

2014 Student Created Final Exam Unit 3 and Unit 4

1. Who determines fiscal policy?

- A. Congress
- B. Federal reserve
- C. Supreme court
- D. President

2. What is the correct monetary policy when dealing with money supply and interest rates during an expansionary period?

- A. increase money supply, increase interest rates
- B. increase money supply, decrease interest rates
- C. decrease money supply, decrease interest rates
- D. decrease money supply, increase interest rates

3. What occurs when producing or consuming a good or service imposes a cost upon a third party?

- A. External cost
- B. Marginal cost
- C. Social benefit
- D. Opportunity cost

4. Which of these is an example of market failure?

- A. free riding
- B. economic systems
- C. presidential elections
- D. natural monopolies

5. What is the main way that the government raises revenue?

- A. Increase taxes
- B. Decrease government spending
- C. Borrow money
- D. Both A and C

6. Which of the following will not result in a shift on the demand curve?

- A. a change in the price of that product
- B. change in taste
- C. future expectations
- D. change in income

7. What is the name of the economic term when the quantity supplied is greater than the quantity demanded?

- A. Shortage
- B. Surplus**
- C. Equilibrium
- D. Inflation

8. During a recession which would Keynes consider the proper fiscal policy?

- A. taxes increase and government spending decreases
- B. taxes decrease and government spending increases**
- C. money supply increases and interest rates decrease
- D. money supply decreases and interest rates increase

9. During a recession which would Keynes consider the proper monetary policy?

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10. All of these are benefits from competition except:

- A. lower prices
- B. better products
- C. helps the economy
- D. hurts the consumer**

11. Which economic role falls under taxing the rich more than the poor?

- A. redistributing income**
- B. Stabilizing the economy
- C. providing public goods and services
- D. Maintaining a Legal and Social Framework

12. During which part of the business cycle does GDP increase, unemployment generally decrease, and inflation increase?

- A. peak
- B. recession
- C. expansion**
- D. trough

13. We are claimed to be in a recession after how many periods of decline?

- A. 1 quarter
- B. 2 consecutive quarters**
- C. 3 consecutive quarters
- D. none of the above

14. Which of the following describes the Law of Demand?

- A. Price up, quantity demand up
- B. price down, demand down
- C. Price down, quantity demand up
- D. Price down, demand up

15. What is deficit spending?

- A. when government spending exceeds government revenue.
- B. accumulation of debt
- C. when government spending is less than government revenue
- D. spending money

16. What is debt?

- A. not spending money
- B. accumulation of deficit spending
- C. individuals spending money
- D. government spending exceeding government revenue

17. Increases in inflation decreases....

- A. Income
- B. GDP
- C. Monetary Value
- D. Taxes

18. Which of these is an example of an external cost?

- A. paying 5 dollars for a piece of pizza
- B. a family walks by a group of smokers, forced to inhale the smoke
- C. a runners legs hurt after a run because he didn't stretch
- D. none of the above

19. Which of these defines deficit spending?

- A. government spending exceeding revenue
- B. government revenue exceeding spending
- C. government spending exceeding revenue for a long time
- D. government revenue exceeding spending for a long time

20. How does the government use its power to redistribute income?

- A. higher income taxes
- B. providing social security
- C. minimum wage laws
- D. all of the above

21. Which of the following is an example of a market failure?

- A. being woken up by the neighbor's dog barking
- B. second hand smoke
- C. pollution
- D. all of the above

22. How do price floor lead to surplus?

- A. Price can't rise to equilibrium
- B. Suppliers produce more and consumers demand less
- C. Consumers like lower prices
- D. Suppliers won't produce more

23. Congress is to the fiscal policy as _____ is to the monetary policy.

- A. Federal Reserve
- B. The IRS
- C. The President
- D. Social Security

24. Why does the government use patents and copyrights to limit competition?

- A. It supports a monopoly of ideas.
- B. Efficiency and the quality of the product will increase.
- C. It allows people to progress with and receive benefits from their idea
- D. It wants to eliminate all competition.

25. A price floor results in _____.

- A. Shortages
- B. Equilibrium
- C. Surpluses
- D. A drop in price

26. What are the main ways that government raises revenue?

- A. Borrowing
- B. Taxes
- C. Increasing interest rates
- D. A and B

27. What is it called when a good or service imposes a cost upon a third party?

- A. External cost
- B. Opportunity cost
- C. Taxes
- D. Trade-off

28. Price ceilings result in what outcomes?

- A. shortages
- B. equilibrium
- C. surpluses
- D. abundance

29. Which of the following is not an example of what causes a market failure?

- A. imperfect information
- B. free-riding
- C. external cost
- D. inflation

30. Why does the government institute taxes?

- A. bring in revenue
- B. fund government programs
- C. influence behavior
- D. all of the above

31. What is not a reason why free markets are efficient at allocating resources?

- A. People make money off their business only if they are fulfilling a need
- B. Consumers and producers can compete for the best prices
- C. It's a zero sum scenario
- D. The prices convey realities

32. What often happens when patents expire?

- A. Prices rise significantly
- B. Prices drop significantly
- C. Price doesn't change
- D. A monopoly is formed

33. What is the difference between deficit spending and debt?

- A. Deficit spending is when annual spending is greater than annual revenue
- B. Debt is measured annually while Deficit spending is the accumulation of debt.
- C. Debt is the accumulation of years of deficit spending
- D. They are the same

34. According to Keynes, in which stage of the business cycle should the government increase spending to reach full employment?

