**EOCT Practice Questions**

**1. The study of how individuals, firms (businesses), and nations can best allocate their limited resources is called:**

 **A** economics **B** entrepreneurship

**2. The act of giving up one thing of value to gain another thing of value is called a/an**

 **A** opportunity cost **B** tradeoff

**3. Bill wants a shirt for $45 and a hat for $20. He only has $50. If he buys the shirt, then his opportunity cost will be**

 **A** the cost of the shirt **B** the enjoyment he would have gotten from the hat

**4. In every economic system, choices must be made because resources**

 **A** are unlimited, but human desires and wants are limited.

**B** are limited, but human desires and wants are unlimited.

**5. The fundamental economic problem in which society does not have enough resources to satisfy the people’s wants**

 **A** Externalities **B** Scarcity

**6. Who described economic principles in The Wealth of Nations?**

 **A** Milton Friedman **B** Adam Smith

**7. Which of the following is NOT one of the four major factors of production?**

**A** Land **B** Capital **C** Demand **D** Labor

**8. The payments for land, labor, capital, and entrepreneurial ability respectively are**

 **A** rent, profit, wages, and interest **B**  Rent, wages, interest, and profit

**9. Trees, minerals, and the real estate on which a company builds its main manufacturing center are all**

 **A** capital **B** land **C** Labor **D** entrepreneurship

**10. Following a massive hurricane that hits Georgia’s northern coast, residents have no running water or electricity. As a result, citizens buy up all the flashlights and bottled water in the area faster than producers can resupply them. What problem do people on the Georgia coast now face, regarding flashlights and bottled water?**

 **A** excessive regulation **B** scarcity

**11. Which of the following tends to make economics more efficient?**

 **A** specialization **B** government ownership of property

**12. Diminishing marginal utility refers to**

 **A** the quantity of goods and services for sale in relationship to the price.

 **B** when consumers get more and more of a good, they get less satisfaction, even if the price is low.

**13. The extra cost incurred by producing one additional unit of a product is called**

 **A** total cost **B** marginal cost

**14. Jamie must make an economic decision. He must choose whether or not to buy a new truck. After considering all the options, he concludes that the marginal costs of the truck are greater than the marginal benefits. In Jamie’s case, buying the truck would be**

 **A** a rational economic decision **B** an irrational economic decision

**15. Kim works on an automobile assembly line. Kim’s job illustrates a production process that relies on**

 **A** autonomous work groups **B** division of labor

**16. Martha owns her own company. She invests in all the capital goods needed to make her product and sells her goods with the motivation of making huge profits. So long as she does not produce anything illegal, Martha freely chooses what to produce and consumers freely choose whether or not to buy her product. It sounds like Martha’s company operates in a**

 **A** command economy **B** market economy

**17. The greater the profit motive in an economic system, the greater the likelihood of**

 **A** innovation **B** equity

**18. A command economy is an economic system in which**

 **A** the government owns much of the property **B** profit motive is the main motivation for producers

**19. Which of the following is a strength of a market economy?**

 **A** opportunity for profit **B** lots of government regulation to ensure that no one has too little or too much

**20. Under capitalism, the means of production are owned by**

 **A** Private Citizens and businesses **B**  National and State governments

**21. Which of the following has the greatest degree of government involvement in the economy?**

 **A** Capitalist system **B** Communist system

**22. All of the following are major disadvantages to communism EXCEPT**

 **A** fear of unemployment **B**  few individual freedoms

 **C**  little incentive to innovate and produce **D** inefficient centralized planning

**23. The person who wrote the Communist Manifestoand Das Kapital**

 **A** John Lenin **B**  Karl Marx

**24. In a laissez-Faire system, government**

 **A** controls a large number of public goods **B** has a minimum role in the economy

**25. Each of the following is a role of government in capitalism EXCEPT**

 **A** controller **B** provider **C** regulator **D** consumer

**26. Common ways the government might try to regulate a mixed-market economy include**

 **A** deregulation **B** imposing tariffs or subsidies



 **27. If CD represents the current production possibility curve, indicate which two letters you would choose if huge amounts of resources were discovered along with technological innovations in both sectors of the economy.**

