

## AP Microeconomics Unit 1: Basic Economic Concepts

### Question 1

**What does it mean to say that a resource is scarce?**

- A. There is not enough of this resource to satisfy all the wants and needs of a society.
- B. Nobody wants to buy this resource.
- C. A society does not have enough money to purchase this resource.
- D. The resource is no longer available
- E. There is an unlimited amount of the resource available.

### Question 2

**Which of the following best describes what we mean by resources in economics?**

- A. Natural resources like natural gas and trees
- B. The factors used to produce goods and services
- C. Human resources like workers
- D. The ability to handle a situation
- E. Monetary wealth

### Question 3

**Which of the following best captures the idea of the fundamental economic problem?**

- A. Lack of demand for limited resources
- B. Unlimited resources and unlimited wants
- C. Limited resources and unlimited wants
- D. Infinite resources and limited wants
- E. Limited wants and limited resources

### Question 4

**What are the elements of property rights that help markets function?**

- A. central planning of resource use, central planning of allocation of goods, centrally set prices
- B. durability, portability, divisibility
- C. exclusivity, enforceability, and transferability
- D. non-rivalry and non-excludability
- E. rivalry and non-excludability

### Question 5

In the nation of Hamsterville most goods, services, and resources are allocated in markets. However, some goods are provided by the government, such as healthcare and education.

**What kind of economic system does Hamsterville have?**

- A. Pure command system
- B. A mixed system
- C. Communist
- D. Pure capitalist system
- E. Pure market system

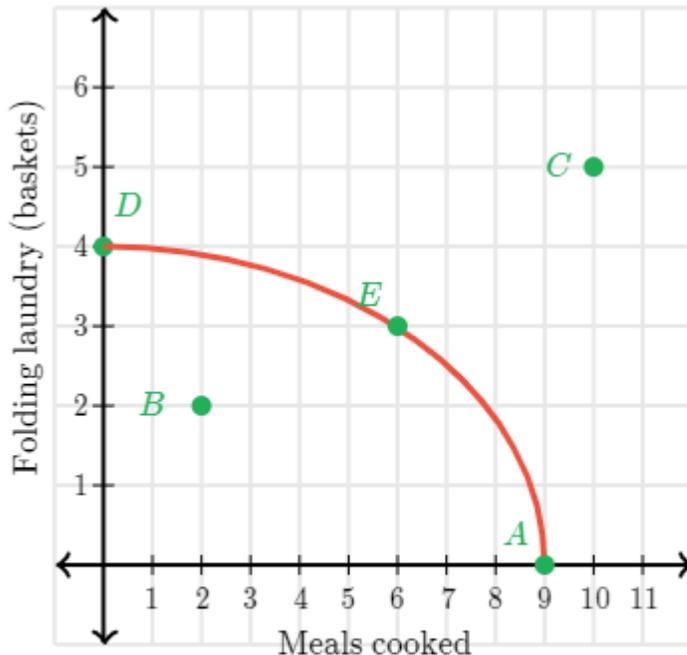
Question 6

**Which of the following is the best definition of an economic system?**

- A. A government program promoting economic growth and employment
- B. A mechanism to decide what to make, how to make it, and who gets it
- C. A model illustrating the flows of goods and services
- D. A set of policies used by a government to regulate production
- E. A graphical model to understand how economies work

Question 7

Alex can split his time doing chores between only two activities: folding laundry and cooking meals. His production possibilities curve is shown here.



Which of the following best describes what we

A PPC with points illustrating different combinations of production

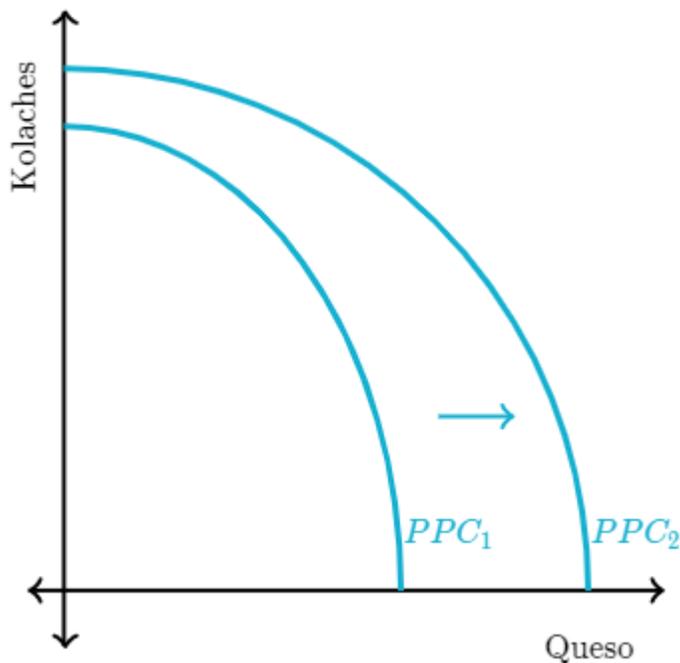
- A. We cannot tell how he should split his time
- B. He should produce at point AAA because food is a need but laundry is not
- C. He should produce the combination at point EEE because he splits his time between the two activities
- D. He should produce at point BBB because he has time left over to do other chores
- E. He should produce the combination at point CCC because it represents the most laundry folded and meals cooked

