) the value of the next best alternative that is not chosen
B) the lowest price at which a good can be purchased
C) the wages paid by a firm to its workforce
D) none of the above

Answer: A

Explanation: A)
B)
C)
D)

53) An example of a demand-side government policy is: 53) _____
A) reducing personal income tax rates to provide a greater work incentive
B) subsidising child-care for parents to encourage them to re-enter the workforce
C) reducing the power of trade-unions
D) increasing spending on road construction to create jobs

Answer: D

Explanation: A)
B)
C)
D)

54) Opportunity cost is: 54) _____
A) a cost that cannot be avoided, regardless of what is done in the future
B) that which we forgo, or give up, when we make a choice or a decision
C) the additional cost of producing an additional unit of output
D) the additional cost of buying an additional unit of a product

Answer: B

Explanation: A)
B)
C)
D)

55) The economic problem of scarcity exists because: 55) _____
A) human wants are assumed to be virtually unlimited meaning resources will always be scarce relative to wants
B) global warming is increasing the rate at which the natural resources are being depleted.
C) the world's resources are insufficient to sustain the global population
D) technological advances have increased the rate at which natural resources are being depleted

Answer: A

Explanation: A)
B)
C)
D)

56) In the circular flow of goods and income diagram: 56) _____
A) money flows from households to firms
B) households exchange goods and services for money
C) money flows from firms to households
D) both A and C

Answer: D

Explanation: A)
B)
C)
D)

57) Growth in potential output would occur when: 57) _____
A) a society acquires new resources
B) a society learns to produce more using existing resources
C) the society begins to produce the combination of goods society wants most
D) both A and B

Answer: D

Explanation: A)
B)
C)
D)

58) The process by which resources are transformed into useful items is: 58) _____
A) allocation B) capitalisation C) production D) consumption

Answer: C

Explanation: A)
B)
C)
D)

59) The opportunity cost of going on a holiday to an unemployed person is: 59) _____
A) equal to the cost of the holiday only
B) zero, as the person does not have a next best alternative
C) zero, as the person is not foregoing any wages to take the holiday
D) equal to the cost of the holiday plus the alternative use of the person's time

Answer: D

Explanation: A)
B)
C)
D)

60) Microeconomics is the branch of economics that examines: 60) _____
A) outcomes of economic behaviour, evaluates them as good or bad, and prescribes preferred courses of action
B) ways to understand behaviour and the operation of systems without making judgements
C) the functioning of individual industries and the behaviour of individual decision-making units, that is, business firms and households
D) the economic behaviour of income, employment, and output on a national scale

Answer: C

Explanation: A)
B)
C)
D)

61) Which of the following is NOT a characteristic of a free-market economy? 61) _____
A) The government seeks to equalise the distribution of income.
B) Consumers seek the best value for money in their purchases.
C) Workers seek to maximise wages.
D) Firms seek to maximise profit.

Answer: A

Explanation: A)
B)
C)
D)

62) Which of the following is the best definition of economics? 62) _____
A) the study of how governments allocate tax revenue
B) the study of how individuals and societies choose to use their scarce resources
C) the study of how consumers spend their income
D) the study of how firms decide what inputs to hire and what outputs to produce

Answer: B

Explanation: A)
B)
C)
D)

63) Economists define a recession as a period: 63) _____
A) when aggregate output declines for two quarters or more
B) of declining employment
C) of declining prices
D) of very rapidly declining prices

Answer: A

Explanation: A)
B)
C)
D)

64) A study of how the changes in minimum wage rates in Australia will affect the rate of unemployment rate among unskilled workers is a _____ issue. 64) _____
A) descriptive economics
B) microeconomics
C) normative economics
D) macroeconomics

Answer: D

Explanation: A)
B)
C)
D)

- 65) Which of the following is true of a completely free-market economy? 65) _____
- A) The government could set a minimum wage.
 - B) People are paid fair wages.
 - C) There will be full employment.
 - D) Production and consumption depend on demand and supply.