 **A** Curve AB **B** Curve EF

**28. The rate at which goods and services can be produced is called**

 **A** capital investment **B** productivity

**29. If a factory owner uses some of her profits to purchase new machinery, she is investing in**

 **A** output returns **B** capital goods

**30. Buying stocks, purchasing new equipment for a business, paying for employees training, and purchasing the latest computers for one’s office are all examples of**

 **A** economic outputs **B** investment

**31. Which of the following is an example of investing in human capital?**

 **A** paying for an employee’s health insurance and training program

 **B** requiring employees to document what they are doing at work

**32. The three major actors in terms of economic activity are**

 **A** households, individuals, and the stock market **B** households, businesses, and the government

**33. When factors of production perform tasks that they can do relatively more efficiently than others, it is known as**

 **A** capitalization **B** specialization

**34. A market where productive resources are bought and sold is a**

 **A** Factor Market **B**  Product Market

**35. A good that lasts for more than 3 years is**

**A** Long Lasting Good **B** Durable Good

**36. Microeconomics focuses on**

 **A** the overall workings of the whole economy **B** the individual units that make up the economy

 

**37. The flow of goods and services to consumers is best represented by?**

 **A** 8 to 6 **B** 4 to 2

**38. The law of demand states that, other things being equal,**

 **A** the higher the price of a good, the lower the quantity demanded

 **B** the higher the price of a good, the lower the quantity supplied

 **39. All of the following are reasons for changes in demand EXCEPT**

 **A** consumers tastes and preferences

 **B** an increase in the supply curve

 **C** the price of substitutes or compliments

 **D** a change in the number of consumers

For the next four questions, decide if a **change in demand**, a **change in quantity demanded**, a change **in supply**, or a **change in quantity supplied** will occur.

**40. Cell phones are partially made from plastic. The price of plastic decreases and cell phone companies can produce more phones.**

**A** Change in demand **C** Change in supply

**41. Tiger Woods is seen wearing a certain brand of sunglasses and sales take a huge jump.**

 **A** Change in demand **B** Change in quantity demanded

 **42. The price of televisions falls drastically, and people buy more televisions.**

 **A** Change in demand **B** Change in quantity demanded

**43. The wage at a local chemical factory increases from $12/hr to $14/hr, and workers work longer hours**

 **A** Change in supply **B** Change in quantity supplied

**Use following graph to answer the following two questions**



**44. Of the following, which situation would cause the shift of the supply curve from S1 to S2?**

 **A** The government increases regulation of the wheat industry

 **B** New fertilizers increase the production of wheat

**45. What would happen to the equilibrium price and quantity for wheat when the supply curve shifts from S1 to S2?**

 **A** Price increases, Quantity decreases **B** Price decreases, Quantity increases

**46. When economists refer to “demand,” they mean which of the following?**

 **A** how much consumers will purchase at different prices

 **B** how much sellers will supply at a particular price

**47. Which of the following is an attempt by a firm to increase the demand for its product**

 **A** the imposition of a price ceiling on the product

 **B** an advertising strategy designed to change consumer tastes and preferences

**48. If the demand for any product increases what will happen to the equilibrium quantity for that product?**

 **A** Increase **B** Decrease

**49. If the supply for any product decreases what will happen to the equilibrium price for that product?**

 **A**  Increase **B**  Decrease

**Use the following graph to answer the following 3 questions**

 

**50. If the government set a price ceiling at $2.00. What would be the quantity demanded and the quantity supplied?**

 Demanded Supplied Demanded Supplied

 **A** 20 40 **B** 40 20

**51. What did the government create when they set the price ceiling for milk at $2.00?**

 **A**  Surplus **B**  Shortage

 **52. If the government decides to create to create a price floor for milk at $3.50 what will be created?**

 **A** Surplus **B** Shortage

**53. Rent controls that result in a shortage in the marketplace are an example of a**

 **A** price ceiling **B**  price floor

**54. The minimum wage is a type of**

 **A** price floor **B**  price ceiling

**55. What would happened to the equilibrium price and quantity of gasoline if a hurricane struck the oil refining regions of the U.S. gulf coast?**

