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Brian Reddington



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INTRODUCTION

Congratulations! You've taken a big step toward AP success by purchasing *5 Steps to a 5: 500 AP Microeconomics/Macroeconomics Questions to Know by Test Day*. We are here to help you take the next step and score high on your AP exam so you can earn college credits and get into the college or university of your choice.

This book gives you 500 AP-style multiple-choice questions that cover all the most essential course material. Each question has a detailed answer explanation. These questions will give you valuable independent practice to supplement your regular textbook and the groundwork you are already doing in your AP classroom. This and the other books in this series were written by expert AP teachers who know your exam inside out and can identify the crucial exam information as well as questions that are most likely to appear on the exam.

You might be the kind of student who takes several AP courses and needs to study extra questions a few weeks before the exam for a final review. Or you might be the kind of student who puts off preparing until the last weeks before the exam. No matter what your preparation style is, you will surely benefit from reviewing these 500 questions, which closely parallel the content, format, and degree of difficulty of the questions on the actual AP exam. These questions and their answer explanations are the ideal last-minute study tool for those final few weeks before the test.

Remember the old saying "Practice makes perfect." If you practice with all the questions and answers in this book, we are certain you will build the skills and confidence you need to do great on the exam. Good luck!

—Editors of McGraw-Hill Education

PART 1 Microeconomics

CHAPTER 1

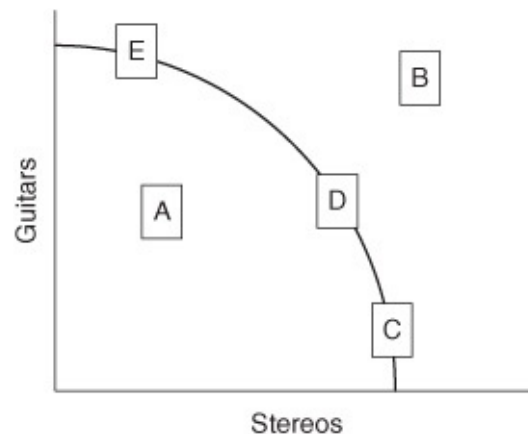
Basic Economic Concepts

1. The study of economics is correctly defined as
 - (A) the methods used to satisfy our limited material wants with unlimited productive resources
 - (B) how best to predict the fluctuations in the stock market
 - (C) how best to satisfy our unlimited wants with limited and scarce material resources
 - (D) the methods used to disseminate limited resources among a population's scarce material wants
 - (E) the study of the interaction and allocation of limited resources and market structures

2. Deirdre has one free hour to practice the piano for an upcoming school concert or work at the library for \$7 per hour or babysit her neighbor's 12-year-old son for \$10 per hour. She chooses to practice the piano. What is the opportunity cost of practicing the piano?
 - (A) The opportunity cost would be \$17 because she chose not to participate in these activities.
 - (B) Without knowing the marginal value of practicing the piano, there is no way of knowing the true opportunity cost.
 - (C) The opportunity cost would be \$20 because it is necessary to calculate one additional hour of babysitting to make it profitable.
 - (D) The opportunity cost would be \$10 because it would be the most profitable alternative.
 - (E) The opportunity cost would be \$3 because it is the monetary difference between two alternative choices.

3. After dedicating two hours to studying for the AP economics exam, Seth chooses to spend an additional hour studying. Which of the following is most likely TRUE?
 - (A) The marginal benefit of the additional hour is at least as great as the marginal cost of the additional hour.
 - (B) The marginal cost of the additional hour is less than the marginal benefit of the additional hour.
 - (C) Both the marginal benefit and marginal cost are always equal in this scenario.
 - (D) The marginal benefit of the second hour is less than the marginal benefit of the additional hour.
 - (E) The marginal cost of the second hour is greater than the marginal cost of the additional hour.

Brooks Industries is a leading producer of guitars and stereos. Use the following production possibilities curve for [questions 4](#) and [5](#).



