

Unit 1 Test
Chapters 1-3

Part A: Multiple Choice (13 x 1 = 13 marks)

1) Why do economists state that it is necessary "to economize in our use of resources"?

- C
- a) Our wants are limited, so we should not waste our resources to satisfy them.
 - b) Our needs are limited, so we should not waste our resources to satisfy them.
 - c) Our limited resources must be used carefully to satisfy unlimited wants and needs.
 - d) Our wants and needs can never be satisfied with the resources available.

2) Which statement below is the best definition of opportunity cost?

- D
- a) The resources that are used to produce a particular good to satisfy one want instead of another.
 - b) The cost of one good compared to that of another.
 - c) The satisfaction we gain in choosing one good instead of another.
 - d) The cost of all that is lost from choosing one good or course instead of another.

3) Which of the following is the best example of a positive or analytical statement?

- A
- a) The unemployment rate declined for the second successive month in Canada by more than .05 percent.
 - b) An unemployment rate of more than 7 percent should be unacceptable to the federal government.
 - c) A change in government will surely cause the unemployment rate to fall.
 - d) A high unemployment rate is unacceptable to most people.

4) Which of the following is the best example of a normative economic statement?

- D
- a) Poverty is often related to the educational and skill level of the individual.
 - b) Poverty as defined afflicts one in eight Canadians.
 - c) Poverty is a burden upon employed people because they pay higher taxes for government anti poverty programs.
 - d) Poverty should be regarded as unacceptable and immoral in a wealthy society such as Canada.

5) Which of the following is an example of the "fallacy of composition"?

- A
- a) If one firm benefits from cutting its prices, often other firms try to benefit by cutting theirs.

- b) If workers in one industry benefit from a wage increase, it follows that all workers would benefit from a similar increase.
- c) If the Canadian economy can attain 4-5 percent growth rate, as in the late 1990's then surely it can do it again.
- d) If the GST had not been introduced in 1990, the recession of the early 1990's would not have been as severe as it was.

6) Which of the following is not one of the three major economic questions an economic system faces?

- a) What goods and services should be produced?
- B** b) Who should produce the goods and services that society requires?
- c) How should production be organized in the economy?
- d) How should goods be shared among the citizens?

7) Of the three major economic questions faced by an economic system (in question six), which is probably the most controversial?

- a) The "what" question
- b) The "how" question
- C** c) The "for whom" question
- d) All three are equally controversial

8) In a command economy, who or what decides what will be produced?

- a) The people decide through their elected representatives.
- b) The managers of state enterprises and factories decide.
- D** c) The needs and wants of people "decide" what will be produced.
- d) The central planners decide based upon the priorities of the nation.

9) Who or what decides what will be produced in a market economy?

- a) The government decides based upon the economy's stock of resources.
- b) Consumers decide based on their needs and wants.
- D** c) Businesses decide, then persuade people to buy through advertising and promotion.
- d) The profit motive decides what goods will be produced and in what quantities.

10) What does Adam Smith's theory of the invisible hand mean?

- A** a) In a competitive environment, business people unconsciously promote prosperity in the economy by pursuing profits for themselves.
- b) Government is the invisible hand, promoting economic welfare.
- c) Consumers are the invisible hand, directing production within a market economy.
- d) Monopolies compose an invisible hand, reducing competition between partners.

11) What was Karl Marx's major criticism of capitalism?

- A** a) It led to the exploitation of workers by a minority of capitalists.

- b) It would inevitably be overthrown by the working class.
- c) It produced insufficient goods and services to provide a decent living for all.
- d) Government would never try to improve working and living conditions for workers.

12) Suppose Adam Smith met Karl Marx in 19-th century industrial England. What might they agree upon?

- C
- a) Capitalism contains the seeds of its own destruction.
 - b) The workers are unfairly paid compared to businesspeople.
 - c) Self-interest is the motivating force in the economy of the day.
 - d) Capitalists pocket an unfair surplus value from production.

13) One of Canada's economic goals is an "equitable distribution of income." Why is it considered to be an imprecise and thus controversial goal?

- A
- a) The word "equitable" means different things to different people.
 - b) It is difficult to devise policies to redistribute income.
 - c) It would undermine people's desire to improve themselves.
 - d) Equal incomes for all would undermine the market system.

