

QUIZ WITH ANSWERS

ROUND 1

1) *What is economics*

- Economics is the study of the **ALLOCATION** of **SCARCE** resources to meet **UNLIMITED** human wants.

2) *What is microeconomics?*

- concerned with decision-making by individual economic agents such as firms and consumers.

3) *Why do firms advertise? Even when goods are interchangeable?*

- Many firms advertise their goods or services, but are they wasting economic resources? Some economists reckon that advertising merely manipulates consumer tastes and creates desires that would not otherwise exist. By increasing **product differentiation** and **encouraging brand loyalty** advertising may **make consumers less price sensitive**, moving the market further **from perfect competition towards imperfect competition** (see monopolistic competition) and increasing the **ability of firms to charge more than marginal cost**. Heavy spending on advertising may also create a **barrier to entry**, as a firm entering the market would have to spend a lot on advertising too.
- However, some economists argue that advertising is economically valuable because it **increases the flow of information in the economy** and reduces the asymmetric information between the seller and the consumer. This intensifies competition, as consumers can be made aware quickly when there is a better deal on offer.

4) *Is economics value free? Name 2 value decisions might economics make about what is important? e.g. XX is preferred to XX*

- Individual utility maximization versus social betterment
- Efficiency versus fairness
- More is preferred to less

5) *Is economics goal free? Name 3 goals might economics seek to achieve?*

- Economic efficiency
- Economic growth
- Economic freedom,
- Economic security
- Equitable distribution of income
- Full employment
- Price level stability
- Reasonable balance of trade.

6) *What is the fundamental problem of economics as a discipline?*

- a. The allocation of resources among competing wants because there are unlimited wants limited resources
- b. How to ensure continuous economic growth in the face of uncertainty
- c. How to maximise profits for companies and consumer value for citizens
- d. How to balance the needs of the economy with society and the environment

7) *What characterizes a laissez faire approach to economics? (select all that apply)*

- Government hands-off
- Markets relied-upon to perform allocations
- Reallocation of resources according to need

- High taxes
- 8) What characterizes a command economy (select all that apply)**
 - Government makes the decisions
 - Markets relied-upon to perform allocations
 - Reallocation of resources according to need
 - Decisions enforced with force of law (and sometimes martial force)
- 9) Name three functions of money**
 - medium of exchange
 - store of value
 - measure of worth
- 10) What is a market?**
 - A market is nothing more or less than the locus of exchange; it is not necessarily a place, but simply buyers and sellers coming together for transactions.

MACRO 1

11) What is MACRO-economics?

Macroeconomics can be thought of as the "big picture" of economics. It focuses on aggregate production and consumption in an economy. Topics that macroeconomists might study include:

- Effects of general taxes such as income and sales taxes on output and prices*
- Causes of economic upswings and downturns*
- Effects of monetary and fiscal policy on economic health*
- Effects of and process for determining interest rates*
- Causes for some economies growing faster than others*

12) With what kinds of topics does macroeconomics concern itself?

- a. Economic activities of individual firms, households, and other organizations
- b. Forces of supply and demand in a particular market
- c. Consumer behavior and firms output decisions
- d. The labor market, wages, and hiring decisions.
- e. Aggregate economic phenomena like the rate of unemployment and inflation.

13) Outline the difference between positive and normative questions?

Positive economics focuses on the description, quantification, and explanation of economic developments, expectations, and associated phenomena. It relies on objective data analysis, fact-based (precise, descriptive and clearly measurable) and associated figures. It attempts to establish any cause-and-effect relationships or behavioral associations which can help ascertain and test the development of economics theories. An example of a positive economic statement: "Government-provided healthcare increases public expenditures."

Normative economics focuses on the ideological, opinion-oriented, prescriptive, value judgments, and "what should be" statements aimed toward economic development, investment projects, and scenarios. Its goal is to summarize people's desirability (or the lack thereof) to various economic developments, situations, and programs by asking or quoting what should happen or what ought to be. Normative economics is subjective and value-based, originating from personal perspectives, feelings, or opinions involved in the decision-making process (often rigid, prescriptive and comes across as authoritarian). An example is: "The government should provide basic healthcare to all citizens."

14) Which of the following is an example of a normative question?

- a. What is the nation's rate of economic growth?

