

Student Name _____

Form 601

Georgia



End-



Of-



Course



Tests

Economics/Business/
Free Enterprise
Released Test Booklet
Spring 2004



Georgia Department of Education
Kathy Cox, State Superintendent of Schools
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SECTION I

Directions:

Today you will be taking the Economics/Business/Free Enterprise End-of-Course Test. Read each question carefully and then choose the *best* answer.

Be sure that the question number on the answer sheet matches the number on the test. Then mark your answer by filling in the circle on your answer sheet. Do not write your answers in the test booklet. If you do not know the answer to a question, skip it and go on. You may return to it later if time permits.

If you need to change an answer on your answer sheet, be sure to erase your first mark completely. Do not make any stray marks on the answer sheet.

If you finish the section of the test early, you may review your answers in that section only. You may not go on to the next section or return to a previous section.

The two practice test questions below are provided to show you what the questions in the test are like. For each question, you should choose the one *best* answer and fill in the circle in the space provided on your answer sheet.

Practice Items:

P1 Mr. Jacobs obtained a loan from the local bank to purchase seed and fertilizer. Which of the following was the bank's MOST important consideration in giving Mr. Jacobs a loan?

- A the amount of farming experience he had
- B the value of his farmland and equipment
- C the kind of crop he was growing
- D the location of his farm

P2 Coal miners are often paid more than other workers with similar levels of education. This increased pay is primarily a result of

- A successful collective bargaining
- B physical labor requirements
- C overtime hours worked
- D hazardous working conditions



ECONOMICS

- 1 Kim works on an automobile assembly line. Kim’s job illustrates a production process that relies on**
- A autonomous work groups
 - B team decision making
 - C quality circles
 - D division of labor
- 2 The minimum wage is a type of**
- A price floor
 - B comparable worth
 - C price ceiling
 - D marginal price
- 3 What would you conclude about an economy characterized by increasing real gross domestic product (GDP), low unemployment, and increasing inflationary pressures?**
- A This economy is in a slowdown.
 - B The government needs to address the unemployment problem.
 - C This economy is in the expansion phase of a business cycle.
 - D The Federal Reserve should expand the money supply.
- 4 Which of these is MOST likely to lead to inflation?**
- A an increase in the costs of production
 - B reduced prices for goods and services
 - C an increase in the aggregate supply of goods and services
 - D the application of price ceilings

- 5 An individual decides to pay \$8 to see a movie instead of buying an \$8 meal. What is the opportunity cost of the movie?**
- A the satisfaction missed by not eating the meal
 - B the \$8 paid to see the movie
 - C the time spent watching the movie
 - D the satisfaction received by going to the movie
- 6 Armand is a skilled carpenter who lives in Minnesota. He builds homes from April to November. Which of the following has the greatest impact on why Armand’s company shuts down for the winter?**
- A economic slowdown from December to March
 - B extreme weather conditions
 - C cost of building materials
 - D shortage of labor

- 7 The table represents the number of bushels of wheat and rice that the United States and China can produce in one day (numbers are in thousands).**

	Wheat	Rice
United States	50	35
China	40	30

Which of these conclusions can be drawn from the data?

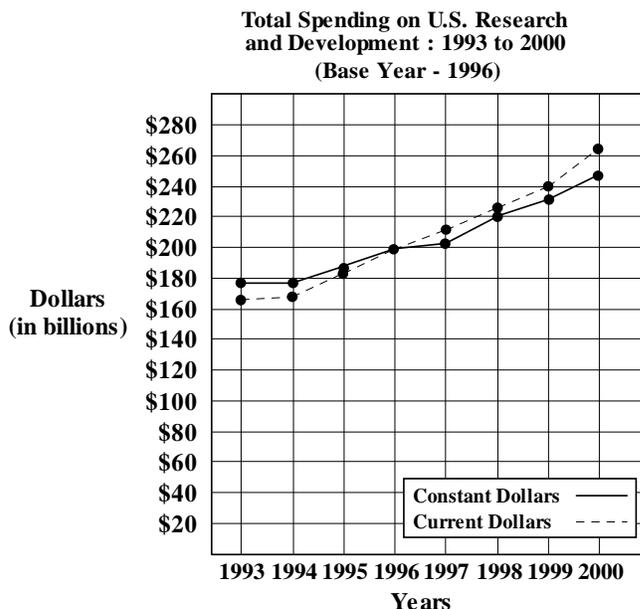
- A The United States has an absolute advantage in the production of wheat, and China has an absolute advantage in the production of rice.
- B The United States has an absolute advantage in the production of rice, and China has an absolute advantage in the production of wheat.
- C China has an absolute advantage in the production of both wheat and rice.
- D The United States has an absolute advantage in the production of both wheat and rice.

