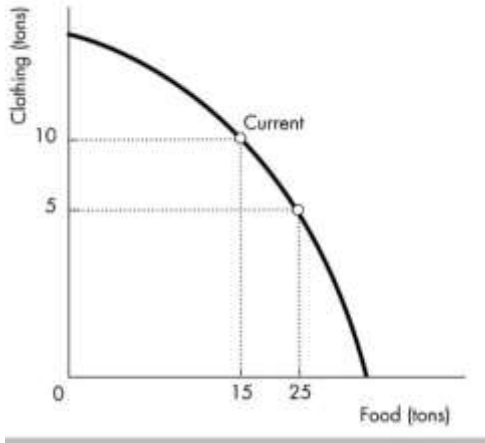


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Lec 1: The Economic problem



1. The production possibilities frontier has _____.
A) upward sloping and reflects unlimited choices.
B) upward sloping and reflects tradeoffs in choices.
C) downward sloping and reflects unlimited choices.
D) negative slope and reflects tradeoffs in choices.

2. On the vertical axis, the production possibilities frontier shows _____. On the horizontal axis, the production possibilities frontier shows _____.
A) the quantity of a good; the number of workers employed to produce the good
B) the quantity of a good; the price of the good
C) the quantity of a good; a weighted average of resources used to produce the good
D) the quantity of one good; the quantity of another good

3. Any production point inside the production possibilities frontier is inefficient.
True

Lec 2: Demand Theory

- The "**law of demand**" states that changes in the quantity demanded of a good are **inversely** related to changes in its price
- Change **the Price** of the good → Change in **quantity demanded** → **Movement** along the demand curve
- Change **Factors** → Change in **demand** → **Shift** the demand curve

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At given price level, the Main factors that change demand are:

- **P**rices of other goods (substitute **(+)** or complementary **(-)**)
- **O**utlook (Expected future prices **(+)** - Expected future income and credit **(+)**)
- **I**ncome (Normal good **(+)**, inferior good **(-)**)
- **N**umber of potential customers (Population) **(+)**
- **T**aste (Preferences) for a good **(+)** / against the good **(-)**



4. 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.

5. If consumers but not producers expect that the price of soda will rise in November, the

A) the current supply of soda will increase.

B) the current demand for soda will decrease.

C) the current demand for soda will increase.

D) the current supply of soda will decrease.

6. Normal goods are those for which demand decreases as income increases. **False**

7. A substitute is a good that can be used in place of another good. **True**

8. For "an increase in the quantity demanded" but not "an increase in demand" to occur, there must be a movement along the demand curve. **True**

9. An increase in the price of apple leads to shift the Demand curve for apple. **False**

Lec 3: Supply theory

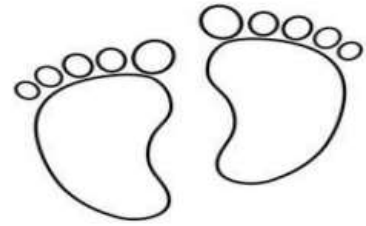
- The "**law of Supply**" states that changes in the quantity supplied of a good are **positively** related to changes in its price
- Change **the Price** of the good → Change in **quantity supplied** → **Movement** along the supply curve
- Change **Factors** → Change in **Supply** → **Shift** the Supply curve

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❖ At given price level, the Main factors that change supply are:

“I.N.S.T.E.P”

1. **I** nputs (-)
2. **N** umber of suppliers (+)
3. **S** tate of nature (-)
4. **T** echnology (+)
5. **E** xpected future prices (-)
6. **P** rices of related goods produced)
 - (substitute (-) or complementary (+))



10. As the price of peanuts falls, the

- A) supply of peanuts increases.
- B) supply of peanuts decreases.
- C) quantity of peanuts supplied increases.
- D) quantity of peanuts supplied decreases.**

11. If the price of a good changes but everything else influencing suppliers' planned sales remains constant, there is a

- A) new supply curve that is to the right of the initial supply curve.
- B) new supply curve that is to the left of the initial supply curve.
- C) movement along the supply curve.**
- D) rotation of the initial supply curve around the initial price.

12. The quantity supplied is-----

- A) always equal to the equilibrium quantity.
- B) independent of the price of the good.
- C) the amount of a good that producers plan to sell at a particular price.**
- D) independent of producers' selling plans.