- A. Expansion
- B. Trough
- C. Recession
- D. Peak

35. Which of these is an example inflation?

- A. A rapid decrease in price
- B. Two consecutive quarters of decreasing GDP
- C. Increase in purchasing power of money
- D. Decrease in purchasing power of money

36. The Law of Demand describes a(n) _____ relationship between Price and Quantity demanded.

- A. Equal
- B. Inverse
- C. Direct
- D. Indirect

37. "Your satisfaction for a product lessens with each additional use" explains the concept of...

- A. Diminishing Marginal Cost
- B. Diminishing Marginal Benefit
- C. Diminishing Marginal Utility
- D. Marginal Cost

38. Change in taste, income, and market size are all examples of...

- A. Equilibrium
- B. Disequilibrium
- C. Demand Shifters
- D. Supply Shifters

39. Which of the following would shift supply to the left (lower supply)?

- A. Future expectation of lower prices
- B. increase subsidies for the that product
- C. increasing Resource Costs of that product
- D. decrease price of an alternative product

40. A surplus will occur in which situation?

- A. Quantity supplied is less than the quantity demanded
- B. Quantity supplied is greater than the quantity demanded
- C. Quantity supplied is equal to the quantity demanded

41. Which of the following does NOT shift the supply curve?

- a. resource cost
- b. increase in product's price
- c. price on related goods
- d. subsidies
- e. technology improvements

42. taxes, subsidies, and resource costs are all examples of...

- a. equilibrium
- b. disequilibrium
- c. demand shifters
- d. supply shifters

43. The result of a price floor is... (circle all that apply)

- a. Quantity supplied exceeds Quantity demanded
- b. shortages
- c. when Quantity supplied is less than Quantity demanded
- d. surpluses

44. Which of the following is an example of a price ceiling?

- a. rent control
- b. minimum wage
- c. cigarette prices
- d. prices on agricultural products

45. Which of the following is an example of maintaining a legal and social framework?

- a. regulation of contracts
- b. creating laws
- c. establishing a money system

46. Which of the following is not a major reason why the government taxes?

- A. Pay off the national debt
- B. Funding for public goods and services
- C. Paying off the loans of individuals
- D. Build up revenue for the government

47. Public goods, monopolies, and externalities are all examples of...

- a. tragedy of the commons
- b. zero sum games
- c. market failure
- d. marginal benefit

48. When an industry generates air pollution, the air pollution is an example of:

- a. Marginal benefit
- b. Tragedy of the commons
- c. External cost
- d. Prisoner's dilemma

49. What happens to the GDP do during a recession?

A increases

B decreases

C stays the same

D none of the above

50. What happens to the inflation rates during an expansion

A Increases

B Decreases

C Has no effect on inflation

D Stays the same

51. When inflation rates are at their lowest and begin to rise what part of the business cycle are we in?

A Expansion

B Recession

C. Trough

D Peak

52. How many periods of decline does it take for economist to claim that we are in a recession?

A two consecutive quarters

B six months

C one year

D A and B

53. Who controls the fiscal policy?

A The Federal Reserve

B Congress

C The executive branch

D Big businesses

54. What elements of the GDP are directly impacted fiscal policy?

- i Consumer spending
- ii Government spending
- iii. Business investments
- iv. Net exports

A.iii only

B.i and ii

C.i only

D.iv and i

55. According to Keynesians, to increase Aggregate Demand what is the proper monetary policy during a recession?

A Increase money supply

B Decrease money supply

C Keep it the same

D None of the above

56. Who determines monetary policy?

A The Federal Reserve

B Congress

C Consumers

D Businesses

57. Which of the following is a way that government raises revenue?

A Taxing

B. Borrowing

C stealing

D a and b

58. Price floors lead to _____ , and price ceilings lead to _____ .

- A. Surplus, Scarcity
- B. Scarcity, Shortage
- C. Surplus, Shortage
- D. Shortage, Surplus

59. Circle all of the reasons why does the government tax?

- A. To change behavior
- B. To redistribute wealth
- C. To pay off the debt
- D. To raise revenue

