



World Economics Cup 2020

Fundamentals

1. A need is something that you desire to have because someone else has one.
 - A. True
 - B. False
2. There are only two kinds of economic resources: human and capital.
 - A. True
 - B. False
3. Quantity demanded means the quantity of products and services that consumers are willing and able to buy at a particular price.
 - A. True
 - B. False
4. Quantity supplied means the quantity of a product or service that businesses are willing and able to provide at a particular price.
 - A. True
 - B. False
5. There are a number of challenges involved with international trade, but currency exchange rates are not one of them.
 - A. True
 - B. False
6. A limit set on the quantity of a product that can be imported or exported is called an embargo.
 - A. True
 - B. False
7. In perfect competition, no single buyer or seller has a large enough part of the total market to affect price.
 - A. True
 - B. False
8. One opportunity cost of a cleaner environment is more expensive goods and services.
 - A. True
 - B. False
9. The principal reason for government taxing and spending is to provide public goods and services.
 - A. True
 - B. False
10. The difference between short run and long run is defined in terms of government

classification.

- A. True
 - B. False
11. Inflation is two consecutive quarters of rising GDP.
- A. True
 - B. False
12. Buying a bond gives the buyer a share in the ownership of the company.
- A. True
 - B. False
13. Higher real interest rates in lending markets tend to increase borrowing, and decrease saving.
- A. True
 - B. False
14. Higher GNP figures resulting from inflation do not represent an increase in output.
- A. True
 - B. False
15. Practical economists would order antipollution or clean-up measures only when the gains from reduced pollution damage exceeded the cost of cleaning up or preventing that amount of pollution.
- A. True
 - B. False
16. The equilibrium price for a product is the price at which the quantity supplied is _____.
A. more than the quantity demanded
B. less than the quantity demanded
C. equal to the quantity demanded
D. none of the above
17. If the price in a market is above the equilibrium price, this creates _____.
A. a shortage
B. a surplus
C. an equilibrium
D. none of the above
18. If the demand for masks increases, what will be the effect on firms already in the market and potential new entrants?
A. Current mask manufacturers will earn higher profits, and new firms will enter the market.
B. Current mask manufacturers will earn higher profits, and new firms will avoid the

- market.
- C. Current mask manufacturers will earn lower profits, and new firms will avoid the market.
- D. Current mask manufacturers will earn lower profits, and new firms will enter the market.
19. Under this type of economic system, people, rather than the government, own the resources and run the businesses. It is known as what kind of economy?
- A. market
- B. command
- C. capitalist
- D. both A and C
20. A good is more elastic when
- A. it is easy to produce more at the same cost
- B. it is made from rubber
- C. it is difficult to produce more at the same cost
- D. the marginal cost is equal to the price
21. If the elasticity of demand for college textbooks is -0.1 , and the price of textbooks increases by 20%, how much will the quantity demanded change, and in what direction?
- A. The quantity demanded increases by 2%
- B. The quantity demanded decreases by 20%
- C. The quantity demanded decreases by 2%
- D. The quantity demanded remains the same
22. Which of the following statements about the elasticity of supply is the most accurate?
- A. The elasticity of supply is typically greater with a greater quantity of products on hand.
- B. The elasticity of supply typically is not affected by time at all.
- C. The elasticity of supply is typically diminished the longer the period of adjustment.
- D. The elasticity of supply is typically greater the longer the period of adjustment.
23. For which of the following products would you expect the largest increase in price for the same increase in demand?
- A. Flashlights
- B. Pens
- C. Limited editions items.
- D. Jeans
24. Pilar earns \$26,200 before taxes working full-time as a police officer. She also earns an additional \$9,600 before taxes working part-time on the weekends as a security guard at the apartment complex where she lives. Her combined income of \$35,800 before taxes is known as her .
- A. net income
- B. taxable income
- C. gross income

- D. adjusted gross income
25. Calcium and iron are examples of _____.
A. vitamins
B. minerals
C. cholesterol
D. none of the above
26. An increase in the value of a piece of real estate is _____.
A. depreciation
B. appreciation
C. mortgage
D. none of the above
27. Nations producing the products that they can make most efficiently, even if other nations are better able to make these products, is known as having a _____.
A. tariff
B. comparative advantage
C. quota
D. none of the above
28. Nations create trade barriers to protect their young industries from _____.
A. competition
B. national security
C. domestic jobs
D. none of the above
29. The general increase in price reducing the value of money is known as _____.
A. depression
B. recession
C. deflation
D. inflation
30. Which of the following is an important characteristic of money?
A. It serves as a medium of exchange.
B. Its value is constant.
C. It is backed by gold.
D. Its supply is fixed.
31. When a country spends more on imports than it earns from exports, what occurs?
A. balance of trade
B. trade surplus
C. trade deficit
D. absolute advantage