13. To say that "supply increases" for any reason, means there is a shift rightward in the supply curve. **True**

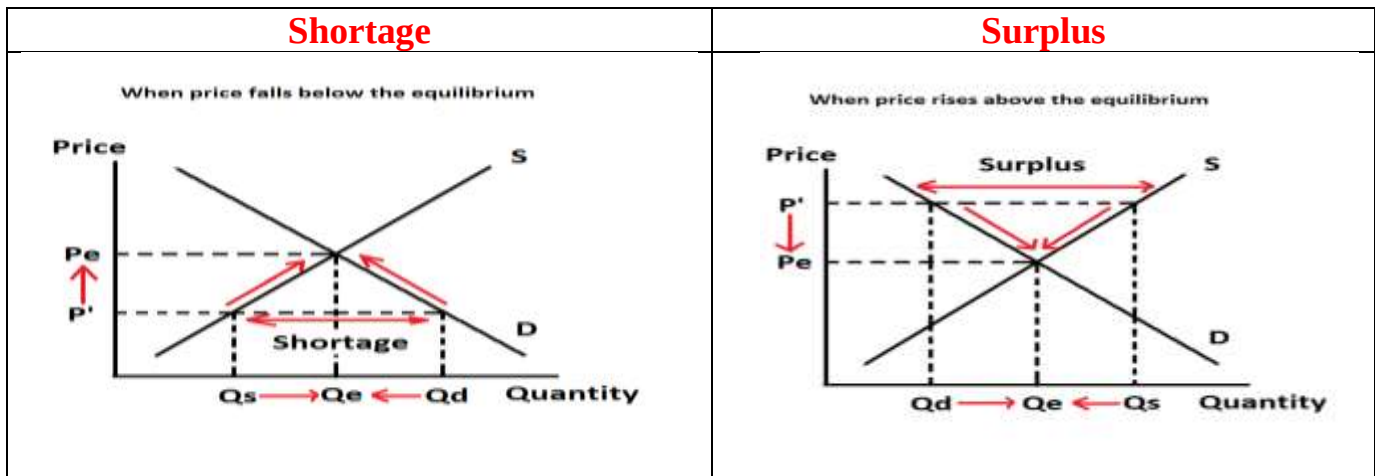
14. The law of Supply states that the quantity of a good Supplied varies negatively with its price. **False**

15. For "an increase in the quantity supplied" but not "an increase in supply" to occur, there must be a shift the supply curve. **False**

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Lec 4: Market Equilibrium, and its applications

- **Equilibrium** in a market where **quantity supplied equals the quantity demanded.**



Effects of changes in demand and supply

Change in D	Change in S	Effect on P_e	Effect on Q_e
Increase	Fixed	↑	↑
Decrease	Fixed	↓	↓

16. A shortage causes the

- A) demand curve to shift leftward.
- B) supply curve to shift rightward.
- C) price to fall.
- D) price to rise.**

17. The price of a good will fall if

- A) there is a surplus at the current price.**
- B) the current price is less than the equilibrium price.
- C) the quantity demanded exceeds the quantity supplied.
- D) the price of a complement in consumption falls.

18. Which of the following is the best way to describe equilibrium in a market? At equilibrium, the-----

- A) price is the lowest possible.
- B) price is usually affordable to most people.
- C) supply and demand curves can never shift again.
- D) quantity supplied equals the quantity demanded.**

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19. Which of the following statements is correct?

- A) **When demand increases, both the price and the quantity increase.**
- B) When demand decreases, the price rises and the quantity decreases.
- C) When supply increases, the quantity decreases and the price rises.
- D) When supply decreases, both the price and the quantity decrease

20. The equilibrium price is the price at which the quantity demanded more than the quantity supplied. **False**

21. A price above the equilibrium price results in a surplus **True**

22. An increase in demand combined with no change in supply decreases the equilibrium price. **False**

Lec 5: Elasticity of Demand, and Elasticity of Supply

The price elasticity of demand measures **the responsiveness of the quantity demanded to change in price**

Unit Elastic	Elastic	Inelastic	Perfectly Elastic	Perfectly Inelastic
$\% \Delta Q_d = \% \Delta P$	$\% \Delta Q_d > \% \Delta P$	$\% \Delta Q_d < \% \Delta P$	$\% \Delta Q_d = \infty$	$\% \Delta Q_d = 0$
<u>$E_d = 1$</u>	<u>$E_d > 1$</u>	<u>$0 < E_d < 1$</u>	<u>$E_d = \infty$</u>	<u>$E_d = 0$</u>
			Demand curve is horizontal	Demand curve is Vertical

