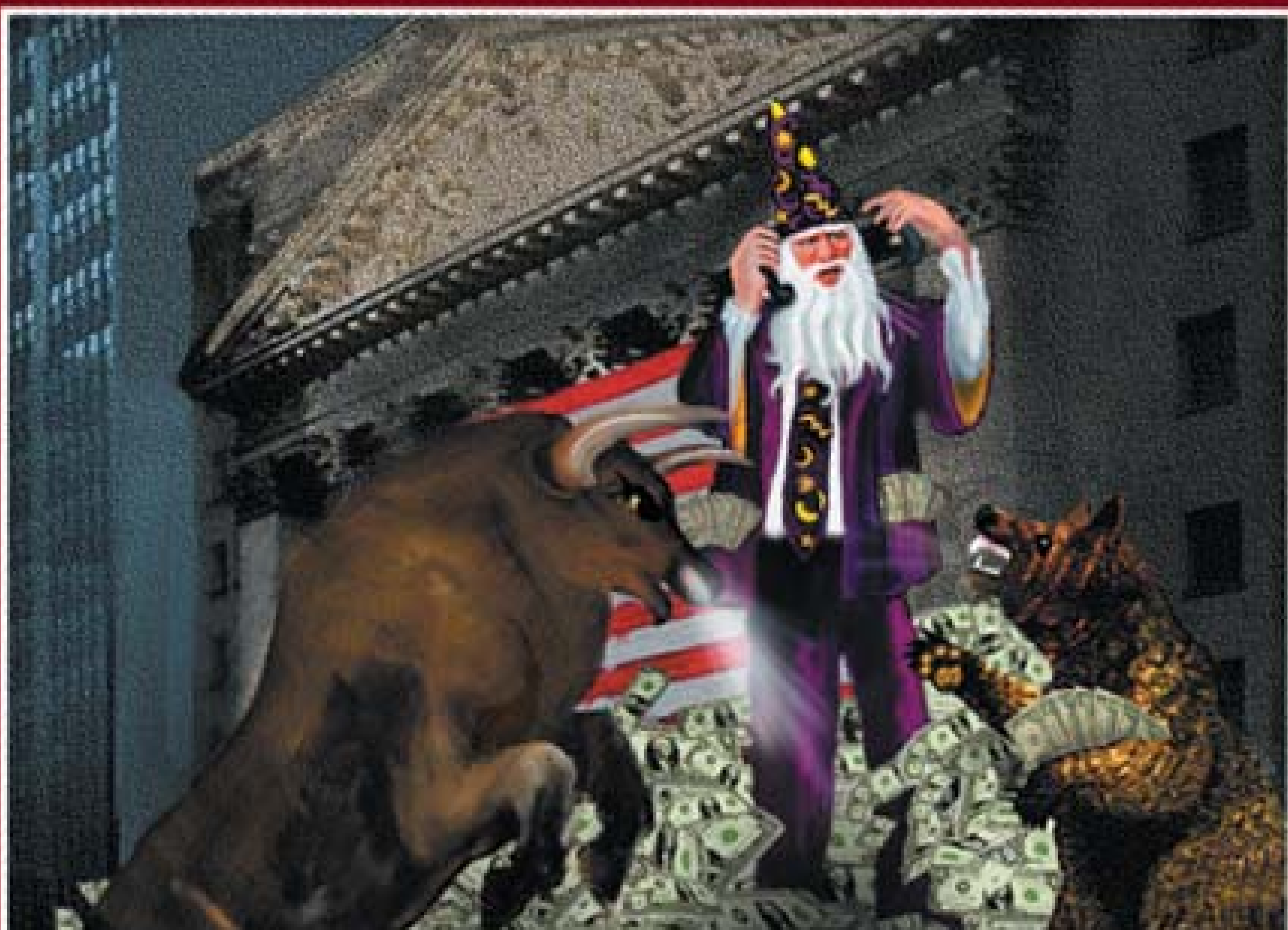
Wizard Test Maker

AP ECONOMICS: MICRO & MACRO



QUESTION CATALOGUE

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AP Economics

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III. Macroeconomics

1347. Economics is most accurately defined as the study of
(A) businesses and the production of goods and services
(B) efficiency and the use of scarce resources
(C) wealth distribution in society
(D) money, its creation, and its destruction
(E) policy choices and their effects on the business cycle

1354. The basic goal of economics is the achievement of
(A) security
(B) growth
(C) efficiency
(D) full employment
(E) stable prices

1355. The economic concept of maximum benefit at minimum cost is called
(A) security
(B) wealth
(C) distribution
(D) efficiency
(E) equity

1538. Which three of the following questions represent the fundamental questions of economics?

I. How will the goods and services be produced?
II. By whom will the goods and services be produced?
III. For whom will the goods and services be produced?
IV. Which particular goods and services will be produced?
V. How will people pay for the goods and services produced?