 **A**  Price increases, Quantity decreases **B** Price decreases, Quantity decreases

**56. Which of the following is NOT a characteristic of a perfectly competitive market?**

 **A** The products sold by the firms in the market are the same.

 **B** There are many different buyers and sellers in the market.

 **C**  It is difficult for a firm to enter or leave the market.

**57. A monopoly is correctly defined as**

 **A**  A single supplier of a good or service for which there is no close substitute.

 B A firm with annual sales over 10 million.

**58. What is a business organization where the owner has totally liability for the firm but receives all of the profits?**

 **A** Sole Proprietorship **B** Corporation

**59. John, Peter, and Sarah decide to raise funds to expand their restaurant business by offering public stock in the business. What type of business is their company now?**

 **A** Corporation **D** Sole Proprietorship

**60. A firm that owns at least four business that produce unrelated products is a?**

 **A** Corporation **B** Conglomerate

**61. What business organization is the most profitable for an individual?**

 **A** Partnership **B** Sole Proprietorship

**62. Sharon decided to open a dry-cleaning business, taking out a loan from a bank and hiring a helper. What business structure did she use?**

 **A** Sole proprietorship **B** Partnership

**63. What is a disadvantage of Sharon’s business structure?**

 **A** unlimited liability **B** double taxation

**64. A steel company with manufacturing plants in Pittsburgh, Mexico City, Hong Kong, and Moscow is an example of a**

**A** multinational **B** conglomerate

**65. What is an organization that negotiates for workers and attempts to speak for workers’ rights?**

 **A** Labor Union **B** Credit Union

**66. If an airport is built in an area the noise pollution is a?**

 **A** Positive Externality **B** Negative Externality

**67. What is the greatest danger of a monopoly?**

 **A** It denies consumers the benefit of competition **B** It will provide for too much competition

**68. Highways, flood control projects, national defense, and the criminal justice system are all examples of?**

 **A** Private Goods **B** Public Goods

**69. In the US, how are public goods paid for?**

 **B** Non-profit organizations collect charitable donations from people

 **C** The government collects tax revenues from individuals and firms

**70. What was the first act of Congress to restrict monopolies?**

 **A** Clayton Antitrust Act **B** Sherman Antitrust Act

**71. The market structure that has all the conditions of pure competition except that the products are not identical is?**

 **A** Oligopoly **B** Monopolistic Competition

**72. A market structure where a few very large firms dominate the market is?**

 **A** Oligopoly **B** Monopolistic Competition

**73. Firm X has developed and patented a new mechanical device. As the sole producer of this device, Firm X is a**

 **A** technological monopoly **B** government monopoly

**74. A single gas station at an interstate exit far from the next exit is an example of**

 **A** geographic monopoly **B** natural monopoly

**75. What is an advantage of a sole proprietorship?**

 **A** Unlimited liability **B**  Profit is not shared

**76. What is the best market structure for consumers?**

 **A** Monopoly **B**  Pure Competition

**77. When advertising or other promotional campaigns try to convince buyers that a product is somehow better than another brand it is?**

 **A** Non-price competition **B**  Directive Competition

**78. Macroeconomics is the study of economics from the standpoint of**

 **A** individual economies **B** the overall economy

**79. The most important measure of overall economic performance is:**

 **A** Inflation **B** GDP

**80. What four sectors make up GDP?**

 **A** C + I + G + Nx **B** C + B + G + I

**81. What would be included in GDP?**

 **A** Spending $30,000 to buy a 3-year-old car from the first owners.

 **B** Spending $25,000 to purchase a new car that has never been sold before.

**82. Standard of Living is calculated by:**

 **A**  Dividing GDP by Net Exports **B** Dividing GDP by population

**83. In 2002, Estonia’s government sector was 45 billion, consumer sector was 3 billion, investment sector was 98 billion, and there were 55 billion in imports and 65 billion in exports. What was the GDP for 2002?**

