1. We observe that both the price of and quantity sold of golf balls are rising over time. This is due to:
   (A) continual improvements in the technology used to produce golf balls.
   (B) increases in the price of golf clubs over time.
   (C) decreases in membership fees for country clubs with golf facilities.
   (D) more stringent professional requirements on the quality of golf balls requiring producers to use more expensive raw materials.

2. Suppose Congress passes a law that states the price of gasoline may not exceed $6 per gallon (but may be lower). If the current price of gasoline is less than $6, what impact does this law have on the current price and quantity of gasoline in the US market?
   (A) There is a shortage of gasoline
   (B) There is a surplus of gasoline
   (C) Quantity supplied currently equals quantity demanded, but a surplus is possible at prices above $6
   (D) The law currently has no impact, and the market clears at the equilibrium price

3. The slope of an indifference curve reveals:
   (A) that preferences are complete.
   (B) the marginal rate of substitution of one good for another good.
   (C) the ratio of market prices.
   (D) that preferences are transitive.

4. Good A is a normal good. The demand curve for good A:
   (A) slopes downward.
   (B) usually slopes downward, but could slope upward.
   (C) slopes upward.
   (D) usually slopes upward, but could slope downward.

5. When the price of wood (which is an input in the production of furniture) falls, the consumer surplus associated with the consumption of furniture
   (A) increases.
   (B) decreases.
   (C) does not change.
   (D) could be any of the above.

6. Blanca would prefer a certain income of $20,000 to a gamble with a 0.5 probability of $10,000 and a 0.5 probability of $30,000. Based on this information:
   (A) we can infer that Blanca is neutral.
   (B) we can infer that Blanca is risk averse.
   (C) we can infer that Blanca is risk loving.
   (D) we cannot infer Blanca's risk preferences.
7. The law of diminishing returns refers to diminishing
   (A) total returns.
   (B) marginal returns.
   (C) average returns.
   (D) all of these.

8. One of the factors contributing to the fact that labor productivity is higher in the U.S. than in the People's Republic of China is
   (A) China's larger stock of capital.
   (B) the higher capital/labor ratio in China.
   (C) the higher capital/labor ratio in the U.S.
   (D) China's smaller stock of fossil fuels.

9. Consider the following statements when answering this question.
   I. Increases in the rate of income tax decrease the opportunity cost of attending college.
   II. The introduction of distance learning, which enables students to watch lectures at home, decreases
       the opportunity cost of attending college.
   (A) I is true, and II is false.
   (B) I is false, and II is true.
   (C) I and II are both true.
   (D) I and II are both false.

10. Which of the following relationships is NOT valid?
    (A) Rising marginal cost implies that average total cost is also rising.
    (B) When marginal cost is below average total cost, the latter is falling.
    (C) When marginal cost is above average variable cost, AVC is rising.
    (D) none of the above

11. The perfectly competitive firm's marginal revenue curve is
    (A) exactly the same as the marginal cost curve.
    (B) downward-sloping, at twice the (negative) slope of the market demand curve.
    (C) vertical.
    (D) horizontal.

12. Which of the following is NOT a necessary condition for long-run equilibrium under perfect competition?
    (A) No firm has an incentive to enter the market.
    (B) No firm has an incentive to exit the market.
    (C) Prices are relatively low.
    (D) Each firm earns zero economic profit.

13. When the federal government installs a price support program that requires the government to purchase all
    of a good not bought in the private economy at the support price, changes in producer surplus
    (A) are negative.
    (B) are positive, but more than offset by the cost to consumers and the government.
    (C) are positive, and not offset by the cost to consumers and the government.
    (D) and consumer surplus are both positive.
14. The monopolist has no supply curve because
   (A) the quantity supplied at any particular price depends on the monopolist's demand curve.
   (B) the monopolist's marginal cost curve changes considerably over time.
   (C) the relationship between price and quantity depends on both marginal cost and average cost.
   (D) there is a single seller in the market.

15. Which factors determine the firm's elasticity of demand?
   (A) Elasticity of market demand and number of firms
   (B) Number of firms and the nature of interaction among firms
   (C) Elasticity of market demand, number of firms, and the nature of interaction among firms
   (D) none of the above

16. Which of the following is true for both perfect and monopolistic competition?
   (A) Firms produce a differentiated product.
   (B) Firms face a downward sloping demand curve.
   (C) Firms produce a homogeneous product.
   (D) There is freedom of entry and exit in the long run.

