Sample Pages from the

Exploring Economics Quiz & Exam Book

Unit 6

Lesson 26

1. What is a market?
2. Give an example of how markets are interrelated.
3. Define: capital goods, producer goods, consumer goods, durable goods.
4. What are three functions that markets serve in the economy?
5. Define: perfect competition, monopoly, monopolistic competition, natural monopoly.
6. Define: oligopoly, monopsony, oligopsony.
7. Define: collusion, cartel, boycott.
8. How does Walter Williams say that income is earned in a free society?
9. What two factors determine whether an entrepreneur makes a profit?
10. What does "Williams' law" state?

Lesson 27

Create supply and demand schedules and draw a graph with the corresponding supply and demand curves for spiral bound notebooks. Be sure to put price and quantity on the correct axes and label them. Label the supply and demand curves. Use this information:

Supply: at $.25 each, none supplied; at $.50 each, 100 supplied; at $.75 each, 200 supplied; at $1.00 each, 300 supplied; at $1.25 each, 400 supplied.

Demand: at $.25 each, 400 demanded; at $.50 each, 300 demanded; at $.75 each, 200 demanded; at $1.00 each, 100 demanded; at $1.25 each, none demanded.

Label the areas of the graph that indicate surplus and shortage. Label the equilibrium.

1. What is the equilibrium or market-clearing price?
2. What is the equilibrium or market-clearing quantity?

Lesson 28

1. What are some ways that price is a factor in an economy?
2. What is a price maker, and what is a price taker?
3. What is a relative price?
4. How has most of America's wealth and economic strength come about?
5. What is price discrimination?
6. What is a price ceiling? Give an example.
7. What is a price floor? Give an example.
8. John Davenport says that the market requires a framework of what?
9. What are the two basic ways to allocate resources that Davenport describes?
10. Davenport says that "you do your thing and I'll do mine" is really an invitation to what?

Lesson 29

1. How does a change in price affect supply?
2. In what ways does demand change?
3. When price changes, how does the demand curve on a graph change?
4. When a factor other than price changes, how does the demand curve change?
5. What is price elasticity of demand?
6. What is cross-price elasticity of demand?
7. What is income elasticity of demand?
8. What is price elasticity of supply?
9. What is the economic meaning of the term sticky?
10. What are menu costs?

Lesson 30

1. What is market failure?
2. How does a monopoly cause market failure?
3. How do taxes cause market failure?
4. How do price and quantity regulations cause market failure?
5. How do externalities cause market failure?
6. Why does a failure to enforce property rights cause market failure?
7. What are public goods?
8. In what sense do public goods reflect market failure?
9. How did Communist central planners create market failure?
10. What do we need to keep in mind regarding markets and an uncertain economy?

Unit 6 Quiz

Matching

_____ 1. Perfect competition	A. Creates a surplus
_____ 2. Oligopsony	B. As price increases, demand falls
_____ 3. Law of demand	C. Demand increases when price for another increases
_____ 4. Law of supply	D. Many sellers and buyers
_____ 5. Relative price	E. How much demand changes when price changes
_____ 6. Price floor	F. Resources not allocated efficiently
_____ 7. Price elasticity of demand	G. Only a few major buyers
_____ 8. Substitute good	H. As price increases, production increases
_____ 9. Market failure	I. Can be used by more than one person at a time
_____ 10. Public goods	J. Price of one item expressed as the price of another

Second Exam (Units 6-10)

On the following four pages, write the word or phrase in the blank on the left that matches each description on the right. For each page, choose from the list of twelve terms at the top. Each page has two terms which do not fit in any blank on that page. Two points each (100 points total).

business cycle
child labor
closed shop laws
international trade
law of demand
markets
price ceiling
price of labor
real exchange rate
reasons businesses succeed or fail
Say's Law
sole proprietorship

1. ______________________ when the price of a good or service rises, demand falls
2. ______________________ creates a shortage
3. ______________________ Bob's Plumbing Service, for example
4. ______________________ expansion, peak, recession, trough
5. ______________________ the rate of exchange for goods and services between one country and another
6. ______________________ accomplish the allocation of resources, determine prices
7. ______________________ require that in certain industries, workers have to be members of a labor union
8. ______________________ management, planning, money, location, overexpansion
9. ______________________ wages and salary
10. ______________________ supply creates its own demand for what is produced

absolute advantage	marginal analysis
cause market failures	money
determinants of supply	price floor
factors of production	securities
inflation	unemployment
interest	variable costs

11. ______________________ when one person or country can produce goods with a smaller input of resources than another

12. ______________________ study of factors that lead to a change in business behavior

13. ______________________ the price of money

14. ______________________ price of the good, disposable income, price of resources

15. ______________________ a medium of exchange

16. ______________________ monopolies, taxes, regulations

17. ______________________ frictional, structural, seasonal, cyclical

18. ______________________ expenses that change depending on the amount of production taking place

