1) The law of demand states that the quantity of a good demanded varies
   A) inversely with its price.
   B) inversely with the price of substitute goods.
   C) directly with income.
   D) directly with population.

2) Suppose people buy more of good 1 when the price of good 2 falls. These goods are
   A) complements.
   B) substitutes.
   C) normal.
   D) inferior.

3) The price elasticity of demand measures
   A) how often the price of a good changes.
   B) the slope of a budget curve.
   C) how sensitive the quantity demanded is to changes in demand.
   D) the responsiveness of the quantity demanded to changes in price.

4) The demand for a good is elastic if
   A) an increase in its price results in an increase in total revenue.
   B) a decrease in its price results in a decrease in total revenue.
   C) an increase in its price results in a decrease in total revenue.
   D) the good is a necessity.

5) Marginal benefit typically
   A) increases as more is consumed.
   B) remains constant as more is consumed.
   C) decreases as more is consumed.
   D) increases as marginal costs increase.
6) It is efficient to produce an additional shirt if
   A) the marginal benefit of producing the shirt is greater than zero.
   B) the marginal benefit of producing the shirt is zero.
   C) the marginal benefit of producing the shirt is greater than the marginal cost of producing it.
   D) total benefits from producing shirts are maximized.

7) Diminishing marginal utility means that
   A) John will enjoy his second hamburger less than the first.
   B) the total utility from one hamburger exceeds the total utility from two hamburgers.
   C) the price of two hamburgers is twice the price of one.
   D) beyond a certain point, total utility decreases as income rises.

8) Which of the following equations represents consumer equilibrium based on the principle of equalizing marginal utilities per dollar spent?
   A) Marginal utility from good A = marginal utility from good B
   B) Price of good A = price of good B
   C) Marginal utility from good A/price of good A = marginal utility of good B/price of good B
   D) Total utility from good A = total utility from good B

9) In perfect competition, the elasticity of demand for the product of a single firm is
   A) 0.
   B) between 0 and 1.
   C) 1.
   D) infinite.

10) Which of the following is true for BOTH monopoly and perfect competition?
    A) The demand for the individual firm’s product is perfectly elastic.
    B) Economic profits can be sustained indefinitely over time.
    C) Marginal revenue is horizontal at the industry equilibrium price.
    D) Profits are maximized by producing at the level of output where marginal revenue is equal to marginal cost.
11) Gross domestic product is the total ____ produced within a country in a given time period.
   A) market value of all final and intermediate goods and services
   B) market value of all final and intermediate goods and services plus investment and depreciation
   C) amount of final and intermediate goods and services
   D) market value of all final goods and services

12) Let C represent consumption expenditure, S saving, I gross private domestic investment, G government purchases of goods and services, and NX net exports of goods and services.
   Then GDP equals
   A) C + S + G + NX.
   B) C + S + G – NX.
   C) C + I + G + NX.
   D) C + I + G – NX.

13) A recession is a time with
   A) a decline in the price level.
   B) a decline in interest rates.
   C) a decrease in the level of total production.
   D) a decrease in the unemployment rate.

14) The quantity of real GDP supplied ____ the amount of ____.
   A) increases as; labor input decreases
   B) decreases as; capital input increases
   C) decreases as; capital and labor input decreases
   D) is unaffected by; technology

15) The aggregate demand curve shows that, if other factors are held constant, a
   A) higher price level will result in a decrease in the quantity of real GDP demanded.
   B) higher price level will result in an increase in the quantity of real GDP demanded.
   C) higher price level will result in a lower interest rate.
   D) lower price level will result in inflationary conditions.
16) Consider the nation’s production possibilities frontier between leisure and GDP. A decrease in leisure will cause 
I) an increase in labor input.  
II) a movement along the production possibility frontier.  
A) I only.  
B) II only.  
C) Both I and II.  
D) Neither I nor II.

17) If the price level for 2003 is 220 and for 2004 is 250, what is the rate of inflation between the two years?  
A) 30 percent  
B) 13.6 percent  
C) 12.0 percent  
D) 20 percent

18) Which of the following could start a demand-pull inflation?  
A) There is an increase in the quantity of money.  
B) There is an increase in government expenditures.  
C) There is an increase in exports.  
D) All of the above could be initial causes of demand-pull inflation.

19) A one-time increase in the price of oil followed by a one-time increase in aggregate demand produce  
A) continuing cost-push inflation.  
B) continuing demand-pull inflation.  
C) a one-time decrease in the price level.  
D) a one-time increase in the price level.

20) Moving along the short-run Phillips curve indicates  
A) that higher inflation leads to a higher unemployment rate.  
B) that higher unemployment leads to a higher inflation rate.  
C) a tradeoff between inflation and unemployment so that high inflation is related to lower unemployment.  
D) a natural rate of unemployment that does not vary with inflation.
21) The Keynesian model of aggregate expenditure assumes that
A) individual prices are flexible but the price level is fixed.
B) both individual prices and the price level are flexible.
C) both individual prices and the price level are fixed.
D) individual prices are fixed but the price level is flexible.

22) The consumption function relates consumption expenditure to
A) the interest rate.
B) disposable income.
C) saving.
D) the price level.

23) The nominal demand for money is
A) inversely related to GDP.
B) measured in constant dollars.
C) inversely related to the price level.
D) proportional to the price level.

24) The law of diminishing returns implies that, with the use of capital fixed, as the use of labor rises,
A) total product will fall eventually.
B) the marginal product of labor will fall eventually.
C) the total product of labor will fall below the marginal product of labor.
D) the production process will become technologically inefficient eventually.

25) Given the budget equation $5M + 10P = 100$, where $M$ represents movies and $P$ represents pizza, if income increases, this means that
A) you have to give up more of good $M$ to get good $P$.
B) you have to give up more of good $P$ to get good $M$.
C) you can afford more of both goods.
D) the budget line shifts leftward.