4. Which two points would best represent economic growth?
 - (A) From A to D
 - (B) From D to C
 - (C) From A to B
 - (D) From E to C
 - (E) From E to B

5. The concave shape of the production possibilities curve implies the notion of
 - (A) opportunity costs
 - (B) comparative advantage
 - (C) marginal analysis
 - (D) allocation of limited resources with unlimited material wants
 - (E) $MB = MC$

6. It is beneficial for two countries to trade only when there is
 - (A) a mutually beneficial trade agreement
 - (B) increasing returns to scale
 - (C) decreasing returns to scale
 - (D) an absolute advantage in production between the two countries
 - (E) a comparative advantage in production between the two countries

7. If a society *overallocates* its resources, then
 - (A) consumer spending would increase due to an increase in demand
 - (B) marginal benefit would be greater than marginal cost
 - (C) opportunity cost of producing one more unit would increase exponentially
 - (D) marginal benefit would be less than marginal cost
 - (E) marginal benefit would equal marginal cost

8. Both Richard and Michele can mow the lawn and walk their dog on Sunday

morning. For every half hour of walking the dog, Richard can mow twice the amount of lawn Michele can. According to this information,

- (A) Michele walks the dog because she has absolute advantage in mowing the lawn
- (B) Richard walks the dog because he has comparative advantage in mowing the lawn
- (C) Richard mows the lawn because he has comparative advantage in mowing the lawn
- (D) Michele mows the lawn because she has comparative advantage in mowing the lawn
- (E) Michele walks the dog because she has comparative advantage in walking the dog

9. In a command economy,

- (A) market prices are determined through supply and demand
- (B) market prices are determined through supply and demand and some government interventions
- (C) market prices are determined by a central plan designed by the government
- (D) market prices are determined through supply and demand and some barter system
- (E) market prices are determined through the resources backing of the gold and silver supply

10. Which of the following will cause an outward shift of the production possibilities curve?

- (A) A grant for educational training for employees
- (B) A decrease in a nation's birthrate, thus decreasing the labor force
- (C) A natural disaster creating extreme limitations of a vital natural resource
- (D) A shortage of skilled workers
- (E) An increase of unskilled workers

11. A point lying directly on the production possibilities curve is

- (A) efficient
- (B) unattainable, yet efficient
- (C) attainable and efficient
- (D) unattainable
- (E) inefficient

12. *Scarcity* is best defined as

- (A) material resources are unlimited
- (B) an idea used by industrializing nations to satisfy unlimited wants and desires with limited natural resources
- (C) limited vital material resources compared with limited wants and needs
- (D) all points lying outside the production possibilities curve

- (E) the idea that a society's wants and needs are unlimited, and material resources are limited
13. The benefits of specialization likely include all of the following EXCEPT
- (A) vital resources are used more efficiently
 - (B) an increased educational opportunity as the economy grows
 - (C) improvements in productivity
 - (D) greater quantity of goods and services supplied to consumers
 - (E) all of the above are benefits of specialization
14. Mineral deposits, human capital, entrepreneurship, and use of technology and machinery are all examples of
- (A) factors of production
 - (B) superior and inferior goods
 - (C) elements sometimes needed to move an existing company overseas
 - (D) public goods
 - (E) material wants and needs
15. The law of increasing costs is best defined as
- (A) when the price of a good rises, the quantity does not fall
 - (B) as more of a product is produced, the greater its opportunity cost
 - (C) as one obtains more of a good, the marginal utility (the value from one more unit) will decrease
 - (D) as the economy grows, government spending will increase as well
 - (E) all costs are opportunity costs
16. The production possibilities curve will show a straight line if which of the following are TRUE?
- (A) Resources are not specialized.
 - (B) Vital resources for the good are limitless.
 - (C) The economy is operating below maximum efficiency and output.
 - (D) The law of decreasing marginal utility does not apply.
 - (E) Marginal benefit is less than marginal cost.
17. A country is said to have a comparative advantage over another country when
- (A) it can produce a good at a lower opportunity cost than another country
 - (B) it can produce a good using fewer resources per unit of output than another country
 - (C) there is a higher degree of specialization and division of labor compared to another country
 - (D) when comparing each country's production possibilities frontiers, one country is operating at maximum efficiency and output
 - (E) one country's production possibilities frontier is shifted farther to the right compared to another country's production possibilities frontier
18. How is it possible for a country to obtain more than its production possibilities

curve dictates?

