SEAT NUMBER

Trinity College Foundation Studies

February Main 2015

ECONOMICS
End of Semester 1 Practice Exam

This practice examination comprises 40 multiple-choice questions

Reading time 10 minutes
Writing time 90 minutes

INSTRUCTIONS TO CANDIDATES

1. Choose the response, (A), (B), (C) or (D) you consider best answers the question or completes the statement.

2. Indicate your answer by circling the appropriate response on the answer sheet provided (we recommend that you use pencil so you can easily erase any answer that you may wish to change).

3. No marks are deducted for an incorrect answer, so you are urged to attempt every question.

4. You may use the question booklet for rough work.

ALLOWED MATERALS students may take into the examination room:

A scientific (non-programmable) calculator
An English/foreign language dictionary – book form only
An English Dictionary – book form only

1. As a student of economics, when you speak of scarcity, you are referring to

   (A) the inability of society to satisfy all human wants

   (B) the inability of society to consume all it produces

   (C) the inability of society to continuously make technological advancement

   (D) the inability of society to employ all of its resources efficiently

2. Which of the following is *not* generally regarded by economists as a capital resource?

   (A) Gas pipelines owned by Energy Australia

   (B) A new residential building constructed in your neighbourhood

   (C) Manufactured items used by firms to produce final goods

   (D) A household refrigerator

3. A country is producing on its PPF. If it has to produce less of consumption goods in order to increase the production of capital goods as that is what is desirable,

   (A) must be using resources inefficiently

   (B) must be producing outside its production possibilities frontier

   (C) will achieve productive efficiency only

   (D) will achieve both productive and economic efficiency

4. A trade-off represents a constraint that requires giving up one thing to get another. This can be illustrated by:

   (A) a point on the Production Possibilities Frontier

   (B) a point outside the Production Possibilities Frontier

   (C) the negative slope of the Production Possibilities Frontier

   (D) a change in the slope of the Production Possibilities Frontier

5. The following table shows the production possibilities data in a small economy that only produces rice and computers.

Maximum production possibilities	Annual production of rice (tonnes)	Annual production of computers
A	400	0
B	300	500
C	200	800
D	100	1000
E	0	1100

Based on the information provided in the table, which of the following statements is correct?

(A) Production of rice and computers can be increased at the same time if the economy is actually located on its Production Possibilities Frontier

(B) All production points A, B, C, D, E represent allocative efficiency

(C) Workers, machines, and other resources are equally suited to production of both rice and computers

(D) This economy's production possibilities frontier is bowed outwards.

6. Which of the following is a statement of normative economics?

(A) The minimum wage in Australia is currently $16.87 per hour

(B) The minimum wage creates a price floor in the labour market

(C) The minimum wage is a good policy as it benefits low-paid workers

(D) The minimum wage is supported by unions

7. "The floods in NSW are bringing financial gain to Victorian wheat growers. Due to extensive damage to the NSW wheat crop, Victorian wheat is commanding its highest price ever." Which of the following statements best explains the economics of this quotation?

   (A) The demand for NSW wheat has decreased, causing a higher price of NSW wheat and a higher demand for Victorian wheat.

   (B) The demand for NSW wheat has been reduced by the floods, causing a greater demand for Victorian wheat and an increase in its price.

   (C) The supply of NSW wheat has decreased, causing the supply of Victorian wheat to increase and its price to increase.

   (D) The supply of NSW wheat has decreased, causing its price to increase and the demand for Victorian wheat to increase.

8. Which of the following could cause an increase in the price of used cars in Australia and also increase in the quantity of used cars sold?

   I. An additional 8% federal sales tax placed on all new car purchases

   II. A fall in all state and federal excise taxes currently levied on used cars

   III. An announcement by the Health Department that the windows on most older/used cars, built before 1992, were made with cheaper glass that can explode at high speeds

   (A) I only

   (B) II only

   (C) I and II

   (D) II and III

9. Assuming both strawberry and asparagus can be grown on the same land, an increase in the demand for asparagus, *ceteris paribus*, will cause

   (A) an increase in the equilibrium price of strawberry and an increase in the equilibrium quantity of strawberry

   (B) an increase in the equilibrium price of strawberry and a decrease in the equilibrium quantity of strawberry

(C) a decrease in the equilibrium price of strawberry and a decrease in the equilibrium quantity of strawberry

(D) a decrease in the equilibrium price of strawberry and an increase in the equilibrium quantity of strawberry

10. An economic analysis reveals that the equilibrium price for the free range eggs is $6 per 700 grams. If the current price is $4, which of the following best describes the subsequent response of the market for free range eggs?

(A) There will be a shortage in the market, causing the price to fall below $4

(B) There will be a surplus in the market, causing the price go fall below $4

(C) There will be a shortage in the market, causing the price to rise towards $6

(D) There will be surplus in the market, causing the price to rise towards $6

11. Suppose prices for new houses have risen in Melbourne, yet sales of new houses have almost doubled. Which of the following provides an appropriate explanation?

(A) The law of demand has been violated

(B) New firms have entered the construction industry

(C) Construction costs have increased

(D) The demand for new houses in Melbourne has increased

12. Figure 1 shows the demand for movie rentals at a local Blockbuster store. If Blockbuster were to raise its price from $4.50 to $5.00, which of the following would happen?

(A) Total sales revenue would fall because demand is price inelastic

(B) Total sales revenue would fall because demand is price elastic

(C) Total sales revenue would rise because demand is price inelastic

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