ECONOMICS

- 8 A tariff can BEST be described as which of the following?
- A a tax on an imported good
 - B a limit on the amount of imports
 - C government payments to domestic producers to help them compete in world markets
 - D a law that sets a limit on the amount of a good that can be imported

- 9 Prices act as signals in the market because
- A prices indicate to sellers the types of goods and services to offer for sale
 - B prices can determine dividends for businesses
 - C high prices for goods and services signal a healthy economy
 - D entrepreneurs become motivated as prices rise

- 10 Study the following graph and use it to answer the question.



What is one conclusion that can be made from the graph?

- A Companies that develop new products are bought out by larger companies.
 - B Stockholders value immediate return on investment the most.
 - C Research and development is the largest corporate expenditure.
 - D Long-term growth is the goal of many companies.
- 11 When the Federal Reserve buys government securities on the open market, what effect does this action have on the nation's money supply and aggregate demand?
- | | <u>Money Supply</u> | <u>Aggregate Demand</u> |
|---|---------------------|-------------------------|
| A | increases | increases |
| B | increases | decreases |
| C | decreases | increases |
| D | decreases | decreases |

12 When the U.S. government purchases a submarine from a company, the government has made a major transaction in the

- A factor market
- B public market
- C product market
- D foreign exchange market

13 What is the primary purpose of the North American Free Trade Agreement (NAFTA)?

- A to reduce trade barriers among the United States, Canada, and Mexico
- B to decrease quotas but increase tariffs among the member countries
- C to establish trade policy between the member countries and the rest of the world
- D to counter the establishment of the European Union

14 Use the information from the scenario below to answer the following question.

Amanda decided to open a carpet cleaning business. She hired ten employees, rented a small commercial office with storage, and took out a business loan to buy three vans and carpet cleaning equipment. Two of Amanda's employees ordered supplies and processed the paperwork; one employee was responsible for marketing and the rest actually cleaned carpets. After one year, *Amanda's Carpet Cleaning* cleared \$40,000 after expenses.

Which of the following BEST represents capital investment?

- A renting commercial office space
- B marketing the business
- C purchasing carpet cleaning equipment
- D hiring ten employees

15 What is the unit of study in microeconomics?

- A individual businesses and households
- B inflation and recession
- C national consumption and expenditures
- D imports and exports

16 In which type of union organization are only workers with the same or similar skills eligible for membership?

- A a craft union
- B an industrial union
- C a closed shop
- D an agency shop

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17 The idea that producers make goods that consumers like and are willing to pay for is a principle of which of the following economic systems?

- A traditional
- B command
- C market
- D socialism

18 Which of the following is primarily responsible for the control of the money supply?

- A the United States Treasury
- B the Federal Reserve System
- C the Federal Deposit Insurance Corporation
- D the Comptroller of the Currency

19 Which of the following is MOST likely to cause wages to increase for United States workers?

- A an increase in interest rates
- B an increase in the value of the dollar
- C an increase in worker productivity
- D an increase in retirement rate among United States workers

20 Sharon decided to open a dry-cleaning business. She borrowed some money from her sister and took a loan from a bank. She hired one helper. What is a disadvantage of Sharon's business as described?

- A no separation of ownership and control
- B ease of organizing the firm
- C unlimited liability
- D double taxation

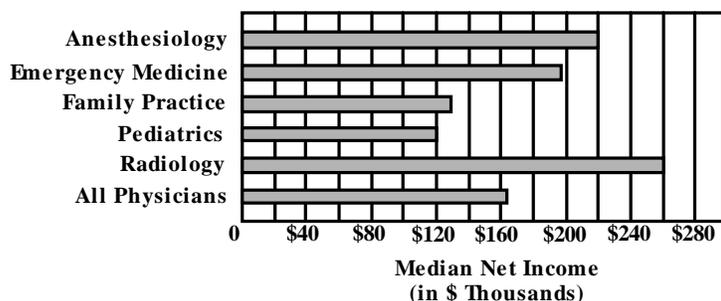
21 FIELD TEST ITEM

22 FIELD TEST ITEM

23 FIELD TEST ITEM

24 Study the information below and use it to answer the question that follows.

**Median Net Income of Medical Doctors
After Expenses**



*Occupational Outlook Handbook: 2000-2001,
U.S. Department of Labor*

How many categories of medical doctors had a median income that was lower than the median income for all physicians combined?