17. You produce stereo components for sale in two markets, foreign and domestic, and the two groups of
    consumers cannot trade with one another. You will charge the higher price in the market with the
    (A) lower own price elasticity of demand (more inelastic demand).
    (B) higher own price elasticity of demand (more elastic demand).
    (C) larger teenage population.
    (D) greater consumer incomes.

18. A firm should hire more labor when the marginal revenue product of labor
    (A) equals the wage rate.
    (B) exceeds the wage rate.
    (C) is less than the wage rate.
    (D) Any of these can be true.

19. When compared to the demand curve for only one variable input, the demand curve for a factor input
    when several inputs are variable is
    (A) less elastic.
    (B) more elastic.
    (C) vertical.
    (D) horizontal.

20. What happens to the marginal revenue product curve of a factor as more of a complementary factor is
    hired?
    (A) It shifts to the left, because its marginal product decreases.
    (B) It shifts to the left, because its marginal product increases.
    (C) It shifts to the right, because its marginal product decreases.
    (D) It shifts to the right, because its marginal product increases.
21. Suppose a labor market has perfectly inelastic supply that is composed of union and non-union workers, and there is wage discrimination in the union and nonunion sectors. If the union shifts its policy from maximizing total economic rents to maximizing total wages earned by members, what happens to the equilibrium employment level and wage for non-union workers?
(A) Both increase.
(B) Employment increases and wage declines.
(C) Wage increases and employment declines.
(D) Both decline.

22. If we start to think that Medicare will pay for all of our medical needs as we age, then our likely actions will lead to:
(A) a shift in the supply of loanable funds will cause interest rates to rise.
(B) a shift in the supply of loanable funds will cause interest rates to fall.
(C) a shift in the demand for loanable funds will cause interest rates to rise.
(D) a shift in the demand for loanable funds will cause interest rates to fall.

23. When sellers have more information about products than buyers do, we would expect
(A) sellers to get higher prices for their goods than they could otherwise.
(B) buyers to pay lower prices for goods than they would otherwise.
(C) high-quality goods to drive low-quality goods out of the market.
(D) low-quality goods to drive high-quality goods out of the market.

24. Because air cargo as an industry involves the generation of pollutants in engine exhaust, the equilibrium price of air cargo services
(A) is above the optimal level, and quantity is below the optimal level.
(B) is below the optimal level, and quantity is above the optimal level.
(C) and quantity of trucking services are both above the optimal level.
(D) and quantity of trucking services are both below the optimal level.

25. When one party suffers negative external effects due to the actions of another party, a lawsuit may not lead to the efficient outcome if:
(A) property rights are not clearly assigned.
(B) the parties have incomplete information.
(C) the legal costs of the lawsuit are too high.
(D) All of the above

26. Which of the following contributes to national income?
(A) The purchase of newly produced goods and services.
(B) The purchase of financial assets, such as savings deposits in banks.
(C) The purchase of used real assets, such as a building erected in 1987.
(D) The use of funds to repay debts.

27. Gross Domestic Product (GDP) is defined as the market value of:
(A) all goods and services sold during the year.
(B) all final consumer goods produced during the year.
(C) all intermediate goods produced during the year.
(D) all final goods and services produced during the year.
28. The steel used to produce cars:
   (A) is an intermediate good.
   (B) should be counted in GDP along with the value of the cars it is used to produce.
   (C) is a final good.
   (D) can be a final or intermediate good, depending on when the car is purchased.

29. In the equation GDP = C+I+G+(X-M), why are imports subtracted from the other types of expenditure?
   (A) Because imports reduce national welfare.
   (B) Because imports reduce GDP and national welfare.
   (C) Because the value of imports is included in other components of spending.
   (D) Because the value of imports is difficult to determine due to the fact that they are frequently made in terms of foreign currency.

30. Assume that C=$2,500, I=$650, G=$325, Exports=$300, Imports=$475, Depreciation=$175 and Indirect Business Taxes=$100. GDP equals:
   (A) $4,250
   (B) $3,575
   (C) $3,300
   (D) $3,125

31. The unemployment rate:
   (A) rises during the expansionary periods.
   (B) falls during the recessions.
   (C) equals the working age population that is not working divided by the total working age population.
   (D) equals the number of people searching for employment divided by the number of people searching for employment and the number of people working.

32. The phase of the business cycle in which output is increasing is known as:
   (A) the peak
   (B) the recessionary phase
   (C) the trough
   (D) the expansionary phase

33. Which of the following statements is not true?
   (A) In the circular flow model, the funds needed to finance investment spending come from the saving of the households.
   (B) In the circular flow model, GDP can be measured either by the income received or by the expenditures made.
   (C) Say’s Law says: supply creates its own demand.
   (D) Say’s Law predicted the Great Depression, in which there were surpluses of goods.