Question 8

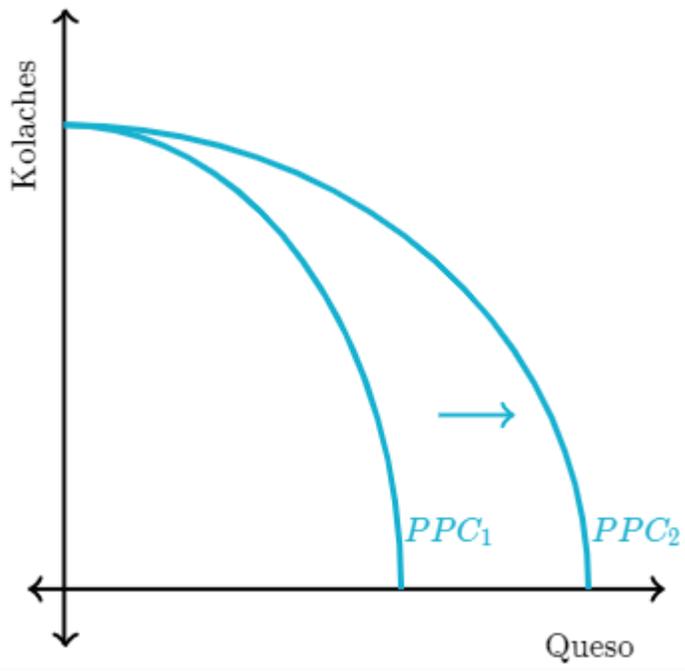
Flour is an ingredient used to make kolaches, but is not used to make queso.

**Which of these graphs shows what happens when the availability of flour increases?**

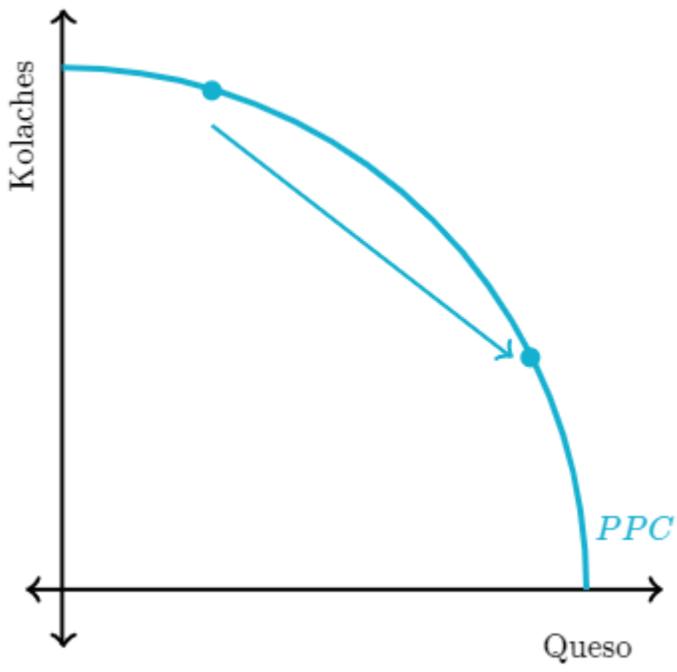
A.



