# Econ 203 Test 1 (Make sure to put your name on your scantron; 2 pts off if not)

1. The process by which market forces establish new jobs and increase living standards but eliminate some jobs and displace workers along the way is known as

a. voluntary exchange b. positive sum

c. creative destruction d. none of the above

2. Gasoline prices at two different locations may differ due to

a. differences in land/rental values b. differences in tax rates

c. differences in competition d. all of the above

3. Exchange based on economic (comparative) advantage

a. favors large states or nations over small ones

b. tends to shift over time as influences behind it change

c. is important for trade between states such as Indiana and Kentucky but not between nations

d. all of the above

4. The idea of economic (comparative advantage) and free exchange/trade across borders

a. puts countries like the US at risk that all production will move to countries such as China

b. implies that if one region gains in a trade, another area will lose

c. was first advanced by English economist/philosopher David Ricardo in the early 1800s

d. none of the above

5. Which of the following terms refers to adjusting cross-country statistics so that a dollar is worth the same amount (apx) of goods in each country?

a. GDP per capita b. Purchasing Power Parity

c. Total GDP d. Population

6. A “natural experiment” in economic growth comparing market and non-market systems is provided by

a. France and Germany since World War II

b. North Korea and South Korea since World War II

c. Honduras and Guatemala since 1900

d. none of the above

7. The rules that enhance markets and economic freedom through protection of life, contract/exchanges, and assets are categorized generally as

a. property rights b. civil rights

c. purchasing power parity d. comparative advantage

8. Voluntary exchange between citizens of Washington and Florida

a. results in lower living standards because non-local products are substituted for local products

b. raises living standards in both states because of sharing of economic advantages

c. benefits one of the states at the expense of the other

d. none of the above

9. Which of the following pairs is a good example of both sides of “creative destruction”?

a. jobs for heart surgeons and airline pilots

b. jobs for farmers and blacksmiths

c. jobs for flight attendants and railroad workers

d. all of the above

10. A country with per person national income per year near the middle of worldwide income would be a. $4,000 b. $11,000

c. $17,000 d. $25,000

11. The large differences in living standards across the world between high income, middle income, and low income countries largely reflects differences in

a. resources b. economic freedom

c. age of country d. education

12. When gasoline prices jump by $0.25 per gallon in Bowling Green and Nashville the most likely reason is a change in

a. land values b. world crude oil prices

c. local competition d. state gasoline taxes

13. The economic model/graphic known as a Production Possibility Frontier illustrates

a. the principle of supply and demand

b. limits and tradeoffs in economies

c. purchasing power parity

d. none of the above

14. Markets

a. raise living standards by making use of economic (comparative) advantage

b. raise living standards by promoting creativity

c. rely on accurate price information to function well

d. all of the above

15. The lowest income countries in the world have GDP per capita

a. about $5,000 b. about $3,000

c. about $2,000 d. below $1,000

16. In a market economy,

a. controls on prices help to provide key economic signals

b. prices accumulate information and send key signals about economic conditions

c. prices tend to fluctuate up and down for no apparent reasons

d. none of the above

17. The Gapminder website with long run (1800-present) graphical animations

a. illustrate the close relationship between GDP per capita and life expectancy

b. show that GDP per capita has increased very little in the last 100 years

c. indicate that there are only small differences across countries in GDP per capita in recent years

d. all of the above

18. Pick the pair of countries below that fit together in terms of the level of living standards categories as measured by our map:

a. Mexico and Somalia b. Russia and Brazil

c. Mali and China d. North Korea and

19. Pick the pair of countries below that **do not** fit together in terms of living standards categories:

a. Tanzania and Nicaragua b. Chile and South Korea

c. USA and France d. Japan and UK

20. Which of the following countries has a low economic freedom score?

a. Germany b. Singapore

c. Australia d. Zimbabwe

21. Put “A” for your answer

1c, 2d, 3b, 4c, 5b, 6b, 7a, 8b, 9c, 10b, 11b, 12b, 13b, 14d, 15d, 16b, 17a, 18b, 19b, 20d, 21a