- b. What is the nation's rate of inflation?
- c. What is the nation's rate of unemployment?
- d. What is the nation's level of GDP?
- e. Is the goal of sustainability of greater importance than the goal of economic growth as we move into the 21st century?

15) Define output and income.

National output is the total value of everything a country produces in a given time period. Everything that is produced and sold generates income. Therefore, output and income are usually considered equivalent and the two terms are often used interchangeably. Output can be measured as total income, or, it can be viewed from the production side and measured as the total value of final goods and services or the sum of all value added in the economy.

16) Which of the following best describes the precautionary principle?

- a. It is incumbent on society to prove if an activity is unsafe to natural systems or human health.
- b. We should err on the side of caution when dealing with natural systems or human health.
- c. The benefits of economic production and growth outweigh the risks of damage to natural systems or human health.
- d. Business should not have to prove a product to be safe before being released on the market; rather a product must be proven unsafe before it is banned and pulled from the market.
- e. We should take precautions before engaging in risky investment.

17) Define unemployment and how it is expressed in most countries.

Percentage of total workforce who are unemployed and are actively seeking a paid job.

Unemployment rate (# of unemployed / # in labor force) = %

Unemployment rate is one of the most closely watched statistics because a rising rate is seen as a sign of weakening economy that may call for cut in interest rate. A falling rate, similarly, indicates a growing economy which is usually accompanied by higher inflation rate and may call for increase in interest rates.

18) How is labor productivity defined?

- a. The level of output produced per capita.
- b. The level of output produced per worker (or worker-hour).
- c. The level of output produced as a share of GDP.
- d. The level of human capital in the workforce.
- e. The level of output produced per capital input.

19) Define inflation and deflation? And what causes it?

Inflation (general price increase across the entire economy) occurs when an economy becomes overheated and grows too quickly. Inflation can lead to increased uncertainty and other negative consequences.

Cuts in interest rates
 Increased money supply
 Higher wages
 Devaluation (imports become more expensive)
 Declining productivity
 Increase in VAT taxes
 Inflation expectations/speculations
 Increased property prices (not a cause but closely related)

Similarly, a declining economy can lead to deflation, or a rapid decrease in prices. Deflation can lower economic output. Central bankers try to stabilize prices to protect economies from the negative consequences of price changes.

Opposite as above

20) What % of inflation constitutes hyperinflation?

200% within a year

ROUND 3

21) What is the law of demand? (select all that apply)

- ☐ As price increases consumers will purchase less of the specific commodity.
- ☐ As price increases consumers will purchase more of the specific commodity.
- ☐ As price decreases consumers will purchase more of the specific commodity.
- ☐ As price decreases consumers will purchase less of the specific commodity.

22) Draw a demand curve, label axes

- ☐ The demand schedule (demand curve) reflects the law of demand it is a downward sloping function and is a schedule of the quantity demanded at each and every price.

23) What factors might cause an exogenous increase in demand

- ☐ Increase in the quality of the good
- ☐ A change in weather
- ☐ Expectations of future prices
- ☐ A fall in the price of complementing products
- ☐ All of the above

24) Draw a demand curve, and then show an exogenous increase in demand

25) What is the law of supply?

- ☐ The law of supply is that producers will supply more the higher the price of the commodity.

26) Draw a supply curve, label axes

27) What factors might cause an exogenous increase in supply (select all that apply)

- ☐ Advertisement expenditure
- ☐ Number of consumers in a market
- ☐ Climatic conditions
- ☐ Consumer income
- ☐ All of the above
- ☐ (all others are about demand)

28) Draw a supply curve, and then show an exogenous increase in supply

29) What is market equilibrium? Explain or draw on graph

30) Define the Price Elasticity of Demand.

- ☐ The responsiveness of quantities demanded to changes in prices.

ROUND 4

31) What problems are we most likely to see at which stage of the business cycle?

- a. High inflation during recessions.
- b. High unemployment during booms.
- c. Low inflation during booms.
- d. High unemployment during recessions.
- e. Both high unemployment and high inflation during booms.

32) Define opportunity cost.

Opportunity cost refers to a benefit that a person could have received, but gave up, to take another course of action (foregone profit).

33) With appropriate examples, define the difference between direct and indirect taxes.