19. ______________________ a broad term used to encompass stocks, bonds, and other financial investments

20. ______________________ creates a surplus

corporation
deadweight loss
discount rate
factors that increase trade
functional distribution of income
inflation
influx
law of supply
multiple-deposit expansion
mutual funds
price
production possibility

21. ______________________ how banks use deposits to make loans and thus enable more buying and selling of goods and services

22. ______________________ a separate entity from the owners and directors, is chartered, has a board of directors

23. ______________________ better communication, better transportation, lower transaction costs

24. ______________________ investment companies that offer shares to the public

25. ______________________ as the price for a product or service increases, production will increase

26. ______________________ a measure of income among different businesses and occupations in the economy

27. ______________________ the interest that the Fed charges banks for loans of its funds

28. ______________________ a change in it causes a shift along the supply or demand curve

29. ______________________ a general increase in prices for goods and services

30. ______________________ a reduction in efficiency that leads to a loss in profit or a loss to society

complementary goods
derived demand
dividend
economic profit
fiat currency
fractional reserve banking
open market operations
price elasticity of demand
root cause of inflation
small business
stock market
trade restrictions

31. ______________________ the practice of loaning out the majority of the money that a bank has on deposit

32. ______________________ demand by a producer for a factor of production that occurs as a result of the production of another product or service

33. ______________________ money that has value by the declaration of a nation's government that the money is legal tender

34. ______________________ determined by subtracting the opportunity cost as well as the ledger costs from the revenue

35. ______________________ the buying and selling of U.S. Treasury bonds and other Federally-issued securities by the Federal Reserve

36. ______________________ goods that are commonly bought together, so much so that a change in price for one product leads to a change in demand for the other

37. ______________________ when the quantity of money rises more rapidly than the output of goods and services

38. ______________________ a measure of how much demand changes in response to changes in price

39. ______________________ accounts for 60-80% of new jobs each year in America

40. ______________________ tariffs, quotas, sanctions, subsidies

capital gains	liquidity
comparative advantage	minimum wage
currency exchange rate	public goods
earned income	real interest rates
law of diminishing marginal returns	ridiculously difficult
law of supply and demand	supply or demand curve shifts

41. ______________________ goods and services that can be used by more than one person at a time

42. ______________________ when one producer has a smaller opportunity cost of producing a good or service compared to another producer

43. ______________________ the price of one country's currency expressed in terms of another country's currency

44. ______________________ when a factor other than price changes

45. ______________________ the ease with which an asset can be turned into money

46. ______________________ the increase in value of capital assets

47. ______________________ the price of a product or service adjusts to bring supply and demand into balance

48. ______________________ price floor on wages

49. ______________________ the productivity of an input decreases as the quantity of the input increases

50. ______________________ this exam

extra credit activity on next page

Extra Credit (10 points)

The Prisoner's Dilemma Game

Lefty and Bugsy were arrested and charged with the armed robbery of a bank. They were kept in separate cells. Each suspect was questioned (with his attorney present), and the district attorney made this proposal to each man:

"If you remain silent, we can convict you of an illegal weapons charge and you'll get one year in prison. We might convict you of the bank robbery and you'll get twenty years. If you confess and implicate your partner, we will drop all charges against you; and your partner will get twenty years if he's convicted. But we're making the same offer to your partner. If you both confess, we can convict you both and you'll each get ten years in prison."

The options and the possible outcomes that the two suspects face can be illustrated in the chart below.

		Lefty	
		Stay Silent	Confess
Bugsy	Stay Silent	Lefty gets 1 year, Bugsy gets 1 year	Lefty goes free, Bugsy gets 20 years
	Confess	Lefty gets 20 years, Bugsy goes free	Lefty gets 10 years, Bugsy gets 10 years

Each suspect has four possible outcomes: go free, serve one year, serve ten years, or serve twenty years. Each suspect has an influence on what happens to him; but the outcome is also dependent on what the other suspect does, and neither will know what the other decides to do. Even if the two suspects had made an agreement on what they would do if they were caught, neither is sure that he can trust his accomplice to keep their agreement.

What should each suspect do? Should he just look out for himself, or should he try to cooperate with his partner? What is the cost-benefit analysis that each prisoner should do for each option?

One application of the prisoner's dilemma game is in showing how difficult it is for a cartel to accomplish the goal of cooperation when each partner weighs his self-interest against the interests of the cartel.

Sources:

1. Steven Kuhn, "Prisoner's Dilemma", *The Stanford Encyclopedia of Philosophy* (Spring 2009 Edition), Edward N. Zalta, ed., http://plato.stanford.edu/archives/spr2009/entries/prisoner-dilemma/, retrieved November 16, 2009

2. N. Gregory Mankiw, *Principles of Economics (*Fort Worth: The Dryden Press, 1998), pp. 345-354