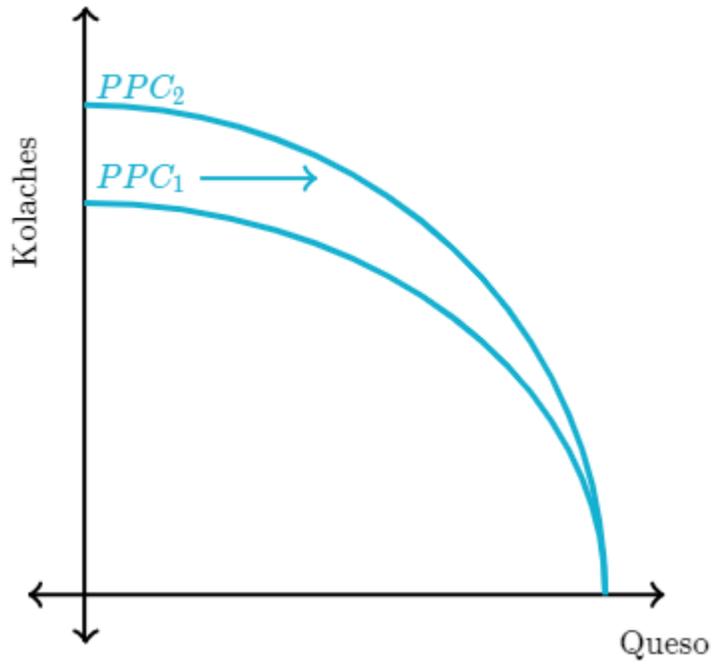
B.



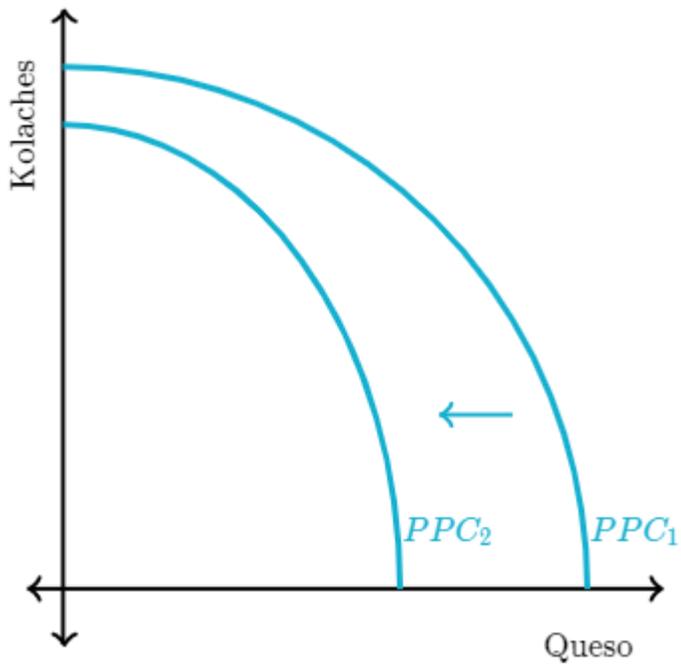
C.



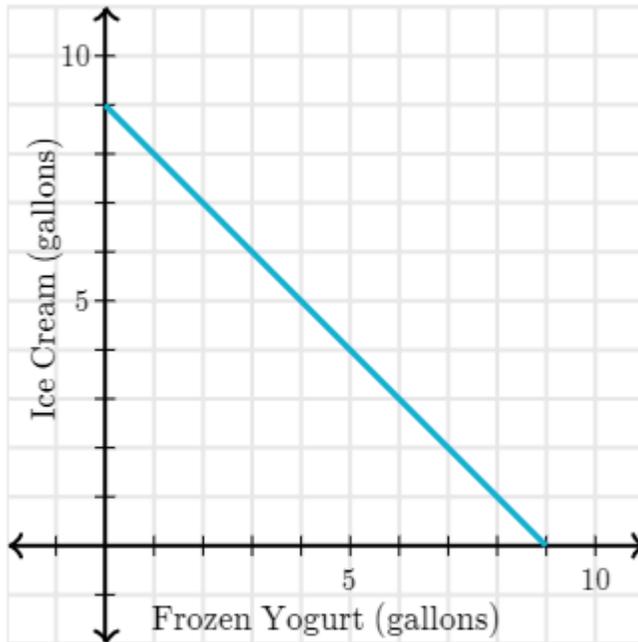
D.



E.



The graph below shows the PPC for a country producing ice cream and frozen yogurt.



