

Foundations of Economics

Economics · Practice Test · 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