

Multiple Choice Question

1. Economics is the study of
 - A. resources and how people distribute them
 - B. money and how people exchange it
 - C. scarcity and how people deal with it
 - D. capitalism and how it functions

Multiple Choice Question

2. According to an economist, the most fundamental and immediate result of scarcity is
- A. trade
 - B. nonprice rationing
 - C. competition
 - D. supply and demand

Multiple Choice Question

3. Which of the following must exist in order for a market economy to work?
- A. People must follow their self-interest.
 - B. People must be motivated to make a profit.
 - C. People must be free to buy and sell as they choose.
 - D. all of the above

Multiple Choice Question

4. “Economic demand” for a product refers to how much of the product
- A. is available for purchase from business at each price
 - B. people are willing and able to buy at each price
 - C. people want, whether they can buy it or not
 - D. consumers can afford

Multiple Choice Question

5. Market price can be defined as
- A. a measure of scarcity
 - B. a form of communication between buyers and sellers
 - C. the balance between what buyers demand and sellers can supply
 - D. all of the above

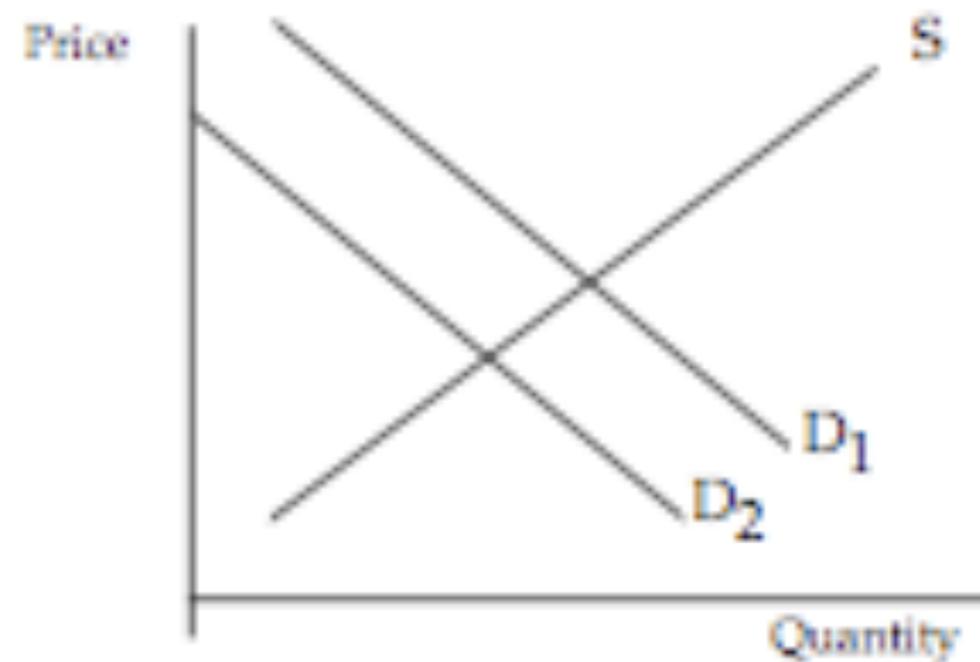
Multiple Choice Question

6. Which of the following would increase the price of shoes?
- A. new machines reducing the cost of shoe production
 - B. more capital investment by producers
 - C. a decrease in the supply of shoes
 - D. a decrease in the demand for shoes

Multiple Choice Question

7. In the graph to the right, the demand curve for a certain product has shifted from D_1 to D_2 . Which of the following could explain this change?

- A. One of the suppliers recently went out of business.
- B. A competing product recently got very trendy after a celebrity endorsement.
- C. Times are good, and consumers are making more money.
- D. A technological breakthrough has lowered how much it costs to produce the product.



Multiple Choice Question

8. All of the following are examples of a nonprice rationing system EXCEPT:
- A. an auction
 - B. first come, first served
 - C. equal shares for all
 - D. need

Strategies for Short Essays

- Be direct, but tell **everything** you know about it.
- Ensure you are complete by identifying, and answering, **every element** of the question.
- Write your answer so it **stands alone**, without needing the question to make sense.
- Provide definitions more often than you think you should.