Answer: D

Explanation: A)
B)
C)
D)

- 66) The branch of economics that examines the economic behaviour of aggregates such as income and employment is: 66) _____
- A) positive economics
 - B) microeconomics
 - C) normative economics
 - D) macroeconomics

Answer: D

Explanation: A)
B)
C)
D)

- 67) Inflation and unemployment: 67) _____
- A) are the focus of macroeconomics
 - B) are the focus of microeconomics
 - C) are the focus of economic history
 - D) are the focus of positive economics

Answer: A

Explanation: A)
B)
C)
D)

- 68) The total demand for goods and services in an economy is known as: 68) _____
- A) national demand
 - B) economy-wide demand
 - C) aggregate demand
 - D) potential demand

Answer: C

Explanation: A)
B)
C)
D)

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 69) The factors of production used to produce goods and services are divided into three broad categories. Identify the three categories and explain what is included in each. 69) _____

Answer: The three categories are (i) land and raw materials, (ii) labour and (iii) capital. Land and raw materials consist of all natural resources, such as mineral deposits and land which is suitable for growing agricultural products. Labour includes physical and mental labour, with the latter often referred to as human capital. Capital goods have been produced and can be used to produce other goods and services.

Explanation:

70) If you were involved in deciding whether to allow mining at Kakadu National Park, identify the economic concept you have learned so far that you would use to help in your decision making, and give examples of what issues you would consider. 70) _____

Answer: One of the appropriate concepts to use is opportunity cost. An economist would then consider how else, besides mining, the park could be used. Examples include: ownership and involvement of Indigenous Australians; tourism; use for the preservation of flora and fauna; use for the cooling effect the trees have on the atmosphere.

Explanation:

71) Correctly complete the following sentences from the options below. 71) _____

Statement

- (a) A drought in Australia will cause
- (b) A new discovery of natural gas reserves will cause
- (c) A change in demand, away from canola oil to olive oil, will cause

Answer

- (i) a shift outwards and to the right of the production possibility curve.
- (ii) a movement along the production possibility curve.
- (iii) a shift inwards and to the left of the production possibility curve.

Answer: (a) iii (b) i (c) ii

Explanation:

72) Why is the issue of scarcity so central to economics? 72) _____

Answer: At any point in time, resources (factors of production) are in limited supply: natural resources (land and raw materials), human resources (number and skills) and capital (ie: manufacturing resources).

As human wants (goods, services, hospitals, schools, roads, possessions, environment, leisure time) are virtually unlimited, scarcity is defined as the excess of human wants over the economy's ability to fulfil these wants, given fixed resources at any point in time.

Different countries and people do not face an equal problem of scarcity, but the concept still applies. Economics studies how people and society attempt to meet these wants with scarce (and valuable) resources.

Explanation:

73) Explain the two main divisions into which economic ideas fall. 73) _____

Answer: Macro- and Micro-economics.

Macroeconomics is concerned with aggregates — the economy as a whole — particularly national income or output, unemployment and inflation.

Microeconomics deals with individual decisions by households and firms, and how markets bring these individual decisions together to decide prices and output of individual goods and services.

Explanation:

74) How do economists define unemployment? 74) _____

Answer: Economists try to use definitions which can be measured, so that we can say what is happening, in this case, to unemployment over time and in different countries. There is general agreement that the unemployed must be ready, willing and able to work at present wage rates, but there is some disagreement over which statistics show this most clearly.

Explanation:

75) Correctly complete the following sentences from the options below. 75) _____

Statement

- (a) Giving up work to study full-time:
- (b) Working full-time and studying part time:
- (c) Walking slowly instead of speedily to lectures:

Answer

- (i) the opportunity cost is the alternative use of time.
- (ii) the opportunity cost is wages.
- (iii) the opportunity cost is leisure time.

Answer: (a) ii (b) iii (c) i

Explanation:

76) What are demand- and supply-side policies? 76) _____

Answer: This is a way of looking at government policies which affect the economy. Demand-side policies act on demand, by changing incomes, taxes on goods and social security payments. People will then buy more, or less, and this affects employment and prices. Supply-side policies, crucially, affect the cost of production. Income tax reductions might make people more willing to work, transport improvements could cut costs and education and training might make workers more productive. This would feed through to reduce prices, stimulate demand and reduce unemployment.