Part B: Definitions (7 x 1 = 7 marks)

Choose **seven** terms from the following list and define them.

analytical
economics

tariffs

post hoc fallacy

barter

consumer goods

labour value

capital

labour

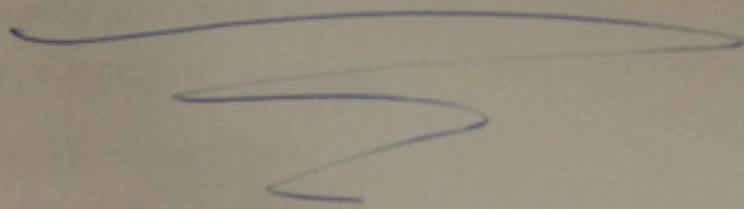
communism

fascism

dictatorship

trade off

Can be looked up in text book

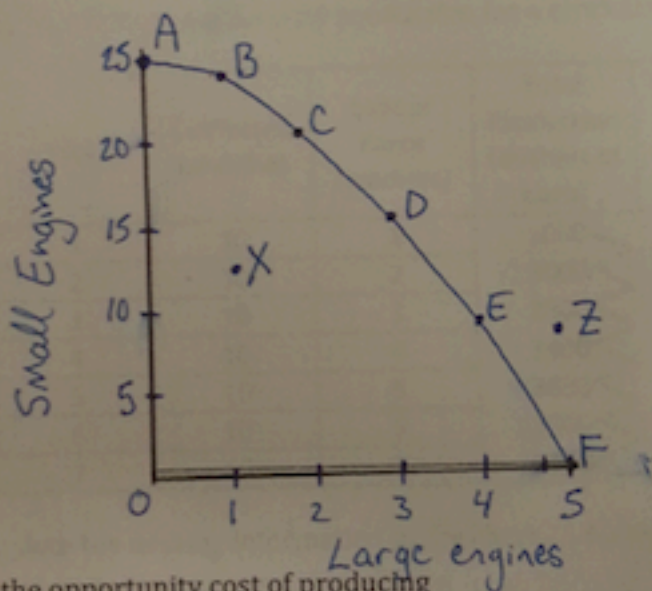


Part C: Short Answer (24 Marks)

1) The following table shows the production possibilities for a plant producing large and small diesel engines.

Option	Large Engines	Small Engines
A	0	25
B	1	24
C	2	21
D	3	16
E	4	9
F	5	0

a) Draw the production possibilities graph for the plant. (6 Marks)
(Remember to use proper scaling and labeling)



b) What is the opportunity cost of producing
(i) the first large engine? (1 Mark)

one small engine

(ii) the second large engine? (1 Mark)

At production of 1 large \rightarrow moving to production of 2 large

So 24 small to 21 small \rightarrow opportunity cost is

3 small engines

(iii) five large engines? (1 Mark) Accepted answers

$0 \rightarrow 5 = 25$ small engines $2 \rightarrow 5 = 21$ small engines $4 \rightarrow 5 = 9$ small engines
 $1 \rightarrow 5 = 24$ small engines $3 \rightarrow 5 = 16$ small engines

(iv) moving from production of three large engines to five large engines? (1 Mark)

$16 \rightarrow 0 \therefore$ opp cost is 16 small engines

On the graph, mark a point "X" to show an inefficient use or underutilization of the plant's resources. (1 Mark)

Suppose the plant received orders to produce five large engines and nine small engines. Mark a point "Z" to show this production possibility, comment on whether or not it would be attainable, and why. (3 Marks)

not attainable, this combination of goods ~~lays~~ ^{lies} outside the maximum production potential of the firm.

2. The following chart shows the crop production for a given farm over several years

Year	Cultivated Land (ha)	Labour Force (workers)	Total Production (bushels of corn)	Increase in Yieldage (extra bushels)
1	10	1	1000	1000
2	10	2	2000	800
3	10	3	2800	600
4	10	4	3400	400
5	10	5	3800	100
6	10	6	3900	100
7	10	7	3900	0

a) complete the missing information in the chart. (1 Mark)

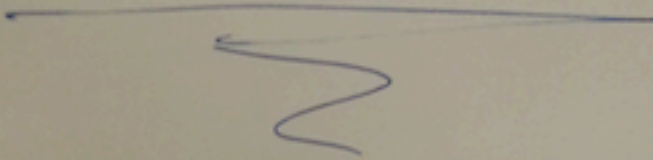
b) this is an example of: the law of diminishing returns (1 Mark)

c) give an example as to why your answers from part a and b may happen. (2 Marks)

as a company hires more workers they have less space to move around. Although they do output more goods they do this by decreasing amounts. \rightarrow Space restrictions

3. In chapter three we learned about seven economists that revolutionized economic thinking. They were **Adam Smith, Thomas Robert Malthus, David Ricardo, Karl Marx, John Maynard Keynes, John Kenneth Galbraith** and **Milton Friedman**. Choose three and explain at least two ideas each had that advanced economic thought. (6 Marks)

Can be looked up in text book



Part D: Open Question (6 Marks)

Choose one piece of material that was covered in chapters 1 - 3 but not on this test and explain it in detail. (6 Marks)

Can be looked up in text book