Short Answer #1

Give a detailed definition of a free market economy, and explain why Adam Smith, economic philosopher, believes that a free market economy is the best system for the public good. What are the downsides of a market economy?

Short Answer #1

- Definition: system in which resources are allocated by the private decisions of buyers and sellers; price is the rationing mechanism; balance between supply and demand
- Pros: efficient, uses the power of self-interest, good at creating wealth, provides incentive to sellers to make goods
- Cons: Creates inequality, rich and poor, leaves out those who can't pay the price, unpredictable and volatile

Short Answer #1: Avoid Inaccuracies

- “A free market economy is a market where suppliers and demanders buy and sell at prices of their choosing.”
- “A free market economy is one in which people freely buy and sell. It is free of rationing and price-setting.”
- “Sellers are able to put prices at whatever they want.”
- “A free market economy gives the right to buyers and sellers to price goods and products at what they think would be most profitable.”

Short Answer #2

In the recent debate over whether or not to let General Motors go bankrupt, some argue that laying off thousands of GM workers will have a detrimental effect on other sectors of the American economy. Explain this argument in further detail using the concept of circular flow.

Short Answer #2: Key Elements

- Explain all three terms: circular flow, product market, and factor market
- Then use those terms to explain the GM argument

Short Answer #2: Good Answer

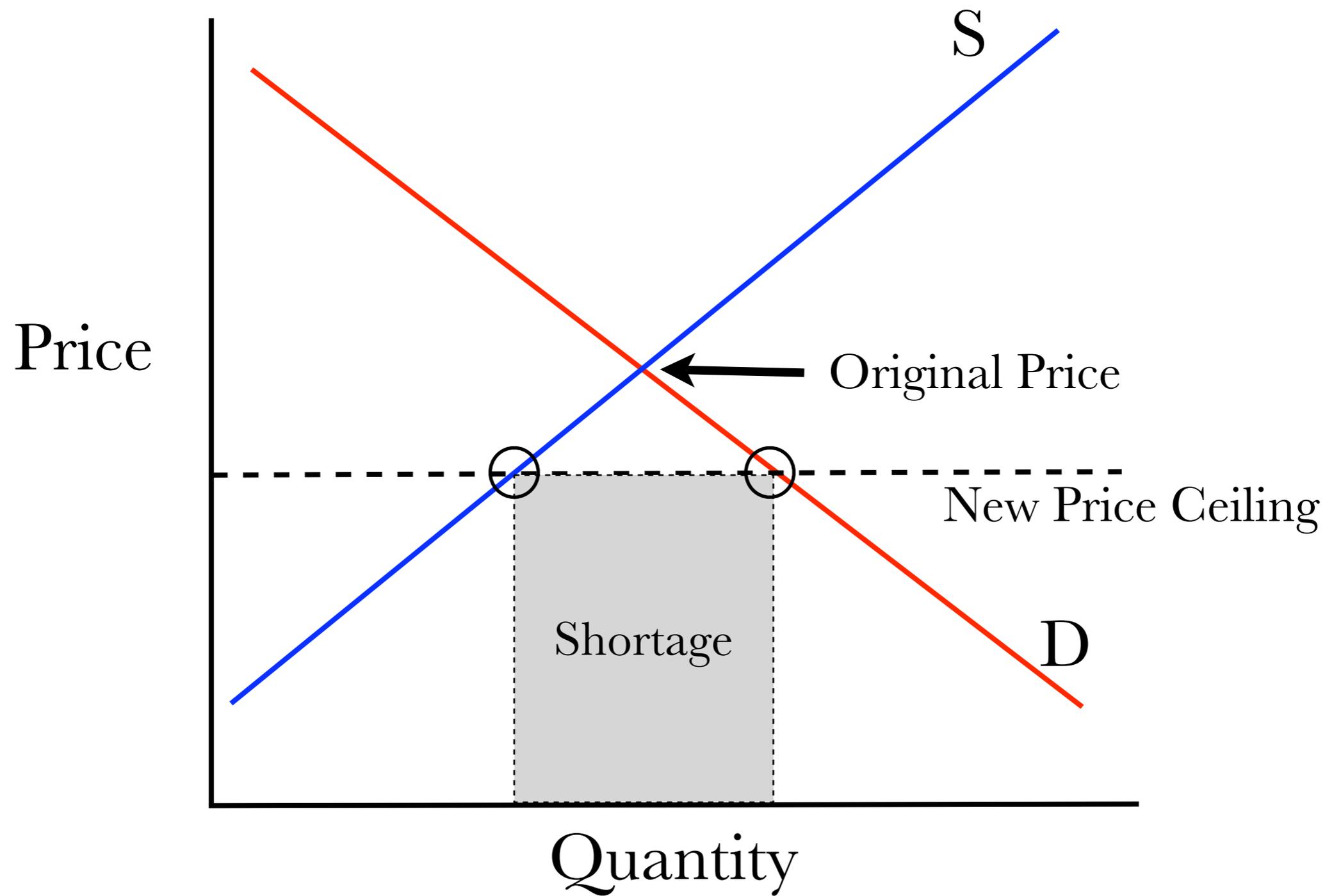
In a market economy, companies and households exchange products in what is known as the product market. Those products are created in the factor market, where companies and households exchange labor and resources. So there is a circular flow. Money flows between households and firms in one direction. Resources flow in the opposite direction.

