

AP Economics Final Exam Krugman2014v1

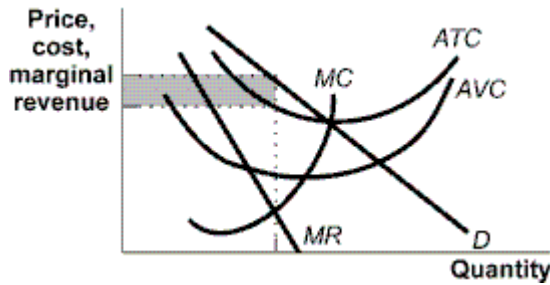
Multiple Choice

Identify the choice that best completes the statement or answers the question.

Module

- 1 1. Scarcity in economics means:
- 2 2. Suppose people in households decide to spend less. How will this impact an economy?
- 3 3. (Figure 3-7: Bicycles and Radishes) The country depicted in this figure is currently operating at point *M*. It could produce at point *I* only if it:
- 4 4. Gains from trade arise because of:
- 5 5. The law of demand states that, other things equal:
- 6 6. Which of the following statements is correct?
- 7 7. A shift of a demand curve to the right, all other things unchanged, will:
- 8 8. A binding price ceiling is designed to:
- 9 9. (**Scenario 9-1 Market for Taxi Rides**) The figure represents a competitive market for taxi rides. If a government quota limit at 6 million rides is now imposed on this market (in the name of quality), then the quota rent that will accrue to the owner of a taxi medallion will be _____, but there will be a missed opportunity (*inefficiency*) to consumers of _____.
- 46 10. The price elasticity of demand measures the responsiveness of the change in:
- 47 11. You manage a popular malt shop and lately revenues have been disappointing. Your friend suggests that raising soda prices will increase revenues, but your waitress suggests that decreasing soda prices will increase revenues. You aren't sure who is right, but you do know that:
- 48 12. If income decreases and the consumption of a certain good increases, that good is considered a(n):
- 49 13. (Table 49-2: Consumer Surplus) If the price of a ticket to see *The Nutty Nutcracker* is \$50, then Narum's consumer surplus is:
- 50 14. State governments place excise taxes on cigarettes because:
- 51 15. The amount by which an additional unit of a good or service increases a consumer's total utility, all other things unchanged, is:
- 52 16. Profit is the difference between _____ and _____.
- 53 17. Firms will continue to produce if:
- 54 18. The long run is a planning period:
- 55 19. If marginal cost is equal to average total cost, then:
- 56 20. (Figure 56-1: Long-Run Average Cost) Output per period in the region from 0 to *A* indicates that a firm is experiencing:
- 57 21. If a local California avocado stand operates in a perfectly competitive market, that stand owner will be a:
- 58 22. (Figure 58-2: Marginal Decision Rule) Given the market price P_1 , *B* is the _____ curve.
- 59 23. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. *N* is the _____ curve.
- 59 24. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. If the market price is P_3 , the firm will produce quantity _____ and _____ in the short run.
- 60 25. A decrease in production costs for firms in a perfectly competitive market will cause a(n):
- 61 26. Because of monopoly, consumers typically have:
- 62 27. A natural monopoly exists whenever a single firm:
- 63 28. The practice of charging different prices to different customers for the same good or service even though the cost of supplying those customers is the same is:
- 64 29. The market structure that is characterized by only a small number of producers is referred to as:
- 65 30. In the classic prisoners' dilemma with two accomplices in crime, the dominant strategy for each individual is to:
- 66 31. Attempts by the federal government to prevent the exercise of monopoly power in the United States are called _____ policy.

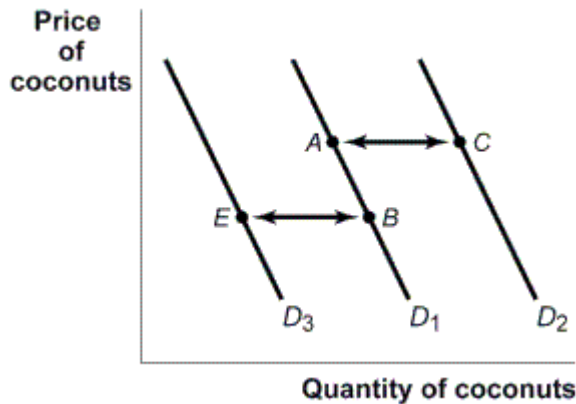
67 32.



