

Foundations of Economics

Economics · Answer Key · 10 Questions

1. What term describes the basic economic problem where human wants are unlimited but resources are limited?

- A) Inflation
- B) Scarcity**
- C) Capitalism
- D) Deficit

2. Which factor of production refers to the physical and mental effort exerted by people to produce goods and services?

- A) Land
- B) Capital
- C) Labour**
- D) Enterprise

3. In a market economy, what determines the price of most goods and services?

- A) Government mandate
- B) Supply and demand**
- C) Barter agreements
- D) Historical cost

4. Which economic term refers to the value of the next best alternative that is given up when a choice is made?

- A) Opportunity cost**
- B) Sunk cost
- C) Fixed cost
- D) Variable cost

5. What are 'capital goods' in the context of production?

- A) Cash held in a bank
- B) Stocks and bonds
- C) Tools, machinery, and buildings used to produce other goods**
- D) Consumer items like food and clothing

6. What is the primary function of a financial institution like a bank in the economy?

- A) To regulate international trade
- B) To act as an intermediary between savers and borrowers**
- C) To set the national tax rate
- D) To print physical currency

7. Which type of economic system is characterised by government ownership of major industries and central planning?

A) Command economy

B) Market economy

C) Traditional economy

D) Free trade economy

8. What is the definition of 'gross income'?

A) Income after taxes are deducted

B) Income before taxes and other deductions are taken out

C) The total amount of savings in an account

D) Money earned from interest on investments

9. What happens to the quantity demanded of a product when its price increases, assuming other factors remain constant?

A) It increases

B) It stays the same

C) It decreases

D) It becomes unpredictable

10. Which of the following is considered a 'natural resource' or 'land' factor of production?

A) A factory building

B) Crude oil

C) An assembly line worker

D) A computer program