32. Which one of the following is true about money supply in the economy?
- A. If the central bank wants to decrease the money supply, it buys government bonds.
 - B. If the central bank wants to increase the money supply, it sells bonds from its account, taking in cash and removing it from the economic system.
 - C. By lowering rates, the central bank can increase the money supply and boost economic activity.
 - D. By increasing reserve requirements, banks can loan more money, and increase the supply of money in the economy.
33. What is the root cause of scarcity?
- A. Consumers buy them too quickly.
 - B. Goods and services are not scarce.
 - C. Businesses control what they produce.
 - D. The factors of production used to produce them are scarce.
34. Which of the following is NOT one of the three key economic questions?
- A. What goods and services should be produced?
 - B. For whom should goods and services be produced?
 - C. When should the production of goods and services take place?
 - D. How should goods and services be produced?
35. Which of the following is NOT a natural resource?
- A. a river
 - B. a forest
 - C. a dam
 - D. a fish
36. _____ measures how much output is produced from given inputs.
- A. Capital deepening
 - B. Productivity
 - C. Standard of living
 - D. Capital
37. As long as supply and demand curves have their normal shape (the demand curves have a negative slope while supply curves have a positive slope), if there is a tax, the equilibrium quantity must _____ and the price that buyers pay must _____.
- A. fall; rise
 - B. fall; fall
 - C. rise; fall
 - D. fall; rise
38. When a price ceiling is in place keeping the price below the market price, what's larger: quantity demanded or quantity supplied?

- A. Quantity demanded.
 - B. Quantity supplied.
 - C. Indeterminate with the given information.
 - D. Neither.
39. How does a free market eliminate a shortage?
- A. By letting the price fall.
 - B. By letting the price rise.
 - C. By creating quotas.
 - D. By creating a price ceiling.
40. Which one of the following is true about a price ceiling?
- A. A price ceiling could prevent the price of a good from changing to its market price.
 - B. A price ceiling keeps the price of a good below a certain price.
 - C. A price ceiling set below the market price will create a shortage.
 - D. All of the above.
41. If the government imposes a price floor in the market for milk, then the price will be:
- A. above equilibrium and surpluses will result
 - B. below equilibrium and shortages will result
 - C. below equilibrium and surpluses will result
 - D. above equilibrium and shortages will result
42. What effect do wage subsidies have on the demand for welfare payments?
- A. Wage subsidies increase the demand for welfare payments.
 - B. Wage subsidies decrease the demand for welfare payments.
 - C. Wage subsidies have no effect on the demand for welfare payments.
 - D. Cannot judge due to the lack of information.
43. How is international trade similar to domestic trade?
- A. International trade makes people better off when preferences differ.
 - B. International trade increases productivity through specialization and the division of knowledge.
 - C. Trade increases productivity through comparative advantage.
 - D. All of the above
44. Which of the following statements is true?
- A. Every country has at least one comparative advantage in something.
 - B. Every country has at least one absolute advantage in something.
 - C. Neither A nor B.
 - D. Both A and B.
45. The cost of the next most valuable opportunity is known as a/an _____.
A. sunk cost

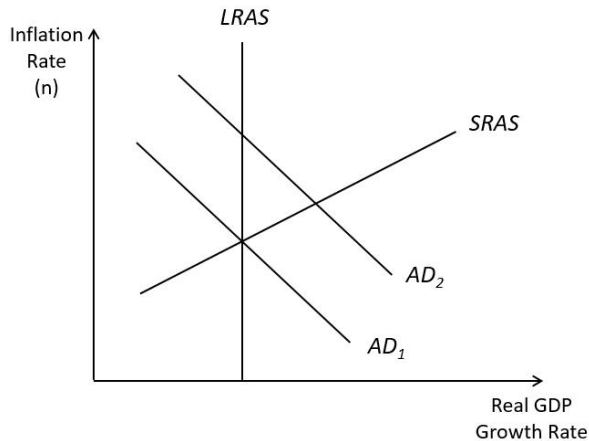
- B. opportunity cost
 - C. comparative advantage
 - D. absolute advantage
46. To take advantage of a lower opportunity cost to produce certain goods, countries _____.
A. import most goods
B. have higher labor costs
C. specialize
D. must have an educated labor force
47. The annoyance of your neighbor because she doesn't like your achingly conventional music is referred to as _____.
A. private costs
B. external costs
C. private benefits
D. external benefits
48. A competitive firm maximizes profit by choosing _____.
A. price
B. quantity
C. both price and quantity
D. neither price nor quantity
49. In a competitive market, sellers sell their product _____.
A. at the world price
B. just below the world price
C. just above the world price
D. at a price dependent on the quantity chosen
50. Wage and income differentials are generally due to:
A. differences in worker productivity
B. prejudice and discrimination in the workplace
C. random factors, such as height and weight
D. favoritism by the managers of the firm
51. Jason owns an ice cream store. His marginal revenue from selling another cone was \$2 and her marginal cost of selling the doughnuts was \$0.8. What was the change in her profit?
A. -\$1.2
B. +\$1.2
C. +\$2
D. +\$2.8
52. A firm in perfect competition has a demand curve that is:

