Advanced Economic Principles for Young Minds

Basic Economics · Practice Test · 12 Questions

1. Which economic school of thought, originating from the work of John Maynard Keynes, posits that aggregate demand can be managed to stabilize the economy and prevent recessions through government intervention?

A) Classical economics
B) Austrian economics
C) Neoclassical economics
D) Keynesian economics

2. In international trade, what is the primary implication of a country possessing a comparative advantage in the production of a good?

A) It can produce that good more efficiently than any other country.
B) It has a lower opportunity cost in producing that good compared to other countries.
C) It has a monopoly on the global supply of that good.
D) It is forced to export that good to all trading partners.

3. The concept of 'moral hazard' in economics refers to a situation where:

A) Individuals take on excessive risks because they are protected from the consequences of those risks.
B) A party has an informational advantage over another party, leading to an inefficient outcome.
C) The cost of producing an additional unit of a good increases as more units are produced.
D) A good becomes more desirable as its price increases.

4. What is the primary mechanism through which a central bank typically influences the money supply and interest rates in a modern economy?

A) Directly setting wages for all workers
B) Imposing tariffs on imported goods
C) Conducting open market operations (buying and selling government securities)
D) Regulating the price of essential commodities

5. The Laffer Curve illustrates the theoretical relationship between tax rates and tax revenue. What is its core assertion?

A) Increasing tax rates always leads to a proportional increase in tax revenue.
B) Decreasing tax rates always leads to a proportional decrease in tax revenue.
C) Beyond a certain point, increasing tax rates can lead to a decrease in tax revenue.
D) Tax revenue is independent of tax rates.

6. In macroeconomics, what does the term 'stagflation' describe?

A) A period of high economic growth with low unemployment.
B) A period of economic recession with deflation.
C) A period of high inflation combined with high unemployment and stagnant demand.
D) A period of rapid technological advancement and increased productivity.

7. What is the fundamental difference between a 'public good' and a 'private good' in economic terms?

A) Public goods are produced by the government, while private goods are produced by firms.
B) Public goods are non-excludable and non-rivalrous, while private goods are excludable and rivalrous.
C) Public goods have higher production costs than private goods.
D) Public goods are always free, while private goods always have a price.

8. The concept of 'externalities' in economics refers to:

A) The costs or benefits of a transaction that affect a third party who is not directly involved in the transaction.
B) The prices charged for goods and services by monopolistic firms.
C) The fluctuations in the value of a country's currency.
D) The government's policies aimed at stimulating economic growth.

9. What is the primary goal of monetary policy when a central bank engages in 'quantitative easing'?

A) To increase interest rates and slow down economic activity.
B) To reduce the money supply and combat inflation.
C) To inject liquidity into the financial system and lower long-term interest rates.
D) To directly fund government infrastructure projects.

10. In the study of labor markets, what is the significance of the concept of 'derived demand'?

A) Workers demand higher wages based on their perceived value.
B) The demand for labor is derived from the demand for the goods and services that labor helps to produce.
C) Consumers demand goods based on their income levels.
D) Firms demand raw materials based on the availability of skilled labor.

11. What economic principle explains why producers tend to increase their output when the price of a good rises, assuming all other factors remain constant?

A) The law of diminishing marginal utility
B) The law of supply
C) The law of demand
D) The concept of opportunity cost

12. When economists refer to 'asymmetric information,' they are describing situations where:

A) All parties in a transaction have perfect knowledge of the market.
B) One party in a transaction has more or better information than the other party.
C) The government has complete control over market prices.
D) Competition among firms is so intense that no single firm can influence prices.