 **A** 156 Billion **B** 266 Billion



**84. Which letter on the graph represents a recession in the business cycle?**

 **A**  Z **B** X

**85. Which letter on the graph represents expansion in the business cycle?**

 **A**  W **B** Z

**86. Which of the following would not be considered unemployed?**

 **A** a new entrant to the labor force **B**  a newly retired worker

**87. Which of the following is a limitation of the unemployment rate:**

 **A** Not taking into account the people who have given up looking for a job

 **B** People are considered employed even when they hold a part time job

 **C**  Both A & B

**88. The natural rate of unemployment in the US is:**

**A** 0% **B**  4% - 6%

**89. This is unemployment caused by workers who are between jobs:**

 **A** Structural **B** Frictional

**90. This unemployment occurs when a change in the economy reduces the demand for a specific skills or for a specific type of job:**

 **A**  Structural **B** Frictional

**91.** **Inflation is best described as:**

 **C** an increase in the general price level **D** an increase in the price of a single necessity

**92. Deflation refers to the situation when?**

 **A**  the inflation rate decreases **B** the average of all prices is falling.

**93. What is MOST likely to lead to inflation?**

 **A** an increase in the cost of production

 **B** an increase in the aggregate supply of goods and services

**94. When all sectors of the economy attempt to buy more than the economy can produce what is created?**

**A** Demand pull inflation **B** Cost push inflation

**95. What will be a consequence of inflation?**

 **A** The dollar will buy less **B** Interest rates will fall

**96. What type of inflation is taking place when the rate of inflation is 500%?**

 **A** Disinflation **B** Hyper Inflation

**97. What would you conclude about an economy characterized by increasing real GDP, low unemployment, and increasing inflationary pressures?**

 **A** The economy is in the expansion phase of a business cycle

 **B** The Federal Reserve should expand the money supply.

**98. Of the following groups, the one hurt the LEAST by unanticipated inflation is**

 **A** workers who have cost-of-living adjustments in their contracts

 **B** banks that have made long term, fixed rate mortgage loans

**99. All of the following are key functions of money EXCEPT**

 **A** Medium of Exchange **B** Store of Value

 **C** Creator of Value **D** Unit of Account

**100. Money that has an alternative use as a usable resource is known as?**

 **A** Fiat Money **B** Commodity Money

**101. Money that is declared valuable by government decree is known as?**

 **A**  Fiat Money **B** Commodity Money

**102. By going to Wal-Mart and having the cashier accept your paper money in return for groceries and clothes, which function of money is demonstrated?**

 **A**  Medium of Exchange **B** Store of Value

**103. The government agency that insures consumer deposits in banks is?**

 **A** F.D.I.C. **B** National Banking System

**104. Brandon had $5,000 in his savings account when his bank declared bankruptcy. Which of the following is true?**

 **A** Some of Brandon’s savings will be returned to him after the bank’s assets are sold off.

 **B** Brandon’s savings will be protected by the FDIC

**105. The formula used to compute the amount of reserves a banking institution must have is called the?**

 **A** Discount Rate **B**  Reserve Requirement

**106. Debts and obligations to others are known as?**

 **A**  Liabilities **D** Assets

**107. Liquidity refers to**

 **A** the ease of converting investments into cash **B** the net worth of a bank

**108. The expansion or contraction of the money supply to influence the cost and availability of credit is known as**

 **A** Fiscal Policy **B** Monetary Policy

**109. A tight money policy**

 **A** causes interest rates to increase **B** encourages economic growth

**110. Which of the following is primarily responsible for the control of the money supply?**

 **A** the Federal Reserve System **B** the Federal Deposit Insurance Corporation

**111. Open Market Operations**

 **A** refers to the Federal Reserve’s monitoring of all bank mergers

 **B** refers to the purchase or sale of government securities by the Federal Reserve

**112. If the Fed chairman desires to influence the economy of the U.S. by giving newspaper interviews then he is practicing the policy of?**