- A. equal to the firm's total revenue curve
 - B. downward sloping
 - C. horizontal at the market price
 - D. dependent on the prices charged by rival firms
53. Competition among sellers results in:
- A. higher prices for buyers and higher profits for sellers.
 - B. higher prices for buyers and lower profits for sellers.
 - C. lower prices for buyers and lower profits for sellers.
 - D. lower prices for buyers and higher profits for sellers.
54. A competitive firm maximizes profit by choosing a level of output where the world price is equal to the firm's _____.
- A. marginal revolution
 - B. marginal revenue
 - C. marginal cost
 - D. average cost
55. For a competitive firm supplying wheat, if the world price (P) equals the firm's min average cost (min AC), then profits will be _____.
- A. greater than 0
 - B. less than 0
 - C. 0
 - D. undeterminable from the given information
56. In the long run, constant supply curves are _____.
- A. vertical
 - B. horizontal
 - C. sloping upwards
 - D. sloping downwards
57. Which group does Wal-Mart have monopoly power over?
- A. Convenience shoppers
 - B. Bargain shoppers
 - C. Both
 - D. Neither
58. Which one of the following would be considered critical to maintaining competition?
- A. monopoly power
 - B. high barriers to entry
 - C. government regulations
 - D. the absence of artificial barriers to entry erected by government
59. When it is cheaper for one firm to serve the market than for two or more firms to do so,

- that firm is called a _____.
- A. multinational corporation
 - B. oligopoly
 - C. monopoly
 - D. natural monopoly
60. A tax that takes a larger percentage of income from low-income earners than from high-income earners, is called _____.
- A. reversible tax
 - B. progressive tax
 - C. proportional tax
 - D. regressive tax
61. A progressive tax is based on the concept of _____.
- A. promoting lower marginal tax rates
 - B. production efficiency
 - C. maximum economic efficiency
 - D. the ability to pay
62. When the marginal tax rate is high it _____.
- A. reduces people's incentive to work
 - B. stimulates the stock market
 - C. raises the after-tax income
 - D. encourages people to work longer hours
63. The business cycle contains four stages, which in order are _____.
- A. recession, expansion, peak, and trough
 - B. expansion, peak, recession, and trough
 - C. trough, recession, peak, and expansion
 - D. trough, peak, recession, and expansion
64. _____ is the lowest point in the business cycle.
- A. Peak
 - B. Downtrend
 - C. Trough
 - D. Expansion
65. In the car repair market, moral hazard is a problem because *
- A. The car owner might pay money for a repair or service that was not needed.
 - B. The car owner might opt not to get a repair that was actually needed for fear of being ripped off.
 - C. Neither A nor B.
 - D. Both A and B.

66. A homogeneous product means
- A. the product has been pasteurized
 - B. all firms make different products
 - C. all firms make the same product
 - D. milk is involved
67. $GDP =$
- A. Savings + Investment + Income
 - B. Taxes + Wages + Government Spending
 - C. Investment + Consumption + Wages
 - D. Consumer Spending + Business Investment + Government Spending
68. What is the logic behind free riding?
- A. My decision to buy or not buy doesn't affect whether I receive the service.
 - B. It's better to get something for free than have to pay for it.
 - C. Receiving the service is solely based on the decisions of others.
 - D. All of the above.
69. Which of the following might have a free rider problem?
- A. Mail delivery
 - B. A large fireworks display
 - C. Space tourism
 - D. All of the above
70. A public good ____.
- A. must be approved by voters
 - B. is available for everyone
 - C. can be purchased by the public
 - D. can only be enjoyed by taxpayers
71. In the short run, changes in the money supply ____.
- A. cause inflation
 - B. cause deflation
 - C. mean a lower interest rate
 - D. cause changes in the economy through changes in interest rates
72. Money growth and inflation have ____.
- A. a direct relationship
 - B. never occurred together
 - C. no relationship
 - D. an inverse relationship
73. Real income refers to ____.
- A. your income minus taxes

