# Econ 203 Fall 2010 (Make sure to put your name on your scantron; 2 pts off if not)

# Test 1

1. 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

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 comparative advantage

a. relies upon the ability of a country, region, or individual who can produce more of a good or service

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 principle of comparative advantage

a. is illustrated well by the trade of bananas (for example from Costa Rica) with fish (from Louisiana)

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

c. refers to the displacement of profession such as blacksmith by auto mechanics

d. none of the above

5. “Protectionism” refers to

a. efforts to protect markets through the existence and enforcement of “property rights”

b. efforts to limit exchange or trade through the use of quotas, tariffs, or more subtle limits

c. efforts to enhance exchange through the use of new, lower cost technology

d. none of the above

6. When an economic statistic is adjusted for purchasing power parity, this means refers to

a. buying a good at a lower price and reselling at a higher price

b. when the same dollar amount of money is able to purchase equal amounts of goods/services in two different countries

c. when exchange rates are equal in two countries

d. none of the above

7. The measure most widely used to compare living standards and long run growth across countries is

a. The countrywide number of unemployed people divided by the size of the work force

b. GDP divided by the number of people

c. the size of the population

d. none of the above

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

a. France and Germany since World War II

b. Nigeria and Mali since 1970

c. Honduras and Guatemala since 1900

d. none of the above

9. 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

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

a. Russia and Somalia b. Tanzania and Brazil

c. Mali and Nigeria d. North Korea and Greece

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

a. Russia and Brazil b. Chile and Brazil

c. USA and UK d. Japan and North Korea

12. Voluntary exchange between citizens of different states or different countries

a. is a “positive sum” game for the trading citizens

b. may result in temporary job losses for “third parties”

c. leads to long run economic growth

d. all of the above

13. Which of the following pairs is a good example of “creative destruction”?

a. jobs for blacksmiths and jobs for automobile mechanics

b. jobs for fruit pickers and jobs for supermarket stockers

c. jobs for physicians and jobs for nurses

d. all of the above

14. GDP per capita in the U.S. is closest to which of the following figures?

a. $46,000 b. $35,000

c. $27,000 d. $20,000

15. 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

16. What is the most likely reason that gasoline prices are higher in Bowling Green than in Murray, KY?

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

c. differences in competition d. differences in gas station name

17. The graphic associated with illustrating comparative advantage and the idea of expanding consumption through trade is

a. supply and demand b. production function

c. production possibilities frontier d. exchange map

18. Markets

a. rely on force rather than voluntary exchange

b. never generate negative consequences

c. are synonymous with big business

d. none of the above

19. Countries such as France, UK, and Germany have GDP per capita in the neighborhood of

a. $45,000 b. $33,000

c. $22,000 d. $15,000

20. Which of the following is a type of price control?

a. maximum allowable rent

b. minimum wage laws

c. price gouging laws

d. all of the above

21. The term “creative destruction” refers to the somewhat paradoxical nature of markets to eliminate jobs nd replace them with new, lower cost means of producing. This terms was coined by which economist?

a. Joseph Schumpeter b. John M. Keynes

c. Milton Friedman d. Ben Bernanke

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