1) What happens when there are excessive increases in the money supply?
   a. deflation
   b. inflation
   c. stable prices
   d. an increase in the value of the dollar

   **Competency:** Basic economic concepts and principles

2) Societies that value equality over efficiency will generally have which one of the following?
   a. a more equal distribution of income
   b. higher rates of economic growth
   c. small public sectors with limited powers
   d. constitutional restrictions on income redistribution policies

   **Competency:** Basic economic concepts and principles

3) Which one of the following is the best example of a factor of production?
   a. a sports car
   b. a cheeseburger
   c. a hammer
   d. a college textbook

   **Competency:** Productivity

4) In 2007 the GDP deflator was 125 and nominal GDP was $9.9 trillion. In 2008 the GDP deflator was 130 and nominal GDP was $11.7 trillion. How much did real GDP (expressed in 2007 dollars) increase during this time period?
   a. $0.75 trillion
   b. $1.80 trillion
   c. $2.27 trillion
   d. $1.35 trillion

   **Competency:** Macroeconomics
5) If the price of plastic used to make printers decreases, this will cause a(n):
   a. increase in the supply of printers
   b. decrease in the demand for printers
   c. increase in the demand for printers
   d. decrease in the supply of printers

   **Competency:** Supply and demand

6) The economic principle that states that individuals or nations can gain by specializing in the production of goods where they have the lowest opportunity cost is called:
   a. law of unintended consequences
   b. law of absolute advantage
   c. law of comparative advantage
   d. law of production possibilities

   **Competency:** International trade, global economics

7) A firm in perfect competition has a demand curve that is:
   a. horizontal at the market price
   b. downward sloping
   c. upward sloping
   d. equal to the firm's total revenue curve

   **Competency:** Market structures

8) If the dollar loses value in comparison to other world currencies, this will cause which one of the following?
   a. the demand for the dollar to decline and encourage investment in the U. S. economy
   b. the demand for the dollar to increase and encourage investment in the U. S. economy
   c. the demand for the dollar to increase and discourage investment in the U. S. economy
   d. the demand for the dollar to decline and discourage investment in the U. S. economy

   **Competency:** Investments, interest rates
9) Which one of the following is the best example of a public good?
   a. a toll road
   b. Disneyworld
   c. a restroom in a public park
   d. national defense

   **Competency:** Role of government

10) If restrictive monetary policy is required to address a serious inflationary problem, it is likely that the money supply will:
   a. contract and economic output will be reduced in the short run
   b. contract and economic output will increase in the short run
   c. expand and economic output will be reduced in the short run
   d. expand and economic output will increase in the short run

   **Competency:** Monetary and fiscal policy

**ANSWER KEY**

1. B
2. A
3. C
4. D
5. A
6. C
7. A
8. D
9. D
10. A