- (A) Not possible without greater quantities of the factors of production already obtained
- (B) Specialization
- (C) Increase in education and job training
- (D) Obtainment of a greater quantity of affordable substitutes
- (E) Increase in the division of labor

19. Suppose both Spain and Germany produce soccer balls and golf balls. Spain can produce soccer balls at a lower opportunity cost than Germany. Germany can produce golf balls at a lower opportunity cost than Spain. According to the law of comparative advantage,

- (A) Germany should stop producing soccer balls; Spain should stop producing golf balls; Spain and Germany should establish a trade for the product they stopped producing
- (B) Germany should stop producing golf balls; Spain should stop producing soccer balls
- (C) Germany should increase production of golf balls and decrease the production of soccer balls
- (D) Spain should increase the production of soccer balls and decrease the production of golf balls
- (E) none of the above

20. Which of the following are some of the basic questions every economy must answer?

- (A) What to produce? How to produce? How much to produce?
- (B) When to produce? How to produce? How much to produce?
- (C) For whom to produce? When to produce? What to produce?
- (D) What to produce? How to produce? Where to produce?
- (E) all of the above

21. Economic growth is only possible if

- (A) all of the fundamental questions an economy faces are answered
- (B) there is a highly developed division of labor
- (C) there is a decrease in resources and decreasing opportunity costs
- (D) there is an increase in resources and technological advancements in production
- (E) there is a diseconomy of scale

22. As a rule, one should purchase a good or engage in an activity if

- (A) the opportunity cost is equal to the value of the good or activity
- (B) the marginal benefit is greater or equal to the marginal cost
- (C) the value of a good or activity is equal to the marginal cost
- (D) there is an increasing marginal value of return
- (E) the marginal benefit is less than or equal to the marginal cost

- 23.** Your school decides to build a new performing arts center. What is the opportunity cost of the performing arts center?
- (A) The money used in construction of the performing arts center
 - (B) The cost of building the performing arts center now rather than waiting until next year
 - (C) Any other good or service that cannot be provided right now due to resources used for the new performing arts center
 - (D) Cannot be determined without knowing what the next best option was for using the resources that went to the performing arts center
 - (E) None of the above
- 24.** All are reasons why a production possibilities curve will shift to the right EXCEPT
- (A) the quantity of resources increases
 - (B) the quality of existing resources increases
 - (C) technological advancements in production
 - (D) the labor force increases
 - (E) the economy is operating at allocative efficiency
- 25.** Marginal analysis is best defined as
- (A) the additional benefit received from the consumption of the next unit of a good or service
 - (B) the additional cost from the consumption of the next unit of a good or service
 - (C) analyzing the combination of goods and services that provide the best benefit to society
 - (D) making decisions based upon the marginal benefits and marginal costs of that decision
 - (E) when businesses use their resources to produce goods and services for which they have a comparative advantage
- 26.** An economic system is characterized as emphasizing private property and competition, and prices inform buyers and sellers how to allocate their resources. This economic system would be known as a
- (A) mixed system
 - (B) market system
 - (C) socialist system
 - (D) command system
 - (E) barter system
- 27.** Economic systems differ most in
- (A) increasing returns to scale
 - (B) the quality of goods and services produced
 - (C) how they answer the fundamental economic questions all societies must answer

