1. If the price of product K declines (due to an increase in supply), the demand curve for a complement product J will:
    a. Remain unchanged
    b. Shift to the right
    c. Shift to the left
    d. None of the above

2. Consumer Surplus is defined as
    a. What consumers actually pay minus what they are willing to pay
    b. What consumers are willing to pay minus what they actually paid
    c. The availability of welfare income
    d. All the above

3. If the elasticity of demand is 2, the percentage change in   price is 8%, than percentage change in demand will be
    a. 4%
    b. 16%
    c. 20%
    d. Unity

4. Market failure could be caused by
    a. Lack of timely information
    b. Lack of money
    c. Inadequate accountability for risk taking
    d. both (a) and (c) are correct

5. Diseconomies of scale occur because of
    a. Law of diminishing returns
    b. Lack of specialization
    c. Problems with coordination
    d. Higher fixed costs

6. The Monetarist maintains that the economy is generally at
    a.   full employment because of flexible prices
    b.   less than full employment due to rigid prices
    c.   full employment due to rigid prices
    d.   none of the above

7. A permanent increase in oil prices will
    a.   shift the Aggregate Supply curve to the right
    b.   shift the Aggregate Supply curve to the left
    c.   shift the Aggregate Demand curve to the right
    d.   shift the Aggregate Demand curve to the left

8. The following will shift the Aggregate Demand curve to the left
    a.   reducing taxes
    b.   increasing government expenditures
    c.   increasing taxes
    d.   increasing investment expenditures

9. In Milton Friedman's "Fooling model", prices are increased by
    a.   higher wages shifting short run aggregate supply to the right
    b.   higher wages shifting short run aggregate supply to the left
    c.   lower wages shifting short run aggregate supply to the left
    d.   increase in exports

10. If the supply of a product decreases and the demand of the product simultaneously increases, we conclude that equilibrium:
    a. quantity must decrease, but equilibrium price may either rise, fall or remained unchanged
    b. price and equilibrium quantity must both decline
    c. price and equilibrium quantity must both increase
    d. price must rise, but equilibrium quantity may either increase or decrease or remain unchanged

11. Other things being equal, which of the following might shift the demand curve of gasoline to the left

    a. a large decline in the price of automobiles
    b. an increase in the price of train and air transportation
    c. the development of a low-cost electric automobile
    d. the discovery of vast new oil reserves in Montana

12. Assume the price of product A declines (due to an increase in supply), if the demand curve for product B shifts to the right, it can be concluded that:

    a. A and B are substitute goods
    b. A and B are complimentary goods
    c. A is a luxury good and B is a necessity
    d. Both goods A and B are produced by monopolists

13. If the production possibility curve were a straight line, this would suggest that

      a. the two products have identical prices
      b. both products are equally capable of satisfying consumer needs
      c. it is possible to produce more of both products
      d. resources are perfectly shiftable at a constant rate between the production of these two goods

14. A higher toll price for cars in the downtown area during heavy traffic congestion hours will

      a. increase the amount of cars at peak congestion time
      b. reduce the amount of cars at peak time
      c. encourage some drivers to alter their commuting pattern
      d. both (b) and (c) are correct

15. A decrease in the cost of labor will
      a.   shift the supply curve to the left
      b.   shift the supply curve to the right
      c.   rotate the demand curve
      d.   involve the movement on a supply curve

Key to sample questions

1.b, 2.b, 3.b, 4.d, 5.c, 6.a, 7.b,8.c, 9.b, 10.d, 11.c, 12.b, 13.d, 14.d, 15.b.