Unit Elastic	Perfectly Elastic	Perfectly Inelastic
$\% \Delta Q_s = \% \Delta P$	$\% \Delta Q_s = \infty$	$\% \Delta Q_s = 0$
<u>$E_s = 1$</u>	<u>$E_s = \infty$</u>	<u>$E_s = 0$</u>
	Supply curve is horizontal	Supply curve is Vertical As paintings by Picasso

23. 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.**

24. Demand is elastic if.

- A) a large change in quantity demanded results in a small change in price.
- B) the quantity demanded is very responsive to changes in price.
- C) the price elasticity of demand is less than 1.
- D) **the price elasticity of demand is greater than 1.**

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25. The price elasticity of demand for oil is estimated at 0.07. This value means a 10 percent increase in the

- A) quantity of oil demanded will result from a 0.7 percent increase in the price of oil.
- B) quantity of oil demanded will result from a 0.7 percent decrease in the price of oil.
- C) price of oil will increase the quantity of oil demanded by 0.7 percent.
- D) price of oil will decrease the quantity of oil demanded by 0.7 percent.**

26. If the price elasticity is between 0 and 1, demand is elastic. **False**

27. Demand is inelastic if the price elasticity of demand is less than 1. **True**

28. If the price elasticity equals 1, demand is unit elastic. **True**

29. When the price elasticity of demand for a good 0, the demand curve is vertical. **True**

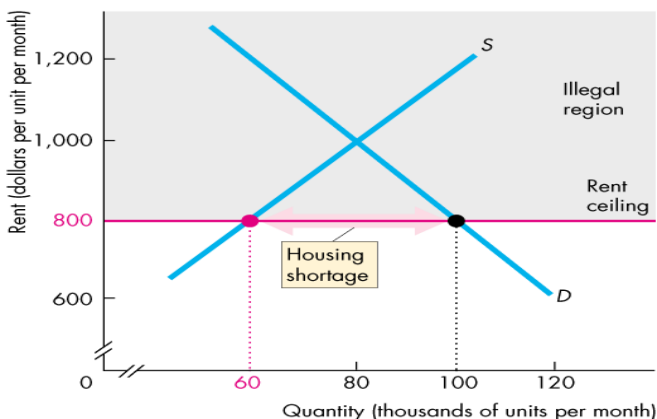
30. The elasticity of supply for paintings by Picasso is perfectly elastic. **False**

31. The elasticity of supply equals infinity if the supply curve is horizontal. **True**

Lec 6: Government Intervention in Markets

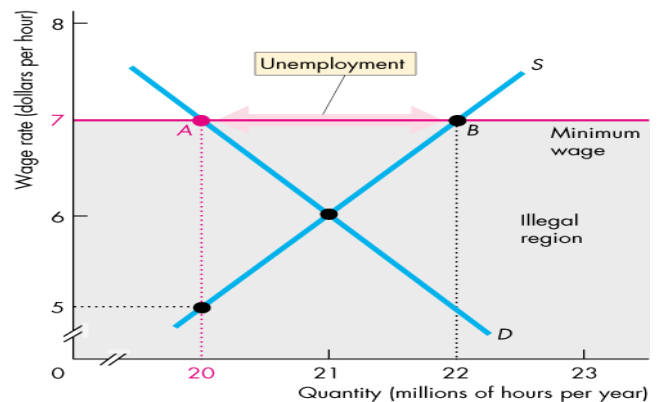
(1) price ceiling

- **A price ceiling** is a **legal maximum** on the price of a good.
- An example is **rent ceiling**.
- If the price ceiling is **below the Equilibrium** price, it is binding and causes **a shortage**.
- If the price ceiling is **above the Equilibrium** price, it **has no effect**



(2) price floor

- **A price floor** is a **legal minimum** on the price of a good.
- An example is **the minimum wage**.
- If the price floor is **above the Equilibrium** price, it is binding and causes **a surplus**. The labor surplus caused by the minimum wage is **unemployment**.
- If the price floor is **below the Equilibrium** price, it **has no effect**.



(3) Taxes

- A fine on consumers will decrease demand curve, and shift it to the left

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32. To have an effect, a price ceiling must be set _____.