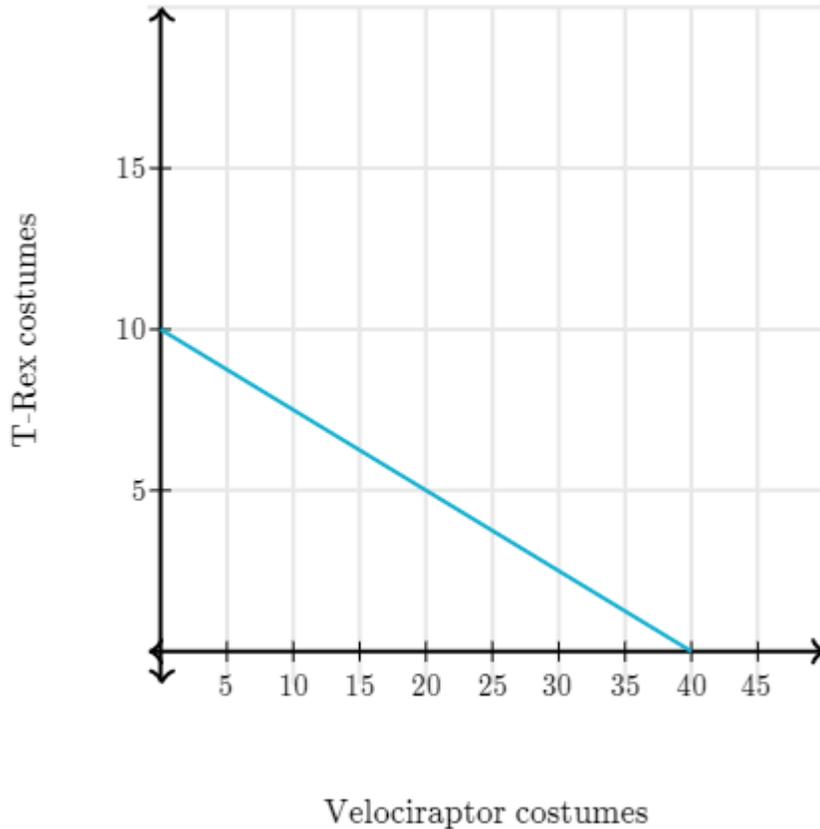
A production possibilities curve

**What statement explains why the PPC for ice cream and frozen yogurt is a straight line instead of a curve?**

- A. The shape of the PPC signifies that the resources needed to produce the two goods are interchangeable.
- B. The shape of the PPC signifies that the resources needed to produce the two goods are very different.
- C. The shape of the PPC signifies increasing opportunity cost
- D. The shape of the PPC signifies an inefficient use of resources
- E. The shape of the PPC signifies efficient use of resources

Question 10

The figure below is the production possibilities curve showing production of T-Rex costumes and Velociraptor costumes in a single day.



Based on the production possibilities curve shown here, what is the opportunity cost of a T-Rex costume?

- A. 0.4
- B. 0.25 of a T-Rex costume
- C. 4 Velociraptor costumes
- D. 0.25 T-Rex costumes
- E. 10 Velociraptor costumes

Question 11

Using the same amount of time and resources, Aanand can either build 6 models or prepare 4 experiments, and Pam can either build 9 models or prepare 6 experiments.

Who has a comparative advantage in building models and who has a comparative advantage in preparing experiments?

- A. Pam has a comparative advantage in building models; both people have a comparative advantage in preparing experiments.
- B. Neither has a comparative advantage in producing either good.
- C. Aanand has a comparative advantage in building models and Pam has a comparative advantage in preparing experiments.

- D. Both have a comparative advantage in both goods.
- E. Pam has a comparative advantage in both building models and preparing experiments.

### Question 12

Max and Eli like to build apps and coach soccer. The time it takes for Max and Eli to build apps and plan soccer drills for their team is given in the table below.

	Max	Eli
Time to build an app	20 hours	15 hours
Time to write a soccer drill	5 hours	9 hours

**Which person has an absolute advantage in building apps, and which person has an absolute advantage in planning soccer drills?**

- A. Both have an absolute advantage in producing both goods.
- B. Eli has an absolute advantage in producing both goods.
- C. Eli has an absolute advantage in building apps; Max has an absolute advantage in planning soccer drills.
- D. Max has an absolute advantage in building apps; nobody has an absolute advantage in planning soccer drills.
- E. Neither person has an absolute advantage in producing either good.

### Question 13

**Which of the following situations would allow agents to gain from specialization and trade with one another?**

- A. The terms of trade are between the two agents' opportunity costs.
- B. The agents have the same opportunity costs.
- C. One agent has absolute advantage in both goods.
- D. One agent has comparative advantage in both goods.
- E. Either agent has absolute advantage in either of the goods.

### Question 14

Using the same amount of time and resources, Tomer can either write 100 lines of code or process 20 reports, and Charlotte can either write 120 lines of code or process 20 reports.

**If Charlotte and Tomer specialize and trade, who should produce which good?**

- A. Charlotte should specialize in writing lines of code, Tomer should specialize in reports

- B. Charlotte should specialize in writing lines of code but nobody should specialize in processing reports.
- C. Charlotte should specialize in reports, Tomer should specialize in writing lines of code.
- D. There is no opportunity for specialization because they both have an absolute advantage in producing one good.
- E. There is no opportunity for gains from trade because neither person has a comparative advantage in producing either good.

