

Economics 120
Review Questions
First Exam

Spring 2008

1. What is the economic problem and what causes it?
2. What are the factors of production (resources) and what are the resource payments for each of them?
3. What are the 4 economic functions of the entrepreneur?
4. What are productive and allocative efficiency?
5. What are the assumptions of production possibilities analysis?
6. What is opportunity cost?
7. What is the law of increasing opportunity cost? What explains it?
8. How does the market system determine which point on the production possibilities curve is best? Explain using allocative efficiency.
9. What do points inside the production possibilities curve represent? What causes the production possibilities curve to shift outward?
10. How does the economy's choice of goods in the present affect the economy's production possibilities curve in the future?
11. What is the difference between product markets and resource markets?
12. What are the non-price determinants of market demand? How does the demand curve shift when each of these determinants changes? Graph the shifts?
13. What is the difference between a change in demand and a change in quantity demanded? Show graphically.
14. What are the non-price determinants of market supply? How does the market supply curve shift when these determinants change? Graph the shifts.
15. What is the difference between a change in supply and a change in quantity supplied? Show graphically.
16. How do changes in market supply and demand affect equilibrium price and quantity? Be able to show the impact of all possible changes in supply and demand.

17. What are the two requirements of competition in a market economy?
18. How does the market system decide which goods to produce?
19. What technology (combination of resources) do businesses use in a market system?
20. How does the market system distribute total output?
21. How does the market system accommodate change (i.e. the guiding function of profits).
22. What are the virtues of the market system.
23. How do households spend their income? What is the largest component of the functional distribution of income?
24. What are the following: plant, firm, vertical combination, horizontal combination, conglomerate, industry.
25. What are the advantages and disadvantages of sole proprietorships, partnerships, and corporations?
26. What are the characteristics of LLCs and S corporations?
27. How does government promote competition and control monopoly power?
28. How does government redistribute income?
29. What effect do external costs and benefits have on resource allocation? How does government correct the misallocation of resources?
30. What are the characteristics of public goods and why must government provide them? What are quasi public goods and why does government provide them?
31. What government policies reduce unemployment and inflation?
32. What are the differences between government purchases and transfers?
33. What are the principal Federal government taxes? What are the principal state and local taxes?
34. What are the principal U.S. international trade patterns?
35. What are the 4 reasons for the rapid expansion of international trade after WWII?
36. Why does specialization and trade result in a greater total output for the trading partners?

37. In the yen-dollar foreign exchange market, what determines the supply and demand for yen?
38. If the dollar depreciates in the yen-dollar foreign exchange market, what happens to U.S. exports and imports? Explain. What happens to U.S. exports and imports if the dollar appreciates?
39. What are the four mechanisms used by government to restrict international trade?
40. Why does government restrict international trade and what are the costs to society of these restrictions?