Explanation:

77) What is economics all about? 77) _____

Answer: It is about how scarce resources are allocated, given that human wants are unlimited. This involves production and consumption, and all the decisions that are involved with both these activities. It is also about income distribution and improving the welfare of society. Economic decision-making involves doing the best we can with scarce resources.

Explanation:

78) Why do economists use economic models? 78) _____

Answer: Economic models are a form of presentation of an economic theory. Just as in all sciences, models are used to analyse and test theories. Economic models are used to explain occurrences and behaviour, and to predict future outcomes. Economists use economic models to enable the study of the economy or a particular part of the economy. Models are not intended to depict the 'real world', but rather are a simplification of events, to enable the study of the most important factors (variables). To keep economic analysis simple and clear, a model assumes that many variables remain unchanged, which is known as the *ceteris paribus* assumption. This then allows the study of what will occur when one variable is changed.

Explanation:

79) What is opportunity cost? 79) _____
Answer: One of the most important economic ideas. The cost of anything is what we have to give up to get it. Opportunity cost draws attention to just what the alternatives are. If land is used for a motorway it cannot be a peaceful wood. If we spend our time drinking we cannot use the time and money for something else. So there are opportunity costs of production and opportunity costs of consumption.
Explanation:

80) Explain how a production possibility curve illustrates the concept of opportunity cost. 80) _____
Answer: A production possibility curve (PPC) shows the rate at which resources from the production of one good can be transferred into the production of another good. For example, for two goods, wheat and wool, the PPC shows how much wheat would need to be given up in order to produce more wool. Therefore the opportunity cost of producing more wool is the forgone wheat output.
Explanation:

81) What are economic systems? 81) _____
Answer: All societies have to decide what to produce, how to produce and how to share out the results of economic activity. Economic systems evolve in response to these problems. They differ, for example, by the amount of state intervention that takes place. They also differ according to the size of the informal sector.
Explanation:

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

82) Microeconomics does not consider the social implications of pollution. 82) _____
Answer: True False
Explanation:

83) Scarcity occurs because incomes are not allocated fairly. 83) _____
Answer: True False
Explanation:

84) The choice between studying an economics degree and an arts degree involves opportunity cost. 84) _____
Answer: True False
Explanation:

85) A price taker in economics refers to consumers who accept the market price and do not bargain. 85) _____
Answer: True False
Explanation:

86) In a mixed economy the allocation of resources is determined partly by the market and partly by the government. 86) _____
Answer: True False
Explanation:

87) Over the past two decades many economies around the world have adopted strict central planning. 87) _____
Answer: True False
Explanation:

- 88) In all economies, potential demand exceeds potential supply. 88) _____
Answer: True False
Explanation:
- 89) An economic model is a simplified depiction of relationships between economic variables, which is useful for teaching university students, but not for understanding real world economic problems. 89) _____
Answer: True False
Explanation:
- 90) In perfectly competitive markets, a firm can sell all that it wants at the market determined price, and so has no incentive to sell below that price. 90) _____
Answer: True False
Explanation:
- 91) The total amount of output in the economy is called aggregate supply. 91) _____
Answer: True False
Explanation:
- 92) The 'how' question refers to the combination of resources and the techniques adapted in the production of goods and services. 92) _____
Answer: True False
Explanation:
- 93) Purchasing goods and services is termed production by economists. 93) _____
Answer: True False
Explanation:
- 94) The human resource labour refers to physical but not mental effort. 94) _____
Answer: True False
Explanation:
- 95) Australia's rate of economic growth is a microeconomic issue. 95) _____
Answer: True False
Explanation:
- 96) Advances in technology will move a production possibility curve outwards and to the right. 96) _____
Answer: True False
Explanation:
- 97) The process by which resources are transformed into goods and services is called production. 97) _____
Answer: True False
Explanation:
- 98) Because wants are virtually unlimited, potential demand is greater than supply. 98) _____
Answer: True False
Explanation:
- 99) The opportunity cost of something is the compensation you receive for not using it. 99) _____
Answer: True False
Explanation:

- 100) The circular flow model relates to macroeconomics because it illustrates the *what, how, and for whom* questions. 100) _____
Answer: True False
Explanation:
- 101) The rate of inflation is the percentage increase in the level of prices over a twelve month period. 101) _____
Answer: True False
Explanation:
- 102) eBay is an example of a market. 102) _____
Answer: True False
Explanation:
- 103) Scarcity of resources means that all wants can never be satisfied. 103) _____
Answer: True False
Explanation:
- 104) Increasing opportunity costs occur because resources are not equally useful in the production of different goods and services. 104) _____
Answer: True False
Explanation:
- 105) A production possibility curve shows the rate at which capital can be substituted for labour. 105) _____
Answer: True False
Explanation:
- 106) Land is the term used for inputs that are not owned by businesses and households. 106) _____
Answer: True False
Explanation:
- 107) The opportunity cost to a student of studying at a university includes the food and drink consumed while on campus. 107) _____
Answer: True False
Explanation:
- 108) Scarcity is a concept that only applies to poor countries as wealthy countries have all that they need. 108) _____
Answer: True False
Explanation:
- 109) Scarcity is the central problem of economics because resources will always be scarce if human wants are virtually unlimited. 109) _____
Answer: True False
Explanation:
- 110) If there is unemployment, the economy is producing inside its production possibility curve. 110) _____
Answer: True False
Explanation:

- 111) The resources used to produce goods and services are categorised into land, labour and capital. 111) _____
 Answer: True False
 Explanation:
- 112) It is important for business students to study the perfectly competitive model because it is widespread in practice. 112) _____
 Answer: True False
 Explanation:
- 113) The model of the circular flow of income labels consumers as 'households' and producers as 'firms'. 113) _____
 Answer: True False
 Explanation:
- 114) The opportunity cost of something is what you give up to get it. 114) _____
 Answer: True False
 Explanation:
- 115) Rational decision-making means that an activity is worthwhile if the marginal benefit exceeds the marginal cost. 115) _____
 Answer: True False
 Explanation:

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 116) Explain how the circular flow of goods and income demonstrates two types of markets.
 Answer: The circular flow model classifies consumers as households and producers as firms, and shows the monetary and factor flows between the two. One market in this model is the market for factors of production. Households own labour, land and capital, and supply them to firms, who demand them. Therefore factors of production are exchanged for wages, rent, dividends and interest. The other market represented in the circular flow model is the goods market. Households purchase the goods and services from firms, and money flows from the households to the firms.
- 117) 'The market process is mankind's most valuable tool for meeting the needs of the people'. Do you agree with this statement? Explain your argument.
 Answer: Not all needs may be economic needs (eg: affection, love, friendship). In terms of economics, there are advantages and disadvantages of the market system. The benefits include the idea of freedom of choice for the consumers (what occupation to choose, where to work, where to live, what to eat), and the idea that the market system helps preserve natural resources by attaching a higher price tag to the scarcest goods. Disadvantages include the notion that the system will never satisfy everyone at the same time, and there is unfairness in the market system, such as inequality of income. This unfairness may well be an essential component of this system (for example, it may provide incentive to be more productive).

118) Compare the advantages and disadvantages of a planned economy and a free-market economy.

Answer: A planned economy has the advantages of being able to change the consumption and investment mix in an economy; to plan specific levels of output in specific industries; to plan for the required types and levels of labour; and can distribute output between consumers. The disadvantages include the enormous information requirements and the cost of assembling this information; determining the appropriate price level that will reflect the relative scarcity of resources, and to enable the efficient use of resources; loss of choice of profession; lack of work incentives; and loss of consumer choice. The advantages of the free-market economy include the price mechanism, which works to efficiently allocate resources and to eliminate shortages or surpluses; choice of profession; choice of goods; and work incentives. Disadvantages include inequality in ownership and income distribution; production and consumption decisions made by individuals may not always be in the best interests of society as a whole; and the possibility of unemployed resources or shortages of resources due to individuals' decisions and choices.

119) How can the use of a production possibility curve model assist economists in their analysis of economic decision-making?

Answer: The production possibility model can be used at the microeconomic level and at the macroeconomic level. At the micro level, it can show the opportunity cost between the production of two goods, and all possible production combinations. At the macro level, it can illustrate economic efficiency or inefficiency, increases or decreases in productive capacity, and the maximum potential output of the two industries.

120) Are microeconomic issues and macroeconomic issues independent of each other? Discuss, using examples.

