Introductory Economics

Choose one answer per question. Circle A, B, C, or D.

1. A community garden has more applicants than plots. Which basic economic idea explains why it must decide how to allocate the plots?
   A. Scarcity
   B. Inflation
   C. A budget surplus
   D. Comparative advantage

2. Jo has one free hour. Her only options are practicing guitar and attending a free workshop. What activity is her opportunity cost if she chooses the workshop?
   A. Buying a guitar
   B. Attending the workshop
   C. Practicing guitar
   D. Finding out when the workshop starts

3. A bakery lowers its price for muffins. Under the law of demand, what happens to the quantity demanded if everything else relevant stays the same?
   A. It decreases
   B. It increases
   C. It stays fixed
   D. It becomes equal to the old quantity supplied

4. Which condition describes the equilibrium price in a basic supply-and-demand model?
   A. All potential buyers purchase the same number of goods
   B. Every buyer pays the highest price they would accept
   C. Sellers have no production costs
   D. Quantity demanded equals quantity supplied

5. Which transaction reflects new production counted in this year's U.S. gross domestic product?
   A. A used blender passed from one household to another
   B. A kitchen blender made in the U.S. this year and sold this year
   C. A blender made and purchased abroad
   D. A payment received for selling an existing stock holding

6. Household incomes rise. Assume board games are a normal good. What happens to the demand for board games, all else equal?

A. It rises at each price
B. It falls at each price
C. Only supply increases
D. Demand can rise only if the market price falls

7. A cheaper ingredient lowers the cost of baking bread. What happens to bread supply, all else equal?

A. The supply curve stays fixed and sellers move up it
B. Sellers offer less at a given price
C. Buyers want more at every price because their income rose
D. Sellers offer more at a given price

8. At $4, buyers want 90 notebooks and sellers offer 60. At $5, both want to trade 75. At $6, buyers want 60 and sellers offer 90. Which listed price clears the market?

A. $6
B. $4
C. $5
D. None of the listed prices

9. A workshop's noise keeps nearby residents awake. The residents do not buy its products or receive compensation. What describes the cost imposed on them?

A. A negative externality
B. A price ceiling
C. A production subsidy
D. A decrease in private production costs

10. A stall can make one more batch of rolls. It would bring in $9 of additional revenue and add $7 of cost, with no other effects. What is the batch's effect on profit?

A. Profit rises by $16
B. Profit rises by $9
C. Profit falls by $7
D. Profit rises by $2

11. A binding price ceiling is set at $4. At that price, buyers want 120 units and sellers offer 90. What imbalance does the model predict?

A. A shortage of 90 units
B. A surplus of 30 units
C. A shortage of 30 units
D. A surplus of 120 units

12. A consumer price index rises from 120 to 132 over one year. What is the percentage increase?

A. 12%
B. 10%
C. 9.1%
D. 32%

13. In one shift, Ari can make 8 mugs or 4 plates. Bo can make 6 mugs or 6 plates. Assuming constant trade-offs, who gives up fewer mugs to make one plate?

A. Neither, because both can make mugs and plates
B. Ari, who gives up half a mug per plate
C. Ari, because Ari can make more mugs per shift
D. Bo, who gives up one mug per plate

14. An economy produces only 100 chairs each year. The price rises from $40 to $50. Using the first year's price as the base, what happens in the second year?

A. Nominal GDP rises to $5,000, and real GDP stays at $4,000.
B. Nominal and real GDP both rise to $5,000.
C. Nominal GDP stays at $4,000, and real GDP rises to $5,000.
D. Nominal and real GDP both stay at $4,000.

15. One more unit brings $22 in benefit to its buyer. It costs the producer $18 in resources and imposes $7 of pollution damage on others. With no other effects, what does a social cost-benefit test say about producing the unit?

A. Produce it. Total social benefit is $29, above the $18 cost.
B. Produce it. Total social cost is $18, below the $22 benefit.
C. Skip it. Total social cost is $25, above the $22 benefit.
D. Skip it. Only the $7 pollution damage counts as a social cost.