- B. your income minus taxes and benefits
 - C. how much money you actually earn
 - D. how many goods and services you can buy
74. The law of ____ states that each additional increment of one good requires the economy to give up successively larger increments of the other good.
- A. supply and demand
 - B. increasing opportunity cost
 - C. productivity
 - D. diminishing return
75. Suppose after paying bills and setting aside some money for retirement, Joana has \$130 dollars left to spend on just two goods: concerts and books. For simplicity, we'll assume concert tickets cost \$55 and books cost \$10. Which of the following combination of goods could possibly be her utility-maximizing bundle?
- A. 3 concert tickets and 2 books
 - B. 2 concert tickets and 2 books
 - C. 1 concert ticket and 5 books
 - D. 1 concert ticket and 10 books
76. Real GDP controls for ____.
- A. changes in preferences.
 - B. changes in population.
 - C. changes in prices.
 - D. all of the above
77. The function of monetary policy is to ____.
- A. ensure uniform currency
 - B. encourage inflation
 - C. determine denominations of money
 - D. regulate the money supply
78. The government increases taxes on corporations, which is an example of ____.
- A. expansionary fiscal policy
 - B. contractionary fiscal policy
 - C. crowding out
 - D. fiscal multiplier
79. Suppose a change in fiscal policy causes the AD curve to shift from AD_1 to AD_2 , as shown below. Which response below would most likely cause that shift?



- A. A rise in taxes OR a rise in government spending.
 - B. A rise in taxes OR a fall in government spending.
 - C. A fall in taxes OR a rise in government spending.
 - D. A fall in taxes OR a fall in government spending.
80. The difference between the money flowing into and out of a country is the
- A. exchange rate
 - B. balance of payments
 - C. floating exchange rate
 - D. capital account
81. The target variables of Monetary and Fiscal Policy are
- A. taxes, unemployment and GNP
 - B. employment, GNP, and the price level
 - C. taxes, government spending, and unemployment
 - D. taxes, government spending, and the money supply
82. If the central bank of a country increases the minimum reserve ratio that domestic business banks are required to hold, what will occur?
- A. The banks can make more loans and the money supply decreases.
 - B. The banks can make more loans and the money supply increases.
 - C. The banks can make fewer loans and the money supply increases.
 - D. The banks can make fewer loans and the money supply decreases.
83. Which of the following is a major cause of structural unemployment?
- A. Short-term unemployment caused by college graduates searching for employment.
 - B. Large and long-lasting shocks to the economy.
 - C. Decreases in labor force participation amongst older workers.
 - D. All of the above.
84. All of the following have had an effect on structural unemployment EXCEPT:
- A. unemployment benefits.

- B. just-cause employment laws.
 - C. active duty military population.
 - D. none of the above.
85. In countries with high costs of hiring and firing, firms have a more difficult time _____ labor resources during economic fluctuations, making structural unemployment more prevalent.
- A. training
 - B. paying
 - C. reallocating
 - D. retaining
86. Cyclical unemployment is defined as:
- A. the amount of workers who have given up looking for work but would still take a job if it paid enough.
 - B. the natural rate of unemployment.
 - C. unemployment correlated with business fluctuations.
 - D. short-term unemployment caused by the difficulty of matching employees to open positions.
87. Which of the following contribute to why wages are considered sticky?
- A. People get upset when wages fall, particularly if they think their employer is causing the wage cut, which negatively impacts workplace morale.
 - B. If wages were easily cut, workers might respond by working less or disrupting their work, thus negatively affecting productivity.
 - C. Minimum wage requirements make it difficult to lower wages quickly or often.
 - D. All of the above.
88. Under some conditions, the government can reduce cyclical unemployment using _____ and _____ policies.
- A. humanitarian & tax
 - B. monetary & fiscal
 - C. domestic & foreign
 - D. industrial & anti-trust
89. Utility is defined as the _____.
- A. ability to change or be flexible
 - B. things wanted, above all others, first choice
 - C. amount of goods and services you can actually buy with your income
 - D. power that a good or service has to satisfy a want
90. In the system of floating exchange rates, what determines the value of one nation's currency in relation to those of another nation?
- A. International Trade Bank