 **A** Open Market Operations **B** Moral Suasion

**113. If the Fed is practicing an easy money policy then the Fed wants interest rates to?**

 **A**  Increase **B**  Decrease

**114. If the Fed sells securities in an open market operation then the money supply will?**

 **A** Increase **B**  Decrease

**115. A relatively high tax that raises quite a bit of revenue while trying to stop the usage of a socially undesirable product is known as**

 **A** Duty Tax **B** Sin Tax

**116. A tax that imposes the same percentage rate of taxation on everyone, regardless of income is a**

 **A** Proportional Tax **B** Value Added Tax

**117. Which of the following is an example of a progressive tax?**

 **A** Georgia’s state sales tax **B** The federal income tax

**118. A tax imposed by the United States government designed to provide income for retired persons is?**

**A** Medicare **C** Social Security

**119. Which of the following taxes is the MOST regressive?**

**A** The federal income tax **B** A sales tax on food

**120. What is the total amount of money the Federal government has borrowed from others?**

 **A** The Federal budget deficit **B** The National debt

**121. What is the excess of federal expenditures over tax and revenue collections known as?**

 **A** The Federal budget deficit **B** The National debt

**122. What is the effect of the National Debt on the economy?**

 **A** It stimulates growth through expansion of the money supply

 **B** It slows growth by driving up interest rates and causing the need to raise taxes to offset interest

**123. Where does the Federal government receive its largest share of revenues?**

 **A** Corporate Income Taxes **B** Individual Income Taxes

**124. What are the tools that are used by government when influencing the economy through fiscal policy?**

 **A** Open Market Operations, reserve requirement, discount rate, interest on reserves

 **B** Government Spending and Taxation

**125. These are programs that are designed to act on their own to help stabilize the economy.**

**A** The Multiplier Effect **B** Automatic Stabilizers

**126. Under the theory of Keynesian Fiscal Policy, the total output of the economy should grow through**

 **A** Increasing in Government Spending **B** Decreasing the Money Supply

**127. In Supply-Side economics, the policies are designed to**

 **A** Increase Aggregate Supply **B** Increase Aggregate Demand

**128. The two key tenants of Supply-Side economics are**

 **A** Smaller Role of Government and Lower Taxes **B** Larger Role of Government and Higher Taxes

**129. A country’s ability to produce more of a product than another country is known as**

 **A**  comparative advantage **B**  absolute advantage

**130. If a country can produce a product at a lower opportunity cost than another country, then it has a(n)**

 **A**  comparative advantage **B**  absolute advantage

**131. A provision allowing a country to receive the same tariff reduction that the United States negotiates with a third country is called**

 **A** most favored nation clause **B** balance of payments

**132. Countries X and Y will NOT trade shoes and wheat if which of the following is true?**

 **A**  Country Y can produce enough shoes and wheat to satisfy the demand of its public

 **B**  The opportunity costs of producing shoes and wheat are the same in both countries

**133. What is not true of fixed exchange rates?**

 **A** the exchange rate does not change **B**  supply and demand determine currency’s value

**134. What will a stronger US dollar potentially lead to?**

 **A** Trade Deficit **B** Trade Surplus

**135. What is happening in the economy after 6 consecutive months of declining GDP?**

 **A** Recession **B** Depression

**Answers**

1. A
2. B
3. B
4. B
5. B
6. B
7. C
8. B
9. B
10. B
11. A
12. B
13. B
14. B
15. B
16. B
17. A
18. A
19. A
20. A
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34. A
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36. B
37. B
38. A
39. B
40. C
41. A
42. B
43. B
44. B
45. B
46. A
47. B
48. A
49. A
50. B
51. B
52. A
53. A
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96. B
97. A
98. A
99. C
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101. A
102. A
103. A
104. B
105. B
106. A
107. A
108. B
109. A
110. A
111. B
112. B
113. B
114. B
115. B
116. A
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118. C
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126. A
127. A
128. A
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130. A
131. A
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134. A
135. A