Sample Questions - Econthon

Subject Fundamental Question

1. When demand for a good is perfectly inelastic, it means that:

a) Consumers are highly sensitive to changes in price.

b) Consumers are not responsive to changes in price.

c) The price elasticity of demand is equal to zero.

d) The quantity demanded changes proportionally with changes in price.

2. Which of the following statements accurately describes a characteristic of monopolistic competition?

a) Many buyers and sellers exist in the market.

b) Products are perfect substitutes for each other.

c) Firms can influence market price through their actions.

d) There are significant barriers to entry.

3. In a command economy:

a) Prices are determined by supply and demand forces.

b) Private ownership of resources is allowed.

c) The government makes most economic decisions.

d) Markets allocate resources efficiently.

4. Which of the following is an example of a regressive tax?

a) Sales tax

b) Progressive income tax

c) Property tax

d) Corporate income tax

5. The Phillips curve illustrates the relationship between:

a) Inflation and unemployment

b) Interest rates and inflation

c) Government spending and GDP growth

d) Consumer spending and saving

On-site Learning Question

6. A firm operating in a perfectly competitive market maximizes its profit where marginal revenue equals marginal cost. In the short run, if the price of the good is above the average variable cost but below the average total cost, the firm should continue to operate in the short run even if it's incurring losses.

Which of the following statements is true?

a) Firms in perfectly competitive markets always earn economic profits in the short run.

b) Firms should shut down if they are incurring losses in the short run.

c) Marginal cost equals average total cost at the profit-maximizing quantity.

d) A firm's decision to shut down in the short run depends solely on whether price exceeds average variable cost.

7. A price ceiling is a government-imposed maximum price that can be charged for a good or service, typically set below the market equilibrium price. Price ceilings are often implemented to protect consumers from high prices, particularly for essential goods. However, they can lead to shortages if the ceiling is set below the equilibrium price. In response to the shortage, sellers may resort to non-price rationing mechanisms such as first-come-first-serve or lottery systems.

Which of the following statements about price ceilings is true?

a) Price ceilings can lead to adoption of non-price rationing mechanisms by sellers.

b) Price ceilings are typically implemented to encourage producers to increase supply.

c) Price ceilings can lead to surpluses in the market.

d) Price ceilings are government-imposed minimum prices.

8. Externalities are spillover effects of economic activities that affect third parties who are not directly involved in the transaction. Externalities can be positive or negative, leading to market inefficiencies unless properly addressed. Internalizing externalities through taxes, subsidies, or property rights can improve economic efficiency.

Which of the following is an example of a positive externality?

a) Pollution from a factory harming nearby residents' health.

b) Investments in infrastructure projects.

c) Noise pollution from construction activities.

d) Secondhand smoke affecting non-smokers' health in public places.

9. An oligopoly is a market structure characterized by a small number of large firms dominating the industry. These firms often engage in strategic behavior, where their actions and decisions are influenced by the anticipated reactions of competitors. Collusion, tacit agreements, and non-price competition are common features of oligopolistic markets.

Which of the following is a characteristic of oligopoly?

a) Numerous small firms with no market power.

b) Differentiated products and some degree of market power.

c) A single seller dominating the market for a particular good or service.

d) Strategic behavior and interaction among a few dominant firms.

10. Opportunity cost represents the value of the next best alternative foregone when a decision is made. It helps individuals and businesses assess trade-offs and make efficient choices. For example, if a student chooses to spend an hour studying economics instead of working at a part-time job, the opportunity cost of studying is the income that could have been earned from the job.

What does opportunity cost help individuals and businesses do?

a) Assess the value of their current assets.

b) Maximize profits by minimizing costs.

c) Evaluate trade-offs and make efficient choices.

d) Measure the total cost of production.

Subject Advanced Question

11. Which of the following is a characteristic of a public good?

a) Rivalry in consumption and excludability.

b) Non-rivalry in consumption and excludability.

c) Rivalry in consumption and non-excludability.

d) Non-rivalry in consumption and non-excludability.

12. Which of the following statements accurately describes the Heckscher-Ohlin theorem?

a) It states that countries should specialize in the production of goods that require abundant factors of production.

b) It argues that comparative advantage arises from differences in factor endowments between countries.

c) It suggests that countries will export goods that they can produce with relatively lower opportunity costs.

d) It emphasizes the importance of increasing returns to scale in explaining trade patterns.

13. What does Nash equilibrium represent in game theory?

a) A situation where one player dominates all others.

b) A stable outcome where no player has an incentive to unilaterally deviate from their chosen strategy.

c) An outcome where players cooperate perfectly to maximize joint payoffs.

d) A situation where players engage in random decision-making.

14. What distinguishes "exogenous" from "endogenous" variables in macroeconomic models?

a) Exogenous variables are determined within the model, while endogenous variables are determined outside the model.

b) Exogenous variables are influenced by economic policies, while endogenous variables are predetermined.

c) Exogenous variables are predetermined outside the model, while endogenous variables are determined within the model.

d) Exogenous variables represent short-term fluctuations, while endogenous variables represent long-term trends.

15. What is the primary goal of monetary policy according to the New Keynesian school of thought?

a) Stabilizing the price level through control of the money supply.

b) Achieving full employment by influencing aggregate demand through interest rate adjustments.

c) Promoting economic growth by reducing government intervention in markets.

d) Maintaining a fixed exchange rate to ensure price stability in international trade.