- B. Law of supply and demand
 - C. Exchange rate determined by each country
 - D. Securities and Exchange Commission
91. Inflation caused by labor groups and others driving up prices of manufacturing inputs is known as
- A. cost-push.
 - B. demand-pull.
 - C. government deficits.
 - D. an increase in the money supply.
92. Which of the following is an important demographic factor that can influence the labor force participation rate?
- A. Age
 - B. Race
 - C. Religion
 - D. Citizenship status
93. Which of the following situations is an example of inflation occurring in a two-good economy?
- A. The price of apples is about 2% higher than it was five years ago, while the price of pears fell by about 2% over the same time period.
 - B. The price of apples and the price of pears have remained the same over the past 5 years, but wages for factory workers have increased since then.
 - C. The price of apples and the price of pears both increased by about 2% in the last five years.
 - D. The price of apples and the price of pears both decreased about 5% in the past 5 years.
94. If the CPI is 93 in 2014 and 97 in 2015, calculate the rate of inflation from 2014 to 2015.
- A. 4%
 - B. 4.12%
 - C. 4.3%
 - D. 5.2%
95. The phrase that “money is neutral in the long run,” means:
- A. after enough time, money is worthless.
 - B. if the money supply triples, prices will triple.
 - C. currency exchange rates are always fluctuating.
 - D. money is just a middle-man for the barter system.
96. What increases as a result of inflation?
- A. All prices, including wages.
 - B. All prices, except wages.
 - C. Prices of input goods only.

D. Prices of finished goods only.

97. Inflation interferes with the price system in which costly way?

- A. Inflation raises all prices so that consumers must pay more than they make.
- B. Inflation wastes seller resources, as they spend time and money changing prices.
- C. Inflation wastes buyer resources as they engage in more searching for lower prices.
- D. Inflation distorts price signals, making it difficult for consumers to tell if the price increase is due to scarcity or inflation, and react appropriately.

98. What is affected by the changing relationships among business, labor, and government?

- A. production only
- B. labor and government
- C. the relationships have not changed
- D. production, distribution, and consumption

99. What is the equilibrium interest rate?

- A. The interest rate set by the Federal Reserve.
- B. The interest rate that is affordable to borrowers.
- C. The interest rate such that the quantity demanded of loanable funds by borrowers equals the quantity supplied of loanable funds by lenders.
- D. The interest rate such that the quantity demanded of loanable funds by borrowers is greater than the quantity supplied of loanable funds by lenders.

100. Which one is a true statement regarding the relationship between interest rates and purchasing power?

- A. Rising interest rates mean more buying power.
- B. Dropping interest rates mean less buying power.
- C. Rising interest rates mean less buying power.
- D. Interest rates have no effect on buying power.

Answer keys:

- | | |
|-------|--------|
| 1. B | 51. B |
| 2. B | 52. C |
| 3. A | 53. C |
| 4. A | 54. C |
| 5. B | 55. C |
| 6. B | 56. B |
| 7. A | 57. A |
| 8. A | 58. D |
| 9. A | 59. D |
| 10. B | 60. D |
| 11. B | 61. D |
| 12. B | 62. A |
| 13. B | 63. B |
| 14. A | 64. C |
| 15. A | 65. D |
| 16. C | 66. C |
| 17. B | 67. D |
| 18. A | 68. D |
| 19. D | 69. B |
| 20. A | 70. B |
| 21. C | 71. D |
| 22. D | 72. A |
| 23. C | 73. D |
| 24. D | 74. B |
| 25. B | 75. B |
| 26. B | 76. C |
| 27. B | 77. D |
| 28. D | 78. B |
| 29. D | 79. C |
| 30. A | 80. B |
| 31. C | 81. B |
| 32. C | 82. D |
| 33. D | 83. B |
| 34. C | 84. C |
| 35. C | 85. C |
| 36. B | 86. C |
| 37. A | 87. D |
| 38. A | 88. B |
| 39. B | 89. D |
| 40. D | 90. B |
| 41. A | 91. A |
| 42. B | 92. A |
| 43. D | 93. C |
| 44. A | 94. C |
| 45. B | 95. B |
| 46. C | 96. A |
| 47. B | 97. D |
| 48. B | 98. D |
| 49. A | 99. C |
| 50. A | 100. C |