

Question 1

Which of the following statements about factors of production is **false**?

- ☐ a) The term 'factors of production' is another term for resources.
- ☐ b) The factor of production termed labor means human resources.
- ☐ c) The factor of production termed land means natural resources.
- ☒ d) The factor of production termed capital means the money which the owners of firms need in order to set their firms up.

Only statement **d** is a false statement about factors of production. The term capital is one which people use in a variety of ways, and it is true that firms might often say they need to raise capital in order to set their firms up or expand them. But as a factor of production, capital always means the capital goods such as plant, buildings, vehicles, and machinery which producers use in producing goods and services.

Question 2

Which of the following statements about the use of resources is **not** one of the key questions in economics?

- ☐ a) How are resources used?
- ☒ b) Where are resources used?
- ☐ c) For what are resources used?
- ☐ d) For whom are resources used?

Only statement **b** is **not** one of the key questions in economics. It is not a key question, because as far as the problem of scarcity is concerned, it does not matter where resources are used to produce goods and services. Admittedly, some people are deeply concerned by this question: for example, people who are unemployed in one country might prefer resources to be used there rather than in another, to give them the chance of a job. But from a scarcity point of view, it does not matter where the resources are used.

Question 3

Which of the following statements about producers is **false**?

- ☐ a) Households produce many goods and services for themselves
- ☐ b) People set up some producers who do not aim to make profits.
- ☒ c) All the goods and services consumed in any country are produced by its own producers.
- ☐ d) Governments arrange the production of some goods and services.

Only statement **c** is a false statement about producers: this is because some of the goods and services which people in any economy consume are produced by producers in other countries and imported. The only economy of which it could be said that there are no imports from outside is the global economy.

Question 4

Which of the following statements is true?

- ☐ a) Despite the problem of scarcity, people do not always want producers to use the most efficient production methods.
- ☐ b) The problem of scarcity would disappear if the world's population grew to ensure more labour was available.
- ☐ c) A producer who uses no more resources than it needs must display productive efficiency.
- ☐ d) The world's economies were as integrated 50 years ago as they are today

Only statement **a** is true. People may not want producers to use the most efficient methods if, for example, these involve unacceptable damage to the environment, or cruelty to animals. Statement **b** is false because a rise in population will lead to yet more wants as well as more resources. Statement **c** is false because a producer who uses no more resources than necessary will still be inefficient if the resources are more valuable than others which might have been used instead. Statement **d** is false because economies were far less integrated 50 years ago.

Question 5

What is meant by intermediate goods and services?

- ☐ a) The same as capital goods, such as plant, buildings, vehicles and machinery.
- ☐ b) Products which one firm buys off another and then uses up in its own products.
- ☐ c) All inputs bought by firms, including labour and raw materials.
- ☐ d) Imports.

Only statement **b** is true. Statement **a** is false because capital goods are not used up in production, even though they are used. Statement **c** is false because labour is not an intermediate good or service, which has to be bought from another producer. Statement **d** is false because not all imports are used up in production - for example if you as a consumer buy an imported book over the internet, this book is not used up in production by any firms or other producers in your country.

Question 6

What is meant by the term final goods and services?

- ☐ a) The same as the term intermediate goods and services.
- ☐ b) The same as the term consumer goods and services.
- ☐ c) All goods and services except those traded second hand.
- ☐ d) Goods and services which are finished as far as the economy is concerned.

Only statement **d** is true. Statement **a** is false because final goods do not include intermediate goods and services. Statement **b** is false because final goods include capital goods as well as consumer goods and services. Statement **c** is false because it would include intermediate goods and services.

Question 7

Which of the following statements is **false**?

- ☐ a) Purchases of capital goods are called investment

- ☐ b) GDP equals the total value of wages received by households.
- ☐ c) In a simple economy with just households and firms, the value of investment equals the value of saving.
- ☐ d) In a simple economy with just households and firms, the value of investment plus consumers' expenditure equals GDP.

Only statement **b** is **false**. GDP does not equal wages alone, but rather equals wages plus trading profits.

