1) What do most economists suspect is one of the primary reason for Japanese economic stagnation in the past few decades?
   a. Consumers and firms devoted an inordinate amount of their incomes to savings relative to consumption spending which has led to a "liquidity trap."
   b. Consumers and firms have traditionally devoted an inordinate amount of their incomes to consumption spending relative to savings which has led to “irrational exuberance.”
   c. The decline of Japanese population growth rates over time and the consequent aging of the Japanese population which has seriously constrained the traditional welfare state.
   d. This assertion is false. The Japanese economy is one of the strongest in the world and it has experienced double digit economic growth rates consistently over the past few decades.

Competency: Comparative economic systems

2) First discussed by Classical Economist David Ricardo in 1817, the theory of comparative advantage is consistent with which one of the following statements?
   a. Efficiency gains from trade are realized even in situations where a nation lacks an absolute advantage within every industry when compared with its trading partner.
   b. Efficiency gains from trade are realized only when one nation can produce a particular good at a lower absolute cost than another.
   c. Efficiency gains from trade are never realized when a nation specializes in an industry in which they lack an absolute advantage.
   d. Efficiency gains are only realized within a closed economy because a recognized medium of exchange is necessary for sustainable economic gain.

Competency: History of economic thought
3) Which one of the following is **not** a counterargument to the infant industry argument?

a. Industries that develop in time under protective measures will achieve the necessary economies of scale to effectively compete.

b. It is difficult to determine which industries within a developing country are capable of achieving economic maturity in the long run.

c. There are more effective means of protecting infant industries and bestowing them a competitive advantage in foreign and domestic markets.

d. There is a tendency on the part of lawmakers to retain tariffs and other temporary protective measures which were originally deemed provisional in terms of scope.

**Competency:** International trade

4) What is the underlying rationale of efficiency wages?

a. that employers should maximize wage rates in a perfectly competitive labor market by compensating employees at the equilibrium wage rate level

b. that employers will maximize product-cost efficiency by compensating workers at equilibrium-level wage rates

c. that employers should minimize wage rates in an imperfectly competitive labor market

d. that employers will realize increases in productivity from their workers by paying them above-equilibrium wage rates

**Competency:** Labor economics

5) If there are 10,000 employed workers and there are approximately 1,000 unemployed workers, what is the unemployment rate?

a. 11.1 percent

b. 10.0 percent

c. 9.09 percent

d. 4.0 percent

**Competency:** Macroeconomics
6) Given the data set below, derive the approximate value of the real GDP of year 2 when the nominal GDP is set at $1,000,000.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>PRICE OF MARKET BASKET</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$10,000</td>
</tr>
<tr>
<td>2</td>
<td>$13,000</td>
</tr>
<tr>
<td>3</td>
<td>$14,000</td>
</tr>
<tr>
<td>4</td>
<td>$18,000</td>
</tr>
</tbody>
</table>

a. $930,496  
b. $408,500  
c. $804,384  
d. $769,230

**Competency:** Macroeconomics

7) If the cost of lemons rises, what happens in the market for lemonade?
   a. The supply of lemonade will decrease.
   b. The demand for lemonade will increase.
   c. The supply of lemonade will increase.
   d. The demand for lemonade will decrease.

**Competency:** Microeconomics

8) A production possibility curve (PPC) characterized by a straight line rather than the usual bowed or convex shape would indicate:
   a. increasing opportunity cost
   b. constant opportunity cost
   c. decreasing opportunity cost
   d. absolute and comparative advantage

**Competency:** Microeconomics
9) What best describes the concept of liquidity?
   a. the ease of convertibility of an asset into cash with little or no loss of purchasing power
   b. the ease of solvency a firm anticipates when filing for bankruptcy
   c. the ease of convertibility of liabilities into assets with little or no loss of purchasing power
   d. the ease of convertibility of assets into liabilities with little or no loss of purchasing power

   **Competency:** Money and banking

10) Which one of the following statements is true?
   a. In the United States, households depend on wage earnings and salary compensation as their sole source of income.
   b. Many households in the United States purchase bonds and maintain savings accounts which yield additional income from interest.
   c. Only corporations in the United States own corporate stock and receive dividend income on their holdings.
   d. In the United States, corporations depend on wage earning and salary compensation as their sole source of revenue.

   **Competency:** Public sector economics

**ANSWER KEY**
1. a
2. a
3. b
4. d
5. c
6. d
7. a
8. b
9. a
10. b