(A) II, III, and IV
(B) I, III, and IV
(C) I, III, and V
(D) III, IV, and V
(E) I, II, and V

1553. Which of the following is NOT a sign of market failure?
(A) Positive externalities
(B) Negative externalities
(C) Deadweight loss
(D) Economic profits
(E) Diminishing returns

1710. If an individual or a firm commits its resources to the production of one good or service, the entity is said to be
(A) specialized
(B) Pareto efficient
(C) a monopsony
(D) unionized
(E) scarce

1990. Microeconomics is the study of
(A) entire economies and the interactions between nations
(B) aggregate supply and demand analysis
(C) the individual elements that comprise economic systems
(D) government intervention in economic processes
(E) money and its various uses in society

1712. Economists define rational decisions as
(A) all choices which carry greater marginal benefits than marginal costs
(B) any choices that generate economic profits for firms or consumer surplus for individuals
(C) only choices that are arrived at by collusion and cooperative game theory
(D) all choices made by individuals in the free market system
(E) practical impossibilities

1810. Scarcity exists because human beings have
(A) limited resources with which to satisfy unlimited wants and needs
(B) a long tradition of competing for natural resources
(C) imperfect methods of refining raw materials and creating capital
(D) always consumed natural resources faster than they could replenish them
(E) not yet discovered good substitutes for oil and gasoline

1991. Economic efficiency is achieved when the
(A) problem of “limited resources and unlimited wants” is solved
(B) distribution of income and wealth is made equitable
(C) maximum amount of output is produced with the resources given
(D) greatest possible social benefit is derived from a product’s use
(E) government grants franchise rights within a market

2001. The goal of specialization is to
(A) establish norms by which entire industries can mimic production processes
(B) provide every able worker in an economy with work
(C) inhibit competition
(D) allow inputs to be utilized in the most efficient way
(E) force uncompetitive countries to be self-sufficient

2083. Microeconomics may best be defined as the study of
(A) individual markets and small-scale human interaction
(B) short run tradeoffs and comparative advantages
(C) government policy and economic regulation
(D) irrational decisions made because of scarcity
(E) the relationship between unemployment and inflation

2093. The main goal of economists is to discover
(A) how to use scarce resources efficiently
(B) how to create an equitable state tax system
(C) the reasons why resources are scarce
(D) the underlying reasons for unemployment and inflation
(E) why consumers and producer act irrationally

1364. The law of demand is most directly a result of

(A) pricing and its rationing effect
(B) fiat money
(C) substitutability
(D) scarcity of supply
(E) marginal utility schedules

1405. Which of the following are NOT prerequisites for successful application of the marginal utility model of consumer behavior?

I. Consumers can rationally assess the value of products they desire.
II. Total utility is an ever-increasing figure as consumption increases.
III. Marginal utility can never be negative.

(A) I only
(B) II only
(C) I and II only
(D) II and III only
(E) I, II, and III

1408. When all the marginal benefits of a product's consumption are summed, the resultant total is called the

(A) consumer's surplus
(B) total utility
(C) marginal utility
(D) average utility
(E) producer's surplus

1409. The supply of diamonds is relatively scarce compared to the supply of water. Water is necessary for life; diamonds are a luxury good. Which of the following best explains why diamonds are far more expensive than bottled water?

(A) Diamonds cannot create a producer surplus.
(B) Diamonds have a higher marginal utility than bottled water.
(C) Diamonds have a higher total utility than bottled water.
(D) Diamonds have a price-inelastic supply.
(E) The supply of bottled water is perfectly elastic.

1539. The law of demand exists because rational individuals experience

(A) diminishing marginal utility
(B) diminishing marginal product
(C) diseconomies of scale
(D) income constraints
(E) increasing costs

1559. Which of the following types of goods do rational individuals always consume until the marginal utility is zero?

(A) Normal
(B) Inferior
(C) Luxury
(D) Free
(E) Input

1560. Which of the following goods is most likely to be consumed until its marginal utility reaches zero?

(A) Automobiles
(B) Bicycles
(C) Cigarettes
(D) Oxygen
(E) Bread

1656. The law of diminishing marginal utility refers to

(A) the ever-decreasing benefits derived from increased consumption of goods or services
(B) the market system's creation of negative externalities
(C) the economies and diseconomies of scale associated with changing overhead costs
(D) the reason why a firm's average total cost curve must eventually slope upwards at some output level
(E) the direct relationship between quantity demanded and price

1701. Which of the following statements is true if Dieter's total utility is decreasing as he consumes more units of Product X?