Question 8

Which of the following statements is **false**?

- ☐ a) GDP measures the value of all the goods and services produced in the economy.
- ☐ b) GDP stands for gross domestic product.
- ☐ c) GDP excludes intermediate goods and services.
- ☐ d) GDP equals wages plus trading profits.

Only statement **a** is **false**. This is because GDP covers only final goods and services, and excludes intermediate goods and services.

Question 9

Which of the following statements is true?

- ☐ a) Microeconomics is concerned chiefly with the economy as a whole.
- ☐ b) Macroeconomics is concerned chiefly with individual markets.
- ☐ c) Governments have no influence over market prices.
- ☐ d) When economists study the price in a market, their chief aims are to understand why the price is what it is and why it may change.

Only statement **d** is true. Note that statement **a** explains macroeconomics and statement **b** explains microeconomics.

Question 10

Which of the following statements is **false**?

- ☐ a) An economic model is a theory based on key variables and expressed in formal terms.
- ☐ b) An economic model is tested by seeing how accurate its predictions are.
- ☐ c) Testing economic models is rarely tricky.
- ☐ d) The words 'ceteris paribus' mean other things remaining the same.

Only statement **c** is **false**. Testing economic models is often very tricky, partly because economists can rarely conduct experiments and partly because it is often hard to isolate the effects of any particular

event.

Question 11

Which of the following is **not** required for a country to be producing at a point on its production possibility frontier?

- ☐ a) Full employment of labor.
- ☐ b) All producers using the latest technology.
- ☐ c) Stable prices.
- ☐ d) All producers having productive efficiency.

Only **c** gives a condition that is **not** required for a country to be on its production possibility frontier. For example, the economy in Figure 2.2 on page 22 could be at point y, producing 35,000 bricks and 70,000 loaves each day. It could be there if prices were stable, or rising at 5% a year, or even 5% a day, or even if prices were falling. But it could not be there unless there was full employment of labour, full productive efficiency, and the use of the latest technology by all producers.

Question 12

Which of the following statements is true?

- ☐ a) The production possibility frontier is steeper at the right end than the left because some resources are better suited to making some products than others.
- ☐ b) The production possibility frontier is straight because some resources are better suited to making some products than others.
- ☐ c) The production possibility frontier is steeper at the left end than the right because some resources are better suited to making some products than others.
- ☐ d) The production possibility passes the point which represents total wants in the economy.

Only statement **a** is true. The frontier is flat at the left end because if a country initially produced only the product on the vertical axis, and then shifted some resources into the product on the horizontal axis, it would initially take resources little suited to the former and well suited to the latter, so output of the former would fall little while output of the latter would rise greatly. Total wants are at a point way outside the frontier.

Question 13

Which of the following will **not** shift a country's production possibility frontier?

- ☐ a) A fall in unemployment.

- ☐ b) An increase in the age at which people retire.
- ☐ c) The introduction of improved technology.
- ☐ d) Purchases of new capital by firms.

Only statement **a** concerns an event that will **not** shift the frontier. If there is a fall in unemployment, then a country will move from a point inside the frontier to one closer to it.

Question 14

Which of the following types of economy describes the economy of the UK?

- ☐ a) A command economy.
- ☐ b) A market economy.
- ☐ c) A mixed economy.
- ☐ d) A planned economy.

Only statement **c** describes the situation in the UK, where the UK government seeks to influence the use of resources rather than leave their use to market forces, as applies in a market economy, or to control their use, as applies in a command or planned economy.

Question 15

All the following government policies are likely to increase the quantity of some products that are produced. But with one policy, this effect is a side-effect rather than the aim. Which policy is that?

- ☐ a) A policy intended to improve efficiency.
- ☐ b) The introduction of subsidies on some products.
- ☐ c) A policy intended to reduce unemployment.
- ☐ d) The introduction of taxes on the rich and transfers to the poor.

Only policy **d** does not intend to increase the output of some products, so that any increase is a side-effect. This side-effect is likely to arise, because the products which the poor consume more when the transfers are introduced may differ from the products which the rich consume less when the taxes are introduced.