The monopolistic competitor in the figure is producing at the output level that maximizes profits (minimizes losses). The shaded rectangle depicts the level of:

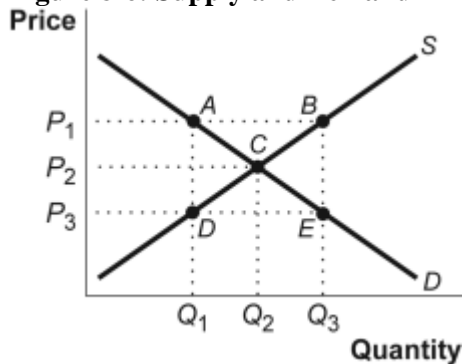
- 68 33. Firms use _____ to provide information about their product or to convince consumers to buy it. And when a company does a good job of this, its product develops a _____ name.
- 69 34. A decrease in the quantity of labor demanded will occur if:
- 70 35. In the factor market for land, one will find equilibrium rental prices will be _____ the value of marginal product of land.
- 72 36. A factory produces gadgets that have two key parts. The factory can employ workers to attach those parts, or it can employ robotic machines to attach them. In this case, the labor and capital are considered:
- 73 37. A new teacher often earns less than a teacher with 20 years experience because of:
- 74 38. Which of the following is an example of an activity generating a negative externality?
- 75 39. Suppose that the federal government determines the total level of municipal sewage that can be discharged by cities located along a river. If the cities are able to exchange rights to this total discharge level among themselves, this would be an environmental policy of:
- 76 40. Which of the following is an example of a nonexcludable good?
- 76 41. Which of the following goods is most likely an artificially scarce good?
- 77 42. A field of law that attempts to limit the ability of oligopolists to collude and restrict competition is called:
- 78 43. Which of the following is *not* a leading cause of poverty in the United States?
- 79 44. Adverse selection death spiral occurs when private insurance companies:
- 80 45. An indifference curve is a line that shows all the consumption bundles that:
- 10 46. Which are the two markets represented in the simplest circular-flow diagram?
- 11 47. Real GDP is nominal GDP adjusted for:
- 12 48. You are a college student who is not working or looking for work. You are:
- 13 49. Unemployment that occurs because it takes workers and employees time to find each other is called:
- 14 50. Inflation is when there is:
- 15 51. The aggregate price level is:
- 1 52. Microeconomics deals with:
- 2 53. Too little spending in an economy often leads to:
- 3 54. Equity means that:
- 4 55. Who wrote *The Wealth of Nations*, a book that many credit with establishing economics as a discipline?

Figure 5-1: Demand for Coconuts

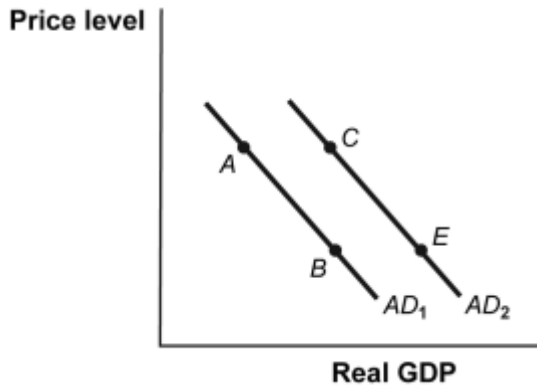


- 5 56. Use “**Demand for Coconuts**” **Figure 5-1**. If a coconut is a normal good and the price of coconuts increases, then the movement that would take place in the model could be:
- 6 57. Use the “**DVD Market**” **Figure 6-2**. The figure shows the weekend rental market for DVDs in Collegetown. The equilibrium price for DVD rentals is _____ and the equilibrium quantity is _____.
- 7 58. Use the “**Demand and Supply of Gasoline**” **Figure 7-1**. When the supply curve shifted from S_1 to S_2 , the new intersection of supply and demand has a price of _____ and quantity of 400. This could have resulted from _____.

