

Foundations of Economics

Economics · Answer Key · 12 Questions

1. Which fundamental economic concept describes the limited availability of resources relative to unlimited human wants?

- A) Inflation
- B) Scarcity**
- C) Deflation
- D) Recession

2. What is the term for the value of the next-best alternative that must be forgone to pursue a certain action?

- A) Opportunity cost**
- B) Marginal benefit
- C) Sunk cost
- D) Economic profit

3. In a market economy, what primarily determines the price of a good or service?

- A) Government decree
- B) The interaction of supply and demand**
- C) The cost of production alone
- D) Consumer preferences only

4. What does the law of demand state about the relationship between the price of a good and the quantity demanded, assuming all other factors remain constant?

- A) As price increases, quantity demanded increases.
- B) As price decreases, quantity demanded increases.
- C) As price increases, quantity demanded decreases.**
- D) Price has no effect on quantity demanded.

5. Which of the following is a macroeconomic concern?

- A) The pricing strategy of a single firm
- B) The unemployment rate of a country**
- C) The production decisions of a household
- D) The profit margin of a specific product

6. What is the term for a sustained increase in the general price level of goods and services in an economy over a period of time?

- A) Deflation
- B) Recession
- C) Stagflation
- D) Inflation**

7. In economics, what is a 'good'?

- A) A service that is provided for free
- B) Anything that satisfies human wants and needs and has a value**
- C) Only physical objects that can be touched
- D) A charitable donation

8. What does the law of supply state about the relationship between the price of a good and the quantity supplied, assuming all other factors remain constant?

- A) As price increases, quantity supplied decreases.
- B) As price decreases, quantity supplied increases.
- C) As price increases, quantity supplied increases.**
- D) Price has no effect on quantity supplied.

9. Which type of economy relies on customs, history, and time-honored beliefs to guide economic decisions?

- A) Market economy
- B) Command economy
- C) Traditional economy**
- D) Mixed economy

10. What is the basic economic problem that all societies face due to limited resources and unlimited wants?

- A) Lack of innovation
- B) Inequality
- C) Scarcity**
- D) Unemployment

11. Which of the following best describes a 'public good'?

- A) A good that can be consumed by one person without preventing others from consuming it, and it is difficult to exclude non-payers.**
- B) A good that is only available to the wealthy.
- C) A good that is produced by a private company.
- D) A good that is only available to government employees.

12. What is the term for the total value of all final goods and services produced within a country in a specific time period?

- A) Consumer Price Index (CPI)
- B) Gross Domestic Product (GDP)**
- C) Balance of Trade
- D) Inflation Rate