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***print name on the line above as your signature***

**INSTRUCTIONS:**

1. This Exam #1 must be completed within the allocated time  
(i.e., the **20 minutes** between 8:20 PM and 8:40 PM).  
It is a OPEN BOOK exam.
2. As each student finishes this exam, that student shall
  - [2A] present to the instructor the student's photo ID;
  - [2B] present the student's completed answer sheet;
  - [2C] exchange the completed answer sheet for an answer key; and
  - [3D] then leave the exam room until after the end of the exam  
(e.g., all students finish in less than the 20 minutes).

For you to learn your individual exam grade  
you must use your marked up exam.
3. DUE TO YOUR PROFESSOR'S ILLNESS THAT CANCELED ONE CLASS MEETING, **ALL STUDENTS ARE AWARDED ALL OF THE 50 CLICKER PARTICIPATION POINTS** THAT WERE AVAILABLE TO BE EARNED PRE-EXAM #1.
4. ALSO DUE TO YOUR PROFESSOR'S ILLNESS, **ALL STUDENT SHALL BE AWARDED 15 POINTS IN ADDITION TO THE POINTS THEY EARN ON EXAM #1.**
5. This Exam #1 is worth 150 of the course total of 1,000 points.  
This objective exam has 16 questions graded as if there are 15.  
Each correct answer on Exam #1 is worth 10 course points.  
Based upon the instructor's statistical analysis of all students' answers, the instructor unilaterally may alter the grading of specific exam questions.  
Any student may appeal the grading of any other exam questions.  
However, only if a student successfully appeals the ambiguity of **AT LEAST TWO** questions on this exam will *that* student's exam grade change by the number of successful appeals in excess of ONE successful appeal.  
*Appeals only affect the exam grades of those students that appeal.*
6. **All appeals** of this exam's questions must be:
  - [6A] typed;
  - [6B] signed by the student in three ways, typed name, handwritten signature, and typed university identification number;
  - [6C] immediately following the signature, list in sequence, *solely by number*, each of the questions being appealed;
  - [6D] after the [6C] list, argue each question, one at a time;
  - [6E] at the beginning of each question's [6D] appeal, identify two or more reasonable meanings that the question could have had;
  - [6F] argue why one or more of the [6E] identified reasonable meanings is as appropriate or is more appropriate than the meaning used for the answer key answer; and
  - [6G] personally handed to the instructor or the instructor's suite secretary in RH 502 no later than the 6:05 PM on Wednesday, September 23.

**NOTE #1:** On the blue computer graded answer sheet  
fill in your name (last, first) both in numeral and in bubble  
and  
provide your NU ID number both in numeral and in bubble.

**NOTE #2:** On the computer graded answer sheet,  
**use A to indicate that the statement is TRUE;**  
and  
use B to indicate that the statement is FALSE.

**QUESTIONS:**

1. Economics assumes humans:
  - A. act as rational persons.
  - B. must make choices while confronting scarcity.
  - C. optimize their utility when marginal benefits equal marginal costs (i.e.,  $MB = MC$ ).
  - D. A, B, and C are true.
  - E. none are true; A, B, C, and D are false.
  
2. **T F** The economic factors of production are land, labor, capital, and entrepreneurial ability. The economic payments paid, respectively, for each is: rent, wages, interest, and economic profit.
  
3. The production possibilities curve shows the maximum output for a society at full employment. That maximum can be increased in the future by:
  - A. unemployment in the present.
  - B. increases in the quantity of resources.
  - C. all changes in technology.
  - D. A, B, and C are true.
  - E. B and C are true; but, A is false.
  
4. The division of labor (i.e., human specialization) allows greater output from the same quantity of labor inputs because of:
  - A. differences in ability.
  - B. learning from repetition of a single production task.
  - C. time savings from not switching between production tasks.
  - D. A, B, and D are true.
  - E. B and C are true; but, A is false.
  
5. **T F** Typically, a command system tends to be more efficient if either the time line is short or the desired goals are narrowly defined. However, typically, a market system tends to be more efficient if either the time line is long or the desired goals are broadly defined.

- 6. T F** Normative economics addresses value judgments.  
Positive economics focuses on facts.  
Since many transactions in all economies are monetary transactions, positive economics does not involve any value judgments other than dollar value judgments.
- 7.** Which non-price determinant of supply is missing from the following list:  
cost of inputs; technology; taxes; prices of related goods; expectations; and number of sellers?  
**A.** alternatives.  
**B.** free entry and exit.  
**C.** size of sellers.  
**D.** tastes.  
**E.** nothing is missing, that list is complete.
- 8.** The inside front cover and the inside back cover of your textbook display one long table. In what year is the prime interest rate higher?  
**A.** 1947.  
**B.** 1981.  
**C.** The interest rate is the same in both of those two years.  
**D.** There is no such data in that table.  
**E.** A, B, C, and D are false
- 9. T F** In your textbook in chapter 3, on page 64, QUESTION 1 asks you: "Explain the law of demand. Why does the demand curve slope downward? How is the market demand curve derived from individual demand curves?".  
ANSWER = "Individuals have unlimited wants and thus demand greater quantities of normal goods. However, as an individual's existing inventory of a normal good increases the price that individual is willing to voluntarily exchange for more of that normal good decreases. All demand curves, whether individual or market, display alternative purchases rather than sequential purchases. To find the market demand curve, the demand curves of all individual sellers are horizontally summed."  
THIS ANSWER IS ACCURATE.
- 10. T F** Income distribution in the USA strongly tends towards equality.  
The top 20% income earners receive a little above 25% of the total income, while the bottom 20% of income earners receive a little under 15%.

- 11. T F** The principle-agent problem only exists in large corporations.  
The principle-agent problem does not exist in small business.
- 12. T F** Both a supply curve and a demand curve only represent transactions the immediate market participants are willing and able to make.  
Externalities exist when consequences of those market transactions spill over onto others either as costs (e.g., pollution) or as benefits (e.g., education). Externalities, if significant, can defeat the market system's effort to generate both productive efficiency and allocative efficiency.
- 13. T F** Mutual gains via specialization and international trade will be available to a pair of nations if one country has a comparative advantage even if the other country has the absolute advantage.
- 14. T F** Domestic businesses prefer that their foreign competitors confront a tariff on their imports while those foreign competitors prefer to confront a quota on their imports.
- 15. T F** All countries prohibit dumping and all countries dump because dumping is exporting unemployment.
- 16. Capitalism:**
- A.** has self-interest as the central concept of four of its functions.
  - B.** has government the mechanism for regulating self interest.
  - C.** seeks to have all transactions to be knowing and voluntary.
  - D.** A, B, and C are true.
  - E.** A and C are true; and, B and D are false.