Figure 8-6: Supply and Demand

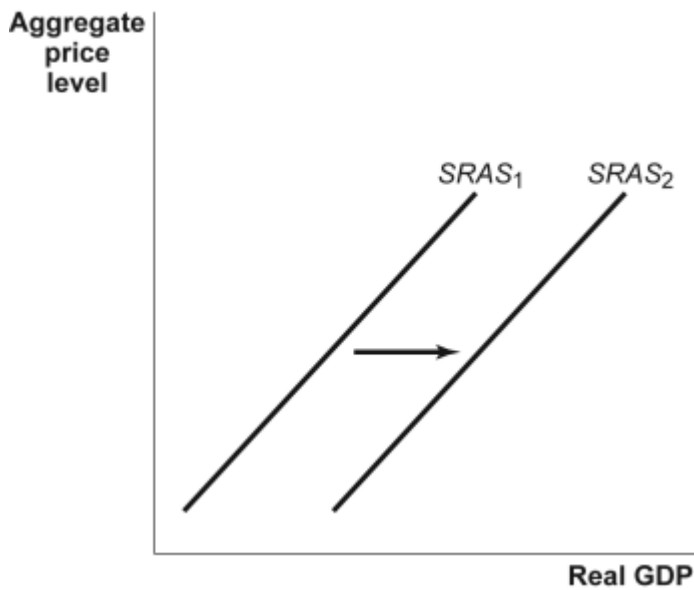


- 8 59. Use the “**Supply and Demand**” **Figure 8-6**. In the market shown in the figure, a price ceiling of P_1 causes:
- 9 60. A quota is essentially a:
- 10 61. The market(s) that channel excess savings of households into investment spending by firms is(are) known as:
- 16 62. A fall in the market interest rate makes any investment project:



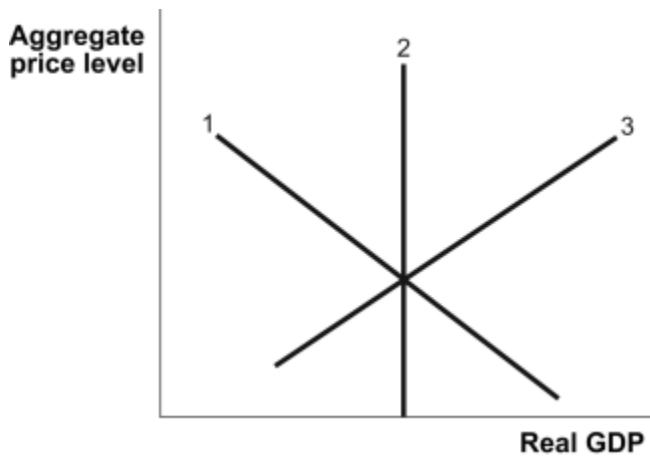
- 17 63. Use the “**Shift of the Aggregate Demand Curve**” **Figure 17-2**. A movement from point *A* on AD_1 to point *C* on AD_2 could have resulted from a(n):

Figure 18-1: Aggregate Supply Movements



- 18 64. Use the “**Aggregate Supply Movements**” **Figure 18-1**. Using the accompanying figure we can safely conclude that:

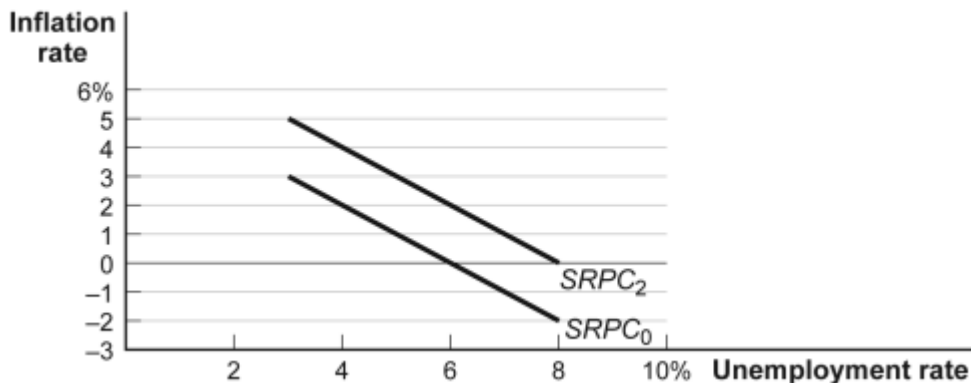
Figure 19-2: Macroeconomics Equilibrium



- 19 65. Use the “**Macroeconomics Equilibrium**” **Figure 19-2**. In the accompanying figure, curve 1 refers to _____, curve 2 refers to _____, and curve 3 refers to _____.
- 20 66. Fiscal policy refers to:
- 21 67. Government spending and taxation rules that cause fiscal policy to be expansionary when the economy contracts and contractionary when the economy expands are known as:
- 22 68. Which of the following would accurately characterize the portion of a firm's profit paid to the owner of one share of its stock?
- 23 69. Money is:
- 25 70. The reserve ratio is the:
- 26 71. The Federal Reserve System is the _____ for the United States.
- 27 72. If the Fed increases the discount rate:
- 28 73. When an individual decides to hold money instead of other assets:
- 29 74. A business will want to borrow to undertake an investment project when the rate of return on that project is:
- 30 75. The government has a budget deficit if:
- 31 76. Monetary policy involves:
- 17 77. When the aggregate price level increases, the purchasing power of many assets falls, causing a decrease in consumer spending. This is known as the _____ effect and is a reason why the _____ curve slopes _____.
- 19 78. A decrease in aggregate demand will generate _____ in real GDP and _____ in the price level in the short run.
- 32 79. An increase in the money supply causes _____ in output in the short run, and _____ in output in the long run.
- 33 80. According to the classical model of the price level, an increase in the money supply will create:
- 33 81. The inflation tax is:
- 34 82. The short-run Phillips curve shows:

Figure 34-1: Expected Inflation and the Short-Run Phillips Curve

$SRPC_0$ is the Phillips curve with an expected inflation rate of 0%; $SRPC_2$ is the Phillips curve with an expected inflation rate of 2%.



- 34 83. Use the “**Expected Inflation and the Short-Run Phillips Curve**” **Figure 34-1**. Suppose that this economy currently has an unemployment rate of 6%, inflation of 2%, and has an expectation of 2% future inflation. If the central bank increases the money supply such that aggregate demand shifts to the right and unemployment falls to 4%, then inflation would:
- 30 84. Politicians may like moderate inflation in an election year since the:
- 35 85. In response to the Great Depression, the classical economists:
- 36 86. Which of the following schools of thought is the MOST likely to advocate the use of fiscal policy in fighting recessions?
- 36 87. Discretionary fiscal policy may be counterproductive because:
- 37 88. A country's living standard is best measured by the:
- 37 89. The term “Human capital” describes:
- 38 90. Physical capital would include:
- 39 91. Roads, telephone lines, power facilities, and schools are examples of a nation's:
- 41 92. When the value of a nation's imports exceeds the value of that nation's exports, the nation is said to have:
- 42 93. The market in which foreign currencies are traded is known as the:
- 43 94. A floating exchange rate is:
- 44 95. All else equal, if the Federal Reserve decreases the money supply, interest rates will _____ and the dollar will _____ against other currencies.
- 11 96. The price elasticity of demand for skiing lessons in New Hampshire is over 1.00. This means that the demand is _____ in New Hampshire.
- 20 97. The long-run average cost curve will be upward sloping when the firm is experiencing:
- 24 98. Suppose that some firms in a perfectly competitive industry are earning positive economic profits. In the long run, the:
- 25 99. A monopoly is likely to _____ units of output and _____ price than a perfectly competitive firm.
- 30 100. By practicing _____, firms openly agree on price and output, and other decisions in order to achieve monopoly profits.