(A) Marginal utility is negative and decreasing.
(B) Marginal utility is positive and decreasing.
(C) Marginal utility is negative and constant.
(D) Average utility is negative and decreasing.
(E) Average utility is positive and increasing.

1702. The market demand curve is generated by the summation of

(A) all the consumers' marginal utility schedules
(B) all the firms' marginal revenue schedules
(C) all the consumers' budget constraints
(D) all the consumers' marginal propensities to consume
(E) all the firms' production possibilities schedules

Base your answers to questions **1713** through **1715** on the chart below, which shows part of the utility function for Linda, a rational consumer.

Units Consumed	Total Utility
0	3
1	6
2	8
3	10
4	10

1713. What is the marginal utility of the fourth unit Linda consumes?

(A) 0.00
(B) 0.25
(C) 2.00
(D) 2.50
(E) 10.00

1741. The following chart shows part of the utility function for Jessica's consumption of two different goods, M and K.

Units of M	Total Utility from M	Units of K	Total Utility from K
1	12	1	20
2	24	2	40
3	34	3	60
4	44	4	80
5	52	5	100
6	60	6	120

(a) Calculate the marginal utility that Jessica gains from the following.
(i) The second unit of M
(ii) The fifth unit of K

(b) Suppose Jessica has a fixed income of $12, and she wishes to spend all of it on M and K. If the price of M is $1 per unit, and the price of K is $2 per unit, what combination of M and K will maximize Jessica's total utility?

(c) Sketch Jessica's budget constraint when her income is $12. Label your axes as indicated.
(i) X-axis as "Units of M"
(ii) Y-axis as "Units of K"

(d) Suppose the price of M rises to $3.
(i) On your graph from part (c), show the change in Jessica's income constraint.
(ii) What combination of goods would maximize Jessica's utility under these new price constraints?

1753. The following chart represents the consumption function for Kristen, a utility-maximizing, rational citizen of Where City. Kristen spends her entire income on cake and steak.

Units Eaten	Cake Total Utility	Steak Total Utility
1	15	40
2	35	50
3	48	55
4	58	56
5	50	56

(a) If pieces of cake are priced at $5 each, and pieces of steak are priced at $10 each, what combination of cake and steak will Kristen consume if her income is $30?

(b) Assume Kristen's income is fixed at $30. Sketch a properly labeled graph of her budget constraint.
(i) Label your axes "Cake" and "Steak."
(ii) Assign the correct numerical values to the points at which the constraint intersects the axes.

(c) Suppose now that the price of steak decreases to $5. On your axes from part (b), draw Kristen's new budget constraint. Label the intercepts with the correct numerical values.

(d) What economic principle explains why total utility growth slows as consumption increases?

(e) Explain why Kristen would never pay to eat her fifth piece of cake.

838.

The point of view expressed in this cartoon is that the 1997 increase in the minimum wage would

(A) significantly reduce the gap between the rich and the poor
(B) encourage the poor to appreciate the concern of politicians
(C) help workers climp the ladder of success
(D) be unlikely to provide any major benefit to the poor
(E) save the United States economy forever

194. The population of Macroland is 50 million. If 30 million individuals are employed and 5 million individuals are unemployed, then how large is Macroland's labor force?

(A) 25 million
(B) 30 million
(C) 35 million
(D) 50 million
(E) 80 million

195. The population of Microland is 20 million. If there are 10 million people in the labor force and 2 million people are unemployed, then what is the labor-force participation rate and the unemployment rate?

(A) The labor-force participation rate is 40%, and the unemployment rate is 10%.
(B) The labor-force participation rate is 40%, and the unemployment rate is 20%.
(C) The labor-force participation rate is 50%, and the unemployment rate is 10%.
(D) The labor-force participation rate is 50%, and the unemployment rate is 20%.
(E) The labor-force participation rate is 60%, and the unemployment rate is 20%.

196. The population of Islandia is 40 million. If the labor-force participation rate is 75% and the unemployment rate is 10%, then how many individuals are employed?