- (D) production possibility frontiers
- (E) the quantity of goods and services produced
- 28.** As a result of the scarcity of resources,
 - (A) every society must commit to central planning
 - (B) the government must decide how best to use those resources
 - (C) there is the unavoidable reality of poverty
 - (D) every society must choose how best to use those resources
 - (E) every society must include elements of a market economy and government planning
- 29.** All of the following are microeconomic variables EXCEPT
 - (A) the unemployment rate from Great Britain in 1992
 - (B) tax rates on cigarettes and alcohol in France between 2000 and 2010
 - (C) the production possibilities frontier of television sets and radios in Sri Lanka in 1975
 - (D) marginal analysis
 - (E) all of the above are microeconomic variables
- 30.** The basic economic questions being answered by the decisions of buyers and sellers in the marketplace occur in
 - (A) a mixed economy
 - (B) a command economy
 - (C) a traditional economy
 - (D) a market economy
 - (E) a barter economy

CHAPTER 2

The Nature and Function of Product Markets

- 31.** What will most likely result if the price of apples decreases?
- (A) The quantity of apples demanded will increase.
 - (B) The supply of apples will decrease.
 - (C) The demand for apples will increase.
 - (D) The quantity of apples supplied will decrease.
 - (E) None of the above
- 32.** If Michael's average yearly income increases, and it is observed that his demand for steak has increased, then steak must be considered
- (A) an inferior good
 - (B) a normal good
 - (C) a determinant of demand
 - (D) a determinant of supply
 - (E) a necessity
- 33.** If Peter's average yearly income increases, and it is observed that his demand for thrift-store-bought shoes decreases, then thrift-store-bought shoes must be considered
- (A) a normal good
 - (B) a shortage good
 - (C) a necessity
 - (D) an inferior good
 - (E) a determinant of demand
- 34.** Suppose it is necessary for tin to be used in the production of guitar strings. If the price of tin decreases and all other variables are constant, what will most likely result?
- (A) The demand for silver will increase.
 - (B) The quantity demanded for guitars will decrease.
 - (C) The demand for guitars will increase.
 - (D) The supply of guitars will decrease.
 - (E) The supply of guitar strings will increase.
- 35.** According to the law of demand,
- (A) as the price of a good or service increases, the demand will shift to the right
 - (B) as the price of a good or service increases, the demand will shift to the left
 - (C) there is an inverse relationship between quantity demanded of a good or service and the price of that good or service
 - (D) as prices for a good or service increase, consumers will begin to use substitute goods
 - (E) as the price of a good or service increases, the quantity demanded will

increase

- 36.** According to the law of supply,
- (A) as the price of a good or service decrease, the supply will decrease
 - (B) as the price of a good or service increases, the quantity supplied will increase
 - (C) as the price of a good or service increases, the quantity demanded will increase
 - (D) as the price of a good or service increases, the quantity demanded will decrease
 - (E) there is an inverse relationship between the price of a good or service and the quantity supplied
- 37.** Within the market system, prices are determined by
- (A) supply and demand
 - (B) the determinants of supply and demand
 - (C) opportunity cost
 - (D) total market demand
 - (E) production costs
- 38.** A hurricane destroys a significant supply of bananas in 2011. As a result, the price of bananas increases. What prediction may be made regarding the supply of apples, a substitute good, when its market is in equilibrium?
- (A) The price rises, and the supply will increase.
 - (B) The quantity supplied will increase.
 - (C) The price falls, and the supply will decrease.
 - (D) The price falls, and the quantity supplied will decrease.
 - (E) Both the price and the quantity supplied are undetermined.
- 39.** Competition in a market system best helps a society because
- (A) supply and demand establish the best price for a good or service
 - (B) all opportunity costs are heavily analyzed
 - (C) the total welfare is increased
 - (D) aggregate supply and aggregate demand are balanced
 - (E) within the production possibilities frontier, all resources are maximized and used efficiently
- 40.** If the demand for tennis rackets increases, what prediction can be made regarding tennis balls?
- (A) The demand for tennis balls will fall.
 - (B) The supply for tennis balls will remain the same.
 - (C) The price of tennis balls will remain the same.
 - (D) The quantity supply for tennis balls will fall.
 - (E) The price and the quantity supply of tennis balls will increase.
- 41.** Which of the following situations will cause the demand curve for chicken, a

normal good, to shift to the left?