Question 16

Which of the following policies would increase production by taking it to a point closer to the production possibility frontier, but would not shift the frontier?

- ☐ a) A policy that encouraged firms to buy more industrial plant.
- ☐ b) A policy that encouraged firms to develop and introduce improved technology.
- ☐ c) A policy that encouraged firms to buy more machinery.
- ☐ d) A policy that encouraged firms to adopt better technologies that are already available.

Only statement **d** concerns a policy that would not shift the production possibility frontier. That is because if firms are not using the best available technology, then production is inside the frontier, because the economy is producing less than it is currently possible for it to produce. Each other policy would allow the economy in future to produce more than it is possible for it to produce at present.

Question 17

Suppose a country is currently producing at a point on its production possibility frontier, and undertakes no trade with other countries. Then trade is opened up. Which of the following would **not** occur as a direct result?

- ☐ a) Its production possibility frontier would shift.
- ☐ b) Its production would shift to another point on its production possibility frontier.
- ☐ c) The pattern of products that the country produced would differ from the pattern that its consumers consumed.
- ☐ d) Consumers would be able to consume at a point outside the production possibility frontier.

Only statement **a** concerns an effect that would not occur as a direct result of trade. Trade does not of itself shift the frontier because it does not of itself give a country any more resources or allow the country to use its resources more productively. But trade is likely to encourage the country to shift its pattern of production to products which it is relatively good at making. Also, by promoting exports and imports, trade leads to the pattern of products which is consumed differing from the pattern which is produced. Finally, trade does allow consumption to be at a point outside the production possibility frontier. Production, of course, is as always constrained to be at a point on or inside the frontier, which is why the frontier gets its name.

Question 18

Which of the following policies is **not** classed as a stabilization policy?

- ☐ a) A policy aimed at reducing unemployment.
- ☐ b) A policy aimed at reducing the number of people in poverty.
- ☐ c) A policy aimed at reducing the rate of inflation.
- ☐ d) A policy aimed at shifting the production possibility frontier outwards.

Only statement **b** concerns a policy which is not a stabilization policy. Instead, this is a redistribution policy.

Question 19

Which of the following statements is a positive statement?

- ☐ a) Bankers' bonuses should be taxed.
- ☐ b) The eurozone ought to allow member countries in difficulty to stop using the euro and use currencies of their own instead.
- ☐ c) One of the largest industries in the UK is the financial services industry.
- ☐ d) The UK government ought to split up some of the largest UK banks to promote more competition in the banking industry.

Only statement **c** is a positive statement which concerns a fact; incidentally, the fact is true, but this does not affect whether the statement is a positive one. The other statements are all normative statements about what the person making the statements believes should happen.

Question 20

Suppose you buy *Economics* by David King. What is the opportunity cost of your purchase?

- ☐ a) The money you paid for the book.
- ☐ b) Whatever you would have spent the money on if you had not bought the book.
- ☐ c) The cost of producing the book.
- ☐ d) The time you spend studying the book

Statement **b** gives the correct answer because it relates to the best alternative you went without in order to buy the book.

Question 21

The supply and demand model applies when three of the following four conditions are met. Which condition is **not** required?

- ☐ a) There must be many buyers.
- ☐ b) There must be many sellers.
- ☐ c) The buyers and sellers must trade an identical item.

- ☐ d) The item traded must be a product.

Condition **d** is **not** required. The item traded could be labour, which is used in many examples in the chapter. It could also be something different, such as a currency, or shares in a large company.

Question 22

Which of the following predictions is **not** made by the supply and demand model?

- ☐ a) If there is excess demand, the price will rise.
- ☐ b) If there is excess supply, the price will fall.
- ☐ c) If there is no excess demand or excess supply, the market will be in equilibrium.
- ☐ d) A market which is out of equilibrium will always move rapidly to the equilibrium,

Prediction **d** is **not** made by the model. The model argues that a price which is away from equilibrium will move towards equilibrium, but the exact reasons and speed of movement will vary between markets, so the model makes no general claim about the speed of change.