- A) above the equilibrium price
- B) equal to the equilibrium price
- C) below the equilibrium price**
- D) by suppliers

33. A rent ceiling set above the equilibrium rent

- A) restricts the quantity demanded but not the quantity supplied.
- B) restricts the quantity supplied but not the quantity demanded.
- C) restricts both the quantity demanded and the quantity supplied.
- D) has no effect.**

34. A price floor is a legal minimum on the price of a good. **True**

35. If the price ceiling is below the Equilibrium price, it is binding and causes a shortage. **True**

36. A fine on smoking cigarettes shifts the demand curve of cigarettes leftward. **True**

Lec 7: output, and Cost

$$\text{Accounting Profit} = \text{Total Revenue} - \text{Explicit Costs}$$

$$\text{Economic Profit} = \text{Total Revenue} - (\text{Explicit Costs} + \text{Implicit Costs})$$

37. Which would be an implicit cost for a firm? The cost:

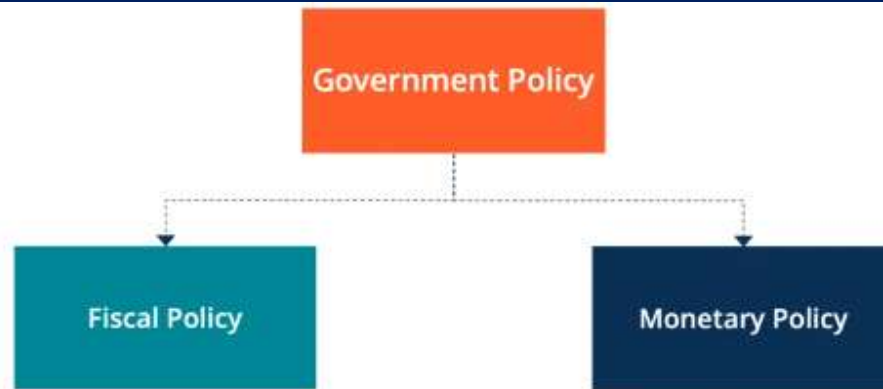
- A) of worker wages and salaries for the firm.
- B) paid for leasing a building for the firm.
- C) paid for production supplies for the firm.
- D) of wages foregone by the owner of the firm**

38. Implicit costs are "payments" for self-employed resources. **True**

39. The accounting profit differs from economic profit. **True**

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Lec 8: Monetary Policy, and Fiscal policies



Expansionary MP

At the time of **recession, and Unemployment**

- 1) CB buys bonds through open market operations
- 2) CB reduces discount rate
- 3) CB reduces RRR

Contractionary MP

At the time of **expansion, and inflation**

- 1) CB sells bonds through open market operations
- 2) CB increases discount rate
- 3) CB increases RRR

Expansionary FP

At the time of **recession, and Unemployment**

T↓ or G↑

Contractionary FP

At the time of **expansion, and inflation**

T↑ or G↓

• **Government Budget** $\equiv G - T$

- If Expenditure more than Revenue ($G > T$), **Budget Deficit**,
- If Expenditure less than Revenue $G < T$, there would be a **Budget surplus**
- If Expenditure equals Revenue $G = T$, there would be a **Budget balance**

40. The major government policies that can be used to pursue its macroeconomic goals are

- (A) fiscal policy and debt policy
- (B) **fiscal policy and monetary policy**
- (C) fiscal policy, debt policy and monetary policy
- (D) fiscal policy, monetary policy and subsidies

41. Monetary policy of a country is managed by

- (A) **Federal or central bank**
- (B) finance ministry
- (C) commercial banks
- (D) board of revenue

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42. If the Fed wished to eliminate a Recessionary gap, which of the following would be an appropriate policy?

- A) decreases required reserve ratio
- B) buy bonds, and government securities**
- C) sells bonds, and government securities
- D) decreases discount rate

43. The government's fiscal policy denotes the use of government's

- (A) taxes and expenditure**
- (B) consumption and investment
- (C) taxes and revenue
- (D) consumption and expenditure

44. When tax revenues exceed expenditure, the government has a _____,

- A) budget deficit
- B) budget surplus**
- C) budget debt
- D) budget surplus; budget debt

45. Fiscal policy involves the use of interest rates to influence the level of GDP. **False**

46. The budget deficit is the difference between government expenditure and tax revenues. **True**

47. Monetary policy is known as the policies that fiscal authorities adopt. **False**

48. Expansionary Monetary policy is a monetary policy designed to increase activity in the economy. **True**

Lec 9: MEASURING GDP AND ECONOMIC GROWTH

- **GDP** or **gross domestic product** is the market value of all final goods and services produced in a country in a given time period. This definition has four parts:
 - **Market value**→ market prices
 - **Final goods and services** →an item bought by its final user during a specified time period to avoid double counting
 - **Produced within a country**→ domestic production
 - **In a given time period**→ normally a year or a quarter of a year.