Direct Taxes: Is the tax the government collects directly from the people. These taxes are based on ownership or existence. Direct taxes refers to any levy that is both imposed and collected on a specific group or people or organisations (eg: income taxes)

Indirect Taxes: Is the tax which is levied on one and passed onto others. They are collected from someone or some organisation other than the person or entity that would normally be responsible for the taxes (eg: sales tax).

34) Define “excess supply” and “excess demand” with respect to price.

- Excess supply (consumers surplus) is the situation where the price is above its equilibrium price. The quantity willing supplied by the producers is higher than the quantity demanded by the consumers (decrease inflation)
- Excess demand is the situation where the price is below its equilibrium price. The quantity supplied is lower than the quantity demanded by the consumers (increase inflation).

35) Define “invisible hand”.

- The invisible hand is a metaphor that characterizes the mechanisms through which beneficial social and economic outcomes may arise from the accumulated self-interested actions of individuals, none of whom intends to bring about such outcomes.

36) True or False? In you focus on current global economic paradigms, has Adam Smith has been taken out of context from his original text?

- True
- Adam Smith saw the decline in the rate of profit as evidence of prosperity, which he never confused with a decline in the absolute amount of profits in a society. If real wages rose secularly over the trend, this was the ‘spread of opulence’ that he welcomed; necessarily, if real wages rose as a trend then profit rates would fall as real incomes transferred from capitalists to labourers.

37) Which of the following can be derived from other assumptions of economics?

- Scarcity
- Tradeoffs
- Opportunity costs
- B and C
- A and B

38) True or False. The additional cost to a producer of hiring an additional unit of labor is called the marginal cost.

- True

- The **marginal cost** refers to the increase in total cost of production as a result of producing one more unit of output
- A **marginal benefit** is a maximum amount a consumer is willing to pay for an additional good or service.

39) True or False. Monetarists believe the government should use monetary policy to boost aggregate demand during a recession.

- False
- Monetarists argued that governments should focus on keeping the money supply steady, even in a recession when unemployment was high.

40) What is the current measure of growth?

- % change in GDP (Gross Domestic Profit)

Round 5

41) Draw a perfectly inelastic demand curve.

42) Name a good that is price inelastic (in a western context)

- Inelastic goods are water, electricity, phone service, and gasoline.

43) Name a good that is price elastic (in a western context)

- Examples of elastic products are coffee, airline tickets, and stocks.

44) What best describes Economies of Scale

- Refers to the efficiency increase due to national-wide specialisation and international trade for remaining goods
- Relates to the cost advantages obtained from a company becoming large
- Firms operating at local, regional and global scales
- Moving from agricultural to industrial-based economies

45) What characterizes an oligopoly? Give an example of what this might look like.

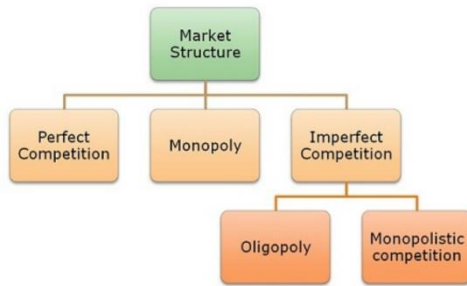
- (very few number of sellers, often collude, often price leadership, entry difficult, nonprice competition, product differentiation)

46) What characterizes a pure monopoly. Give an example of what this might look like.

- (one seller, price giver, entry & exit blocked, unique product, nonprice competition)

Main distinction is between one and many seller

Features	Monopoly	Perfect Competition
1. Description	Extreme market situation, where there is only one seller. He has no competition and so controls supply and price.	A fair, direct competition between buyers and buyers : sellers and sellers ; and finally between buyers and sellers.
2. Buyers and sellers	Only one seller and practically all buyers depend on him. Hence he has absolute control over the market.	Large number of buyers and sellers, hence no sellers or buyers can alter the price in the market.
3. Supply	Supply from only one seller, hence absolute control over the supply.	(i) Supply comes from large number of sellers (ii) individual supply is negligible.
4. Demand	Demand is inelastic. Demand curve slopes downward.	Demand is perfectly elastic. Demand curve is a horizontal straight line.
5. Product	Homogeneous product.	Homogeneous product.
6. Nature of Competition	No competition at all. No price or product competition.	Pure and perfect competition in price.
7. Price	Higher price higher than all competitive price $P > MR = MC$	Normal Price $P = MR = MC$
8. Output	Small output fixed by the sole seller.	Large output fixed by $MR = MC$
9. Profit	Excess profit monopoly gain.	Normal profit realised by price competition.
10. Application	Pure Monopoly is rare but elements of monopoly are there in markets.	Quite unreal



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- pure competition (atomized competition, price taker, freedom of entry & exit, no nonprice competition, standardized product)

47) Compare nominal and real wages, which is true?