34. Which of the following is the largest component of aggregate demand?
   (A) Consumption
   (B) Investment
   (C) Government purchases
   (D) Net exports
35. Consider the consumption and savings functions diagrams. If the level of disposable income is such that the consumption function is above the 45-degree line, saving:
   (A) is equal to zero.
   (B) is positive.
   (C) is negative.
   (D) cannot be determined, since information about the marginal propensity to save is not provided.

36. The marginal propensity to consume (MPC) measures:
   (A) the amount by which savings changes when disposable income changes by a given amount
   (B) the amount by which consumption changes when disposable income changes by a given amount
   (C) the amount of consumption when disposable income equals zero
   (D) the amount of savings when disposable income equals zero

37. Suppose the exchange rate changes from 115 to 150 Japanese Yen per dollar. Which of the following will occur as a direct result?
   (A) U.S. exports will go up.
   (B) Japanese imports of U.S. goods will go down.
   (C) U.S. imports of Japanese goods will go down.
   (D) Japanese exports to the U.S. will go down.

38. The best measure of how quickly the standard of living in an economy is improving is the growth in
   (A) labor productivity
   (B) average hours worked
   (C) per-capita real GDP
   (D) total real GDP

39. Unemployment that caused by a decline in aggregate demand is called:
   (A) structural unemployment
   (B) cyclical unemployment
   (C) frictional unemployment
   (D) seasonal unemployment

40. The quantity theory of money suggests
   (A) there is a weak relationship between money supply growth and the price level.
   (B) interest rates play an important role in determining the demand for money.
   (C) money supply growth is the cause of the sustained inflation.
   (D) the quantity of money depends on the rate at which aggregate demand is growing relative to the rate at which aggregate supply is growing.

41. Which of the following is an implication of rational expectations?
   (A) Changes in government purchases to increase output above its natural level will be quite effective.
   (B) Changes in the money supply to increase output above its natural level will be quite effective as long as the public expects the change.
   (C) Only unanticipated changes in aggregate demand will affect output.
   (D) A. and B., but not C.
42. Suppose the economy experience a “supply shock” due to a rise in oil price. In the short run the price level will ______ and the level of output will ______.
   (A) increase; increase  
   (B) increase; decrease  
   (C) decrease; increase  
   (D) decrease; decrease

43. All of the following are considered to be functions of money except:
   (A) measure of power  
   (B) store of value  
   (C) standard of value  
   (D) medium of exchange

44. If the economy is stuck in a recession, an appropriate policy for the Federal Reserve might be to
   (A) increase the reserve requirement ratio  
   (B) reduce the amount of currency in circulation  
   (C) reduce excess reserve  
   (D) buy bonds

45. A bank has $80,000 in demand deposits and total reserve of $60,000. Assuming the reserve requirement ratio is 0.10 (10%), if this bank lends out all of its excess reserves the money supply could expand by as much as
   (A) $52,000  
   (B) $520,000  
   (C) $600,000  
   (D) $800,000

46. Countercyclical fiscal policy consists of
   (A) increasing spending and taxes in recessions, and decreasing spending and taxes in expansions  
   (B) decreasing spending and taxes in recessions, and increasing spending and taxes in expansions  
   (C) decreasing spending and increasing taxes in recessions, and decreasing spending and increasing taxes in expansions  
   (D) increasing spending and decreasing taxes in recessions, and decreasing spending and increasing taxes in expansions

47. The “green revolution” refers to:
   (A) recent inflows of U.S. dollars to various Asian countries  
   (B) the dramatic growth in food exports from certain underdeveloped countries  
   (C) recent increases in agricultural productivity in certain underdeveloped countries, resulting from advances in technology  
   (D) the policy of changing the emphasis in underdeveloped countries from agriculture to manufacturing
48. A Lorenz curve showing the world's distribution of income as compared to the Lorenz curve showing the
distribution of income in the United States would be
(A) closer to the diagonal line
(B) farther from the diagonal line
(C) at the diagonal line
(D) in approximately the same position

49. The principle of comparative advantage was first formulated by:
(A) David Ricardo
(B) David Hume
(C) Thomas Malthus
(D) Adam Smith

50. The purchase of a British Rolls Royce by a U.S. citizen would result in all of the following except:
(A) a debit item in the U.S. balance-of-payments accounts
(B) a sale of dollars and a purchase of pounds sterling
(C) an increase in imports to the United States
(D) A gain of foreign exchange for the United States

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