$$\text{Net Export} = \text{Exports} - \text{Imports}$$

$$\text{NX} = (\text{X} - \text{M})$$

$$\text{Exports} > \text{Imports} \text{ Surplus}$$

$$\text{Exports} < \text{Imports} \text{ Deficit}$$

$$\text{Exports} = \text{Imports} \text{ Balanced}$$

- **Real GDP** is measured in base year prices, while **nominal GDP** is measured in current year prices

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- **Limitations of Real GDP as a measure of economic welfare**

1. Real GDP does not include Quality improvements
2. Real GDP does not include household production
3. Real GDP does not include the underground economy, illegal economic activity
- Real GDP does not account for people's health and life expectancy
5. Real GDP does not consider the value of leisure time.
6. Real GDP does not consider Environmental Quality / damage
7. Real GDP does not indicate the extent of political freedom and social justice enjoyed by a nation's citizens

49. 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 goods and services
- C) amount of final and intermediate goods and services
- D) market value of all final goods and services**

50. In computing GDP, it is essential to

- A) avoid double counting.**
- B) include government transfer payments.
- C) include government tax revenues.
- D) count all intermediate products directly as they are produced.

51. A country with a larger GDP per person generally has a higher standard of living or quality of life than a country with a smaller GDP per person. **True**

52. Real GDP is measured in base year prices, while nominal GDP is measured in current year prices. **True**

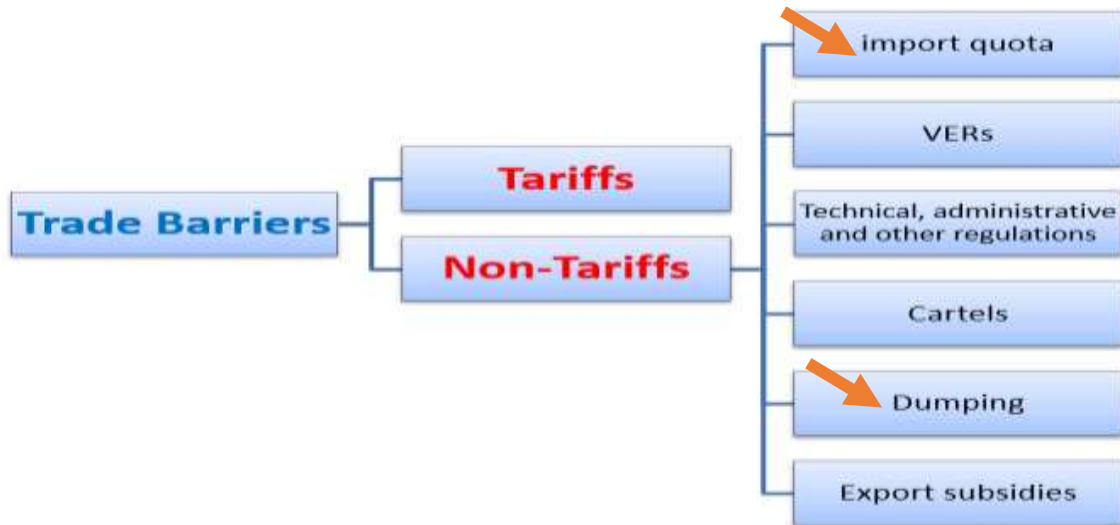
53. When Exports are less the imports, then there is a trade deficit. **True**

54. Household production is measured in the GDP. **False**

Lec 10: International Trade



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Specific tariff	Ad valorem tariff	Compound tariff
A <u>per unit</u> tax on imported goods. (Fixed)	A <u>percentage</u> of the value of the imported good. (Change)	A <u>mixed</u> of both (Fixed+ Change)
• <u>6\$ per Car</u>	• <u>4% of the value or price of a car</u>	• <u>6\$ + 4%</u>

55. The Mercantilists believed:

- A. that international trade was a win-lose game.
- B. that international trade was an n-sum game.
- C. that maximizing a country's imports would improve its welfare.
- D. that exports were detrimental to a country's economy

56. A tax of 20% per imported item is an example of a(an)

- A) ad valorem tariff.
- B) specific tariff.
- C) compound tariff.
- D) optimum tariff.

57. According to Adam Smith, international trade is based on comparative advantage.

False

58. The Mercantilists did NOT advocate Free trade. **True**

59. With a compound tariff, a domestic importer of an automobile might be required to pay a duty of \$300 plus 5% of the value of the automobile. **True**

60. Dumping is a direct quantitative restriction on the amount of a commodity allowed to be imported, imposed by importing countries **False.**