When a company such as GM goes bankrupt and lays off thousands of workers, there will likely be an interruption in the circular flow. If thousands of households are not receiving income from jobs in the factor market, then they will not have money to spend in the product market. And with fewer buyers, companies that sell in the product market will suffer. This will hurt not only GM and the auto industry but all kinds of companies in the product market.

Short Answer #3

The price of rice has gotten too high, Japanese citizens are rioting in the streets, and the Japanese government responds by legislating a mandatory price ceiling on rice. Draw a line graph that shows what likely effect this price ceiling would have on the supply and demand curves for rice.

Supply and Demand



Economics Essay

Per the instructions of Les Singer, write an Op-Ed article that explains where the Department of Energy should set the price of gasoline, justifies the decision, specifies how gas will be allocated under your plan, and identifies the winners and losers. (Assume that the current market price for gas is \$5.00 per gallon.)

Economics Essay

- You are the Department of Energy.
- You are announcing, explaining (educating), and defending your policy to the public in a newspaper.
- It doesn't have to be in two columns

Possible Outline

1. Background on the problem that bring us to current situation
2. Both options, and their consequences, explained
(using economic theory)
3. Why your option is the best choice
(weighing both pros and cons, presenting possible to solutions to cons)

Sample Intro to Econ Op-Ed

Responding to the public's outrage over our country's high gas prices, Congress recently passed a law to set a price ceiling on gas and to establish a system for allocating gas if the need arises. The legislation specifically directs the price ceiling to be set by experts at the U.S. Department of Energy. After careful analysis, we at the DOE have decided to . . .

It is important for the public to understand the dilemma of this decision. If the DOE sets the price ceiling below the current market price for gas, then . . .

Use the Op-Ed to explain economic theory

We know from economic theory and from experience what will happen when we lower the price of gas artificially. The law of demand tells us that a lower price will increase demand for gas because more consumers will be willing and able to pay for it. We agree that this will be good for Americans. But at the same time, a lower price will reduce the willingness and ability for oil companies to get gas out of the ground and into the market. With increased demand and decreased supply, it is almost certain there will be a gas shortage.

Lit: Sentence Parts

To be a good writer,
you need to be a good reader.

Lit: Sentence Parts

A big mistake, which many students make, is avoiding books over the summer.

Lit: Tight Writing

I think that Marlow is feeling oppression from the jungle and that the jungle is serving as a symbol for the darkness found in the heart of a human.

Lit: Tight Writing

In oppressing Marlow, the jungle symbolizes the darkness of the human heart.

Lit: Parallelism

According to C.S. Lewis, literary experience allows you to overcome the isolation of individuality, to step into the life of another, and ultimately transcend yourself.

Good into to lit essay

Jacques Barzun has found an interesting pattern in literature through its many years. He comes to the conclusion that we have moved from epic—hero of a whole people, to tragedy—the fallen hero, to the lyric—the common-man hero, and finally to the novel—the anti-hero. This is very valid but Barzun comes to another conclusion about this pattern: that we are moving towards equality. I simply do not agree with this conclusion. I don't think it is correct. We are not moving towards equality, but towards understanding and variety.

Remember

Study everything on the study guide. The real test is bigger than the practice test.