#### Question 15

##### **What is the difference between an implicit cost and an explicit cost?**

- A. Implicit costs should be ignored when calculating the total economic costs of a decision
- B. Explicit costs should be ignored when calculating the total economic costs of a decision
- C. An implicit cost does not always involve a monetary expense, but an explicit cost does
- D. Opportunity costs can be explicit, but not implicit
- E. Opportunity costs can be implicit, but not explicit

#### Question 16

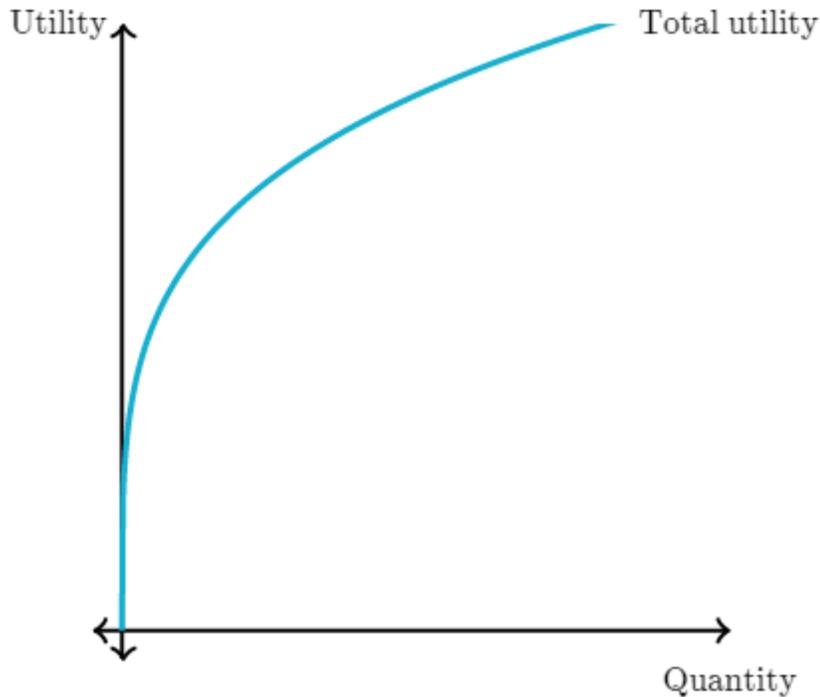
Phan is deciding whether or not to invest in a project. This project cannot be broken down into increments, and she has the choice of either investing in it or not.

##### **What is true about Phan's decision?**

- A. She should examine the marginal costs and marginal benefits of the project
- B. It cannot be examined rationally because it cannot be broken down into increments
- C. She should examine the total costs and total benefits of the project
- D. She should pursue it if the costs outweigh the benefits
- E. She should consider only the explicit costs of the project

#### Question 17

This diagram shows Thi's utility for cheesecake:



**Which of the following does Thi's utility function illustrate?**

- A. Constrained utility maximization
- B. Increasing marginal utility
- C. Increasing opportunity costs
- D. Decreasing total utility
- E. Diminishing marginal utility

Question 18

**If a good is free, when will a consumer stop wanting to buy the good?**

- A. Once marginal utility equals total utility
- B. Once the marginal utility equals zero
- C. When marginal utility is negative
- D. At the quantity where marginal utility is at its maximum
- E. Once the total utility equals zero

Question 19

**Which of following best describes how a consumer makes an optimal decision?**

- A. Choose the combination of goods with the highest total utility
- B. Choose the optimal combination of goods subject to a budget constraint
- C. Choose the combination of goods that gives the highest profit
- D. Choose the combination of goods with the highest marginal utility

- E. Choose the combination of goods that minimizes how much is spent

Question 20

**Which of the following does NOT describe decision-making based on marginal analysis?**

- A. An individual comparing the additional happiness they get from another cookie against the cost of consuming an additional cookie
- B. A producer comparing the benefit of buying another piece of equipment against the cost of another piece of equipment
- C. A producer comparing the marginal revenue of hiring another worker against the marginal cost of hiring another worker
- D. An individual comparing the marginal utility of another cup of coffee against the cost of another cup of coffee
- E. An individual comparing the average utility they receive from all units of consumption against the average cost of all units of consumption.

Answer Key

1. A
2. B
3. C
4. C
5. B
6. B
7. A
8. D
9. A
10. C
11. B
12. C
13. A
14. A
15. C
16. C
17. E
18. B
19. B
20. E