Answer: Microeconomic and macroeconomic issues are not independent. For example, restructuring a particular industry may lead to unemployment in that industry, which may have flow-on effects to other industries, leading to an increase in the national unemployment rate and a decrease in aggregate demand. Alternatively, a macroeconomic issue such as national wage legislation, or interest rate changes, may affect particular industries or firms more than others, thereby creating microeconomic effects.

121) Do consumers, businesses and governments all use the concept of opportunity cost?

Answer: Consumers, businesses and governments all use the concept of opportunity cost. For example: (i) consumers choose how to allocate their expenditure between different products—by choosing certain products, their opportunity cost is the alternative products that they could have purchased; (ii) businesses may have to choose between two alternative investment strategies—the one that they do not choose represents their opportunity cost; (iii) governments have a budget constraint, therefore by choosing to spend more on health care, they may be forgoing extra expenditure on education—choosing between alternative policies involves opportunity cost.

122) The study of economics is based on an initial assumption about the nature of humankind. Explain how this simple assumption can give rise to a complex discipline.

Answer: At the heart of the study of economics is the assumption that human wants are virtually unlimited. By definition, resources are scarce if wants are unlimited. This applies not only to very poor countries, where people are often unable to meet the most basic needs, but also to relatively wealthy countries, such as Australia, where many people simply want more than they have. Scarcity leads to the need for individuals, firms and governments to make choices as to the allocation of the scarce resources available to them. Economics studies how choices *are* made and the resulting outcomes in terms of the allocation of resources to satisfy wants, and how choices could be made to maximise the satisfaction of wants.

Answer Key
Testname: C1

- 1) D
- 2) A
- 3) D
- 4) D
- 5) D
- 6) D
- 7) D
- 8) D
- 9) C
- 10) B
- 11) A
- 12) D
- 13) A
- 14) C
- 15) A
- 16) D
- 17) A
- 18) B
- 19) B
- 20) B
- 21) D
- 22) D
- 23) C
- 24) B
- 25) B
- 26) B
- 27) B
- 28) D
- 29) A
- 30) C
- 31) A
- 32) A
- 33) A
- 34) D
- 35) A
- 36) C
- 37) B
- 38) B
- 39) C
- 40) D
- 41) C
- 42) C
- 43) B
- 44) C
- 45) A
- 46) B
- 47) C
- 48) D
- 49) C
- 50) A

Answer Key
Testname: C1

- 51) C
52) A
53) D
54) B
55) A
56) D
57) D
58) C
59) D
60) C
61) A
62) B
63) A
64) D
65) D
66) D
67) A
68) C
- 69) The three categories are (i) land and raw materials, (ii) labour and (iii) capital. Land and raw materials consist of all natural resources, such as mineral deposits and land which is suitable for growing agricultural products. Labour includes physical and mental labour, with the latter often referred to as human capital. Capital goods have been produced and can be used to produce other goods and services.
- 70) One of the appropriate concepts to use is opportunity cost. An economist would then consider how else, besides mining, the park could be used. Examples include: ownership and involvement of Indigenous Australians; tourism; use for the preservation of flora and fauna; use for the cooling effect the trees have on the atmosphere.
- 71) (a) iii (b) i (c) ii
- 72) At any point in time, resources (factors of production) are in limited supply: natural resources (land and raw materials), human resources (number and skills) and capital (ie: manufacturing resources).
As human wants (goods, services, hospitals, schools, roads, possessions, environment, leisure time) are virtually unlimited, scarcity is defined as the excess of human wants over the economy's ability to fulfil these wants, given fixed resources at any point in time.
Different countries and people do not face an equal problem of scarcity, but the concept still applies. Economics studies how people and society attempt to meet these wants with scarce (and valuable) resources.
- 73) Macro- and Micro-economics.
Macroeconomics is concerned with aggregates — the economy as a whole — particularly national income or output, unemployment and inflation.
Microeconomics deals with individual decisions by households and firms, and how markets bring these individual decisions together to decide prices and output of individual goods and services.
- 74) Economists try to use definitions which can be measured, so that we can say what is happening, in this case, to unemployment over time and in different countries.
There is general agreement that the unemployed must be ready, willing and able to work at present wage rates, but there is some disagreement over which statistics show this most clearly.
- 75) (a) ii (b) iii (c) i
- 76) This is a way of looking at government policies which affect the economy.
Demand-side policies act on demand, by changing incomes, taxes on goods and social security payments. People will then buy more, or less, and this affects employment and prices.
Supply-side policies, crucially, affect the cost of production. Income tax reductions might make people more willing to work, transport improvements could cut costs and education and training might make workers more productive. This would feed through to reduce prices, stimulate demand and reduce unemployment.