(A) 50 million
(B) 20 million
(C) 27 million
(D) 30 million
(E) 40 million

199. If the unemployment rate increases from 6% to 8%, then

(A) the economy will be producing at a point further inside its production possibilities frontier
(B) the production possibilities frontier will shift outward
(C) wages will rise markedly
(D) the level of unemployment benefits will increase
(E) the economy is recovering from a recession

204. Which of the following might reduce the rate of unemployment?

(A) A marked rise in the minimum wage
(B) An increase in the duration of unemployment benefits
(C) A decrease in the productivity of labor
(D) A rise in oil prices
(E) A substantial increase in the cost of firing or laying off employees

240. An increase in which of the following would result in a rise in consumption spending?

I. the expected value of lifetime labor income
II. disposable income
III. stock prices
IV. personal income tax rates

(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II, and III only
(E) I, III, IV only

261. How would a large decline in stock prices affect the position of the consumption function?

(A) The consumption function would shift downward, because lower stock prices reduce consumers' wealth.
(B) The consumption function would shift upward, because lower stock prices reduce the opportunity cost of consumption.
(C) The consumption function would shift downward, because lower stock prices decrease the marginal propensity to consume.
(D) The consumption function would shift upward, because lower stock prices increase the marginal propensity to consume.
(E) The position of the consumption function would remain unchanged, because lower stock prices reduce consumers' disposable income.

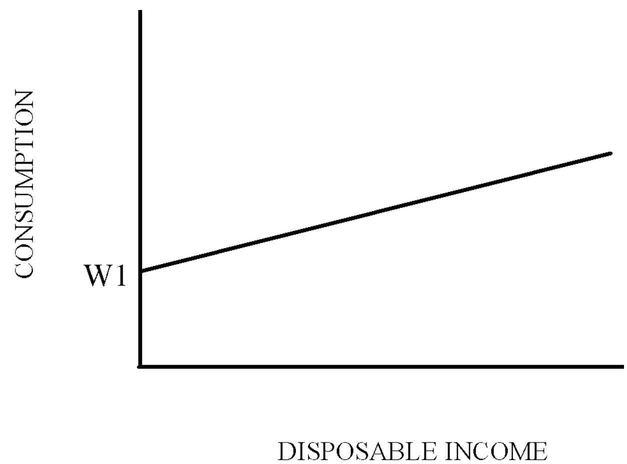
270. There are two groups of individuals in Macroland, debtors and creditors. Debtors borrow money from creditors and have a higher marginal propensity to consume than creditors. How would an unexpected rise in the inflation rate affect the overall level of consumption spending?

(A) Consumption spending would increase, because inflation redistributes wealth from debtors to creditors.
(B) Consumption spending would increase, because inflation redistributes wealth from creditors to debtors.
(C) Consumption spending would decrease, because inflation redistributes wealth from creditors to debtors.
(D) Consumption spending would decrease, because inflation redistributes wealth from debtors to creditors.
(E) Consumption spending would remain unchanged, because inflation does not affect the distribution of wealth.

275. Mr. Economicus knows that he will live for another 20 years. Suppose that he wins $5 million in the lottery. According to the life-cycle hypothesis, by how much would Mr. Economicus increase his spending in the current year?

(A) $0
(B) $0.25 million
(C) $1 million
(D) $5 million
(E) $7 million

262. The following graph shows the consumption function for Mr. O.



As Mr.O's disposable income increases, how does his marginal propensity to consume (MPC) and his average propensity to consume (APC) change?

(A) Both his MPC and his APC increase.
(B) Both his MPC and his APC decrease.
(C) His MPC increases, and his APC remains unchanged.
(D) His MPC decreases, and his APC remains unchanged.
(E) His MPC remains the same, and his APC decreases.

298. According to the Keynesian savings schedule, when output increases by a certain amount, savings will

(A) decrease by an amount less than the change in output
(B) increase by an amount less than the change in output
(C) increase by an amount equal to the change in output
(D) increase by an amount more than change in output
(E) stay the same

309. When does the value of the consumption multiplier decrease?

(A) When tax rates are reduced
(B) When the marginal propensity to save (MPS) increases
(C) When government spending increases
(D) When exports decline
(E) When imports decline

323. In an economy where the marginal propensity to consume (MPC) is .75, which of the following is accurate?

(A) Saving is $75 when income is $100
(B) Consumption is $50 when income is $200
(C) Saving is $50 when income is $200
(D) Saving is $100 when income is $500
(E) Consumption is $75 when income is $200