- Nominal wages are money wages and real wages are adjusted for the cost of living.
- Real wages are money wages and nominal wages are adjusted for the cost of living.

48) How have economists traditionally defined “economic growth,” and how is that different from “living standards growth”?

Economists have traditionally defined economic growth in terms of production of goods and services, whereas the concept of “living standards growth” encompasses the improvement in the quality of diet and housing, transportation and communication, health care, education, working conditions, entertainment, and even political freedom and social inclusion.

49) Please write “aggregate supply” and “aggregate demand” next to the correct definition

The sum total of all goods and service firms and governments are willing and able to produce at any level (aggregate supply)

The sum total of all domestic goods and services that consumers want to buy at any given price level (aggregate demand)

The total number of goods and services consumers produce at any level

The total number of domestic goods and services that governments import at any given price level

50) What happens when you increase the supply of money in a country?

Decreases interest rates, increases consumption and investment, and increases aggregate demand

Increases interest rates, decreases consumption and investment, and decreases aggregate demand

ROUND 6

51) Problems with GDP as a measure of wellbeing

Government spending may be borrowed (debt)

Doesn't include leisure time, non-market activities, environmental

Doesn't correlate perfectly with happiness (only until basic human rights are covered)

52) What is included in a measure of unemployment %?

Unemployed people who actively seek work

Unemployed people who do not seek work

Anyone 16 or over who is working or seeking employment

A and B

A and C

53) How many quarters of negative economic growth (% fall in GDP) are needed to constitute an official 'recession'?

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54) Biggest assumption of a free market economy?

Individuals can make economic decisions

55) The following are the values for Consumption, Investment, Imports, Exports, and Government spending for the country of Strowsburg in the year 2020 given in billions of dollars: C = \$12,000 I = \$4,000 G = \$3,000 M = \$5,000 X = \$3,000. Use the following formula: The GDP in billions in Strowsburg is?

$$\begin{aligned}\text{GDP} &= \text{Consumption (C)} + \text{Investment (I)} + \text{Government (G)} + [\text{Net Exports (X)} - \text{Net Imports (M)}] \\ &= 12000 + 4000 + 3000 + (3000 - 5000) \\ &= \$17,000\end{aligned}$$

56) Which of the following is not a resource as the term is defined by economics?

- a. a person
- b. oil
- c. a building
- d. money
- e. all of the above are resources

57) Which of the following is not one of the ideas associated with the school of classical economics?

- a. specialization and the division of labor
- b. laissez-faire and the functioning of markets free of government intervention
- c. the pursuit of individual self-interest leads to positive economic outcomes.
- d. supply creates its own demand
- e. markets sometimes fail, necessitating government intervention.

58) Which of the following characterizes the environmental challenges of the 21st century?

- a. The impressive growth of global GDP in the 20th century was accompanied by a dramatic increase in CO2 emissions.
- b. Economists are beginning to realize that there are limits to the capacity of the environment to absorb the by-products of economic growth.
- c. Economists are increasingly questioning the ability of technological advancements to keep problems of resource depletion and pollution at bay.
- d. If continued at the current rate, the emissions of CO2 and other greenhouse gasses may lead to dramatic disturbances to our environment and economy.
- e. All of the above (except c)
- f. All of the above.

59) If I invest \$100 at 5% interest per year, in which year will I have doubled my investment according to the simple compound interest formula $A = P (1 + r/n)^{(nt)}$?

Where:

A = the future value of the investment/loan, including interest

P = the principal investment amount (the initial deposit or loan amount)

r = the annual interest rate (decimal)

n = the number of times that interest is compounded per unit t

t = the time the money is invested or borrowed for

a) 12th

b) 13th

c) 14th

d) 15th $A = 100(1+0.05/1)(1*15)$

60) Explain the division of labor.

The **division of** labor by reducing every man business to some one simple operation and by making this operation the sole employment of his life necessarily increases very much the dexterity of the worker.

The separation of tasks that promote specialisation to increase productivity and efficiency