- (A) Consumer incomes decrease.
- (B) Consumer incomes increase.
- (C) The price of steak decreases.
- (D) There is a decrease in the cost of raising chickens on a farm.
- (E) There is a scientific discovery that relates eating chicken to lower blood pressure.

42. Which of the following refers to an indifference curve?

- (A) A curve that illustrates the levels of utility or satisfaction for a consumer when he or she is presented with a various combination of goods
- (B) An inverse relationship between quantity demanded and price
- (C) A direct relationship between quantity demanded and price
- (D) A direct relationship between quantity supplied and price
- (E) None of the above

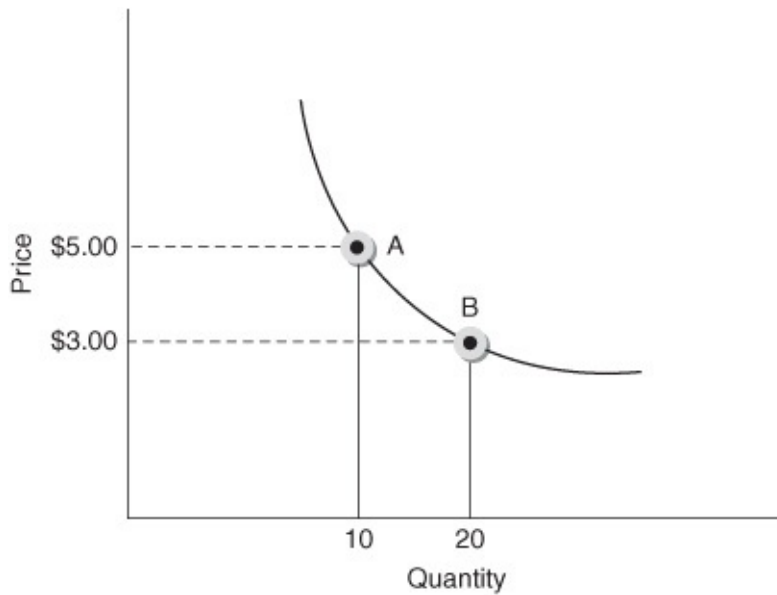
43. Mr. Harrington produces hot dog buns. He is most likely to sell his hot dog buns at a higher price if

- (A) the price of hot dogs decreases
- (B) there is an increase in consumer income
- (C) the price of hot dogs increases
- (D) a new technology is developed enabling an increase in hot dog production
- (E) a new technology is developed enabling an increase in hot dog bun production

44. The equilibrium price is established

- (A) at the next price above where the demand and supply curves intersect
- (B) when the quantity supplied equals the quantity demanded
- (C) at the next price below where the demand and supply curves intersect
- (D) when you take the difference between the two lowest points plotted on the demand and supply curves
- (E) at the price where either the demand or supply curve becomes horizontal

Observe the following demand curve for baseballs to answer [question 45](#).



45. Which of the following could explain the movement from point B to point A?
- (A) An increase in the price of the good
 - (B) An increase in consumer income
 - (C) An increase in the price of a complementary good
 - (D) An increase in the price of a substitute good
 - (E) None of the above
46. Doherty Industries is a leading producer of an energy drink. Which of the following will cause Doherty Industries to offer more of the product at all possible sale prices?
- (A) A competitor lowers the price of the product.
 - (B) The price of a key ingredient increases.
 - (C) The price of a key ingredient decreases.
 - (D) The demand for the energy drink decreases.
 - (E) The demand is perfectly elastic.
47. Suppose the demand for a product is inelastic. If a producer wishes to increase total revenue, he or she should
- (A) decrease prices
 - (B) decrease the quantity supplied
 - (C) increase the quantity supplied
 - (D) expand production into the global market
 - (E) raise prices
48. Which is an important factor to make the demand for a good inelastic?
- (A) It is a necessity.
 - (B) There are many substitutes.
 - (C) It is a luxury item.
 - (D) There are many cross-price substitutes.