Question 23

Suppose there is excess supply in a market and the price decreases. Which of the following combinations of events will occur?

- ☐ a) There will be a fall in quantity supplied and a rise in quantity demanded.
- ☐ b) There will be a fall in quantity supplied and a rise in demand.
- ☐ c) There will be a fall in supply and a rise in quantity demanded.
- ☐ d) There will be a fall in supply and a rise in demand.

The combination given in **a** will occur. This would be shown in a diagram by a move up the supply curve and a move down the demand curve. Note that the supply and demand curves will not shift, so there is no change in supply or demand, merely a change in the quantities supplied and demanded.

Question 24

Suppose there is a decrease in supply in a market where the supply curve slopes upwards and the demand curve slopes downwards. Which of the following would **not** occur?

- ☐ a) An excess supply.
- ☐ b) A fall in price.
- ☒ c) A fall in supply.

- ☐ d) A fall in the equilibrium level of expenditure.

The event in statement **c** would **not** occur. The excess supply will lead to a fall in price, and this will lead to a fall in the quantity supplied: but this is shown by a move along the supply curve. The supply curve itself does not shift, so there is no change in supply.

Question 25

Suppose a market is in equilibrium, and then the demand increases. Which of the following would be shown on a graph that illustrated the effects?

- ☒ a) An excess demand at the initial equilibrium price.
- ☐ b) An excess demand at the new equilibrium price.
- ☐ c) An excess supply at the initial equilibrium price.
- ☐ d) An excess supply at the new equilibrium price.

Statement **a** shows what would be shown on a graph. Statement **b** is incorrect because there will be no excess demand, or indeed an excess supply, at the new equilibrium price. Statements **c** and **d** are incorrect because there will be no excess supply.

Question 26

Suppose there is an increase in demand in a market where the supply curve slopes upwards and the demand curve slopes downwards. Which of the following might **not** occur?

- ☐ a) An excess supply.
- ☐ b) A fall in price.
- ☐ c) A rise in the quantity traded.
- ☒ d) A fall in the equilibrium level of expenditure.

The event in statement **d** might **not** occur. If the fall in price is modest and the increase in quantity traded is substantial, then spending will increase.

Question 27

Which of the following might **not** lead to an increase in the demand for a product that can be stored?

- ☐ a) A fall in the price of a complement.
- ☒ b) A rise in consumer incomes.
- ☐ c) An increase in the number of buyers.

- ☐ d) An expected rise in price.

Event **b**, a rise in consumer incomes might **not** lead to an increase in demand. Instead, if the product is inferior, there could be a decrease in demand.

Question 28

Which of the following might **not** lead to a decrease in the demand for a type of labour?

- ☐ a) A decrease in the number of firms using the labour.
- ☒ b) An increase in the productivity of the labour.
- ☐ c) A fall in the price of a substitute input.
- ☐ d) A decrease in the demand for the produce or products which the labour is used to produce.

Event **b**, an increase in the productivity of the labour, might **not** lead to firms wanting less. The increase in the productivity of the input would allow firms to reduce the price of their output, and if there was then a large increase in the quantity demanded, firms might actually want more labour than before.

Question 29

Which of the following would **not** lead to a decrease in the supply of a product that can be stored?

- ☒ a) An increase in the demand for a joint product.
- ☐ b) A rise in the price of another input.
- ☐ c) A decrease in the number of firms supplying the product.
- ☐ d) An expected rise in the price of the product.

Event **a**, an increase in the demand for a joint product, would **not** lead to firms supplying less of the product concerned in the question. Instead, they would want to supply more of the joint product whose demand has increased, and as result would supply more of the product concerned in the question.

Question 30

Which of the following could **not** lead to an increase in price combined with an increase in the quantity traded?

- ☐ a) An increase in demand combined with unchanged supply.
- ☐ b) An increase in demand combined with a decrease in supply.
- ☒ c) A decrease in demand combined with an increase in supply.
- ☐ d) An increase in demand combined with an increase in supply.

The event in **c** could not lead to an increase in price because the supply curve shifts right and the demand curve shifts left.