Answer Key
Testname: C1

- 77) It is about how scarce resources are allocated, given that human wants are unlimited. This involves production and consumption, and all the decisions that are involved with both these activities. It is also about income distribution and improving the welfare of society. Economic decision-making involves doing the best we can with scarce resources.
- 78) Economic models are a form of presentation of an economic theory. Just as in all sciences, models are used to analyse and test theories. Economic models are used to explain occurrences and behaviour, and to predict future outcomes. Economists use economic models to enable the study of the economy or a particular part of the economy. Models are not intended to depict the 'real world', but rather are a simplification of events, to enable the study of the most important factors (variables). To keep economic analysis simple and clear, a model assumes that many variables remain unchanged, which is known as the *ceteris paribus* assumption. This then allows the study of what will occur when one variable is changed.
- 79) One of the most important economic ideas. The cost of anything is what we have to give up to get it. Opportunity cost draws attention to just what the alternatives are. If land is used for a motorway it cannot be a peaceful wood. If we spend our time drinking we cannot use the time and money for something else. So there are opportunity costs of production and opportunity costs of consumption.
- 80) A production possibility curve (PPC) shows the rate at which resources from the production of one good can be transferred into the production of another good. For example, for two goods, wheat and wool, the PPC shows how much wheat would need to be given up in order to produce more wool. Therefore the opportunity cost of producing more wool is the forgone wheat output.
- 81) All societies have to decide what to produce, how to produce and how to share out the results of economic activity. Economic systems evolve in response to these problems. They differ, for example, by the amount of state intervention that takes place. They also differ according to the size of the informal sector.
- 82) FALSE
- 83) FALSE
- 84) TRUE
- 85) FALSE
- 86) TRUE
- 87) FALSE
- 88) TRUE
- 89) FALSE
- 90) TRUE
- 91) TRUE
- 92) TRUE
- 93) FALSE
- 94) FALSE
- 95) FALSE
- 96) TRUE
- 97) TRUE
- 98) TRUE
- 99) FALSE
- 100) FALSE
- 101) TRUE
- 102) TRUE
- 103) TRUE
- 104) TRUE
- 105) FALSE
- 106) FALSE
- 107) FALSE
- 108) FALSE
- 109) TRUE
- 110) TRUE

Answer Key
Testname: C1

- 111) TRUE
- 112) FALSE
- 113) TRUE
- 114) TRUE
- 115) TRUE
- 116) The circular flow model classifies consumers as households and producers as firms, and shows the monetary and factor flows between the two. One market in this model is the market for factors of production. Households own labour, land and capital, and supply them to firms, who demand them. Therefore factors of production are exchanged for wages, rent, dividends and interest. The other market represented in the circular flow model is the goods market. Households purchase the goods and services from firms, and money flows from the households to the firms.
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- 120) Microeconomic and macroeconomic issues are not independent. For example, restructuring a particular industry may lead to unemployment in that industry, which may have flow-on effects to other industries, leading to an increase in the national unemployment rate and a decrease in aggregate demand. Alternatively, a macroeconomic issue such as national wage legislation, or interest rate changes, may affect particular industries or firms more than others, thereby creating microeconomic effects.
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- 122) At the heart of the study of economics is the assumption that human wants are virtually unlimited. By definition, resources are scarce if wants are unlimited. This applies not only to very poor countries, where people are often unable to meet the most basic needs, but also to relatively wealthy countries, such as Australia, where many people simply want more than they have. Scarcity leads to the need for individuals, firms and governments to make choices as to the allocation of the scarce resources available to them. Economics studies how choices *are* made and the resulting outcomes in terms of the allocation of resources to satisfy wants, and how choices could be made to maximise the satisfaction of wants.