60. What makes a market failure?

- A. Because of the market supply and demand don't reach equilibrium
- B. When the Quantity Demanded equals Quantity Supplied
- C. When government policy prevents equilibrium
- D. Business hits a recession

61. What is NOT an example of an external cost?

- A. Buying a car that pollutes the air
- B. Second hand smoke
- C. Recycling PCP tube that emits more CO₂ than if you had thrown it away
- D. Doylestown being leveled by a tornado

62. When GDP rises what usually happens to the unemployment rate?

- A. increases
- B. decreases
- C. Constant
- D. Stagflation

63. While in a recession, unemployment rises. What happens to inflation?

- A. Up
- B. Down**
- C. Both up or down
- D. Constant

64. Expansion follows what business cycle term?

- A. Peak
- B. Trough**
- C. Recession
- D. Depression

65. What is the purpose of market regulations?

- A. To control gas prices
- B. To maintain balance between demand and supply**
- C. To make sure people follow the laws
- D. To have the best businesses allocate resources

66. What is the difference between scarcity and shortage?

- A. Scarcity refers to limited resources while a shortage is refers to a man-made situation where quantity demanded is greater than quantity supplied.**
- B. There is no difference
- C. Scarcity has an infinite amount of resources while a shortage depends on supply
- D. Scarcity is limited while shortage is unlimited

67. What is the correct definition of an entrepreneur?

- A. One who is born into wealth
- B. A middle class business man
- C. One who deals with the organization of an economy
- D. A person who organizes a business with great risks**

68. Who determines Fiscal Policy?

- A. The president
- B. The National Government
- C. The federal reserve
- D. Congress**

69. What part of the GDP will increase within Monetary Policy?

- A. G and C
- B. G, I and NE**
- C. I and NE
- D. C and NE

70. How does inflation impact people?

- A. Inflation reduces the purchasing power of their money**
- B. People who save money are better off
- C. People can purchase more
- D. People can spend less time working

71. How does the government fulfill its role in maintaining a legal and social framework?

- a) regulating natural monopolies
- b) create laws and provide courts that enforce contracts**
- c) creating taxes

72. Which of the following is an example of market failure:

- a) bank failure
- b) minimum wage
- c) external cost and benefits**
- d) fiscal policy

73. At what point during the business cycle is GDP at its highest, Unemployment is at its lowest, and inflation rate is at its highest?

- a) recession
- b) trough
- c) peak**
- d) expansion

74. At what point during the business cycle is GDP at its lowest, Unemployment is at its highest, and inflation rate is at its lowest?

- a) recession
- b) trough**
- c) peak
- d) expansion

75. What happens to unemployment do in a recession?

- a) increasing**
- b) decreasing
- c) neutral
- d) none of the above

76. Who determines fiscal policy?

- A. Congress**
- B. President
- C. Supreme Court
- D. Federal reserve

77. Who determines monetary policy?

- A. Congress
- B. President
- C. Supreme Court
- D. Federal reserve**

78. During a recession, the goal is to:

- A. Decrease GDP
- B. Increase unemployment
- C. Increase GDP**
- D. Decrease aggregate demand

79. Which method below increases GDP using fiscal policy?

- A. Decrease government spending
- B. Increase government spending**
- C. Decrease money supply
- D. Increase interest rates

80. How does government raise revenue?

- A. Taxation
- B. Borrowing
- C. Regulates, mandates, fees, and fines
- D. All of the above**

81. What is deficit spending?

- A. Annual spending exceeds annual revenue**
- B. Quarterly spending exceeds quarterly revenue
- C. Accumulation of years of debt
- D. Revenue is greater than spending

82. What does inflation do?

- A. Money gains value
- B. Money loses purchasing power**
- C. Lowers prices
- D. Lower interest rates

83. Which is the free market method to better ensure lower prices?

- A. Government mandates and quotas
- B. price ceilings
- C. competition**
- D. subsidies

84. what is equilibrium?

- A. Quantity supplied > Quantity demanded
- B. Quantity demanded > Quantity supplied
- C. Quantity supplied = Quantity demanded
- D. there is no relationship between the Quantity demanded and the Quantity supplied

85. When the prices of a product drops which of the following is true?

- A. The Quantity Supplied of that product increases
- B. The Quantity Supplied of that product decreases
- C. There will be no change to the Quantity supplied of that product
- D. The Quantity Demanded of that product will decrease

86. When the price of a product drops which of the following is true?

- A. The Quantity Demanded of that product increases
- B. The Quantity Demanded of that product decreases
- C. There will be no change to the Quantity demanded of that product
- D. The Quantity Supplied will increase

87. What is the purpose of a price floor?

- A. To make sure that the price doesn't increase too far
- B. To make sure that the price doesn't lower below a specific pre-determined point
- C. There is no economic purpose
- D. To make sure that the free market works