- A 1
- B 2
- C 3
- D 4

25 Brandon had \$5,000 in his saving account when his bank declared bankruptcy. Which of the following is true?

- A Brandon's savings will be transferred to an Individual Retirement Account.
- B Some of Brandon's savings will be returned to him after the bank's assets are sold off.
- C Brandon's savings will be lost due to the bankruptcy.
- D Brandon's savings will be protected by the FDIC.

26 Countries X and Y will NOT trade shoes and wheat if which of the following is true?

- A Country X can produce more shoes and wheat than can country Y.
- B Country Y can produce enough shoes and wheat to satisfy the demand of its public.
- C The opportunity costs of producing shoes and wheat are the same in both countries.
- D The opportunity cost of producing shoes is greater in country X than it is in country Y.

ECONOMICS

- 27** Use the information below to answer the following question.

Gloria recently graduated from college and has accepted a job as an accountant at a firm located in an Atlanta suburb. A summary of Gloria's financial situation for a single month is shown below.

Gloria's Financial Information for April

Expenses		Income	
Fixed Expenses	\$1100	Gross Wages (April)	\$3700
Variable Expenses	\$1500	Mandatory deductions from Gloria's wages (April)	
		Personal income tax	\$660
		FICA contribution	\$280
		Medical insurance	\$40
		Other	\$20

After considerable thought, Gloria decided to purchase a new refrigerator on an installment credit plan. Under the conditions of the installment loan, Gloria will repay the loan in twelve monthly payments of \$150 each, starting in May. Which of the following statements BEST describes Gloria's current financial situation?

- A** Gloria can afford to make the additional \$150 monthly payments without changing her current income or expenses.
- B** Gloria's variable expenses will increase by \$150 per month over the next twelve months.
- C** Gloria will have to increase her income or reduce her flexible expenses in order to pay all of her bills in May.
- D** Gloria's income and current expenses do not allow her to purchase the refrigerator at this time.

- 28** Higher demand for U.S. exports will typically result in

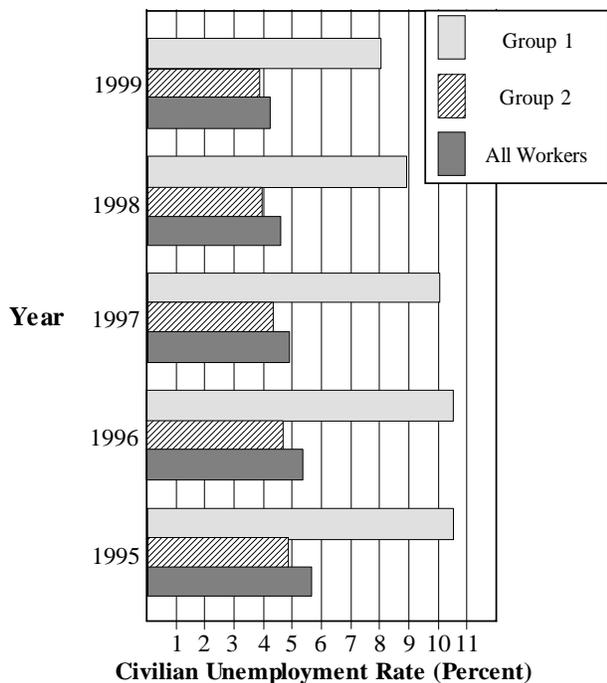
- A** an increase in the international value of the dollar
- B** an increase in the international value of foreign currencies
- C** an increase in the trade deficit of the United States
- D** an increase in the price of foreign-produced goods in U.S. markets

- 29** When economists refer to "demand," they mean which of the following?

- A** how much satisfaction buyers receive from a purchase
- B** how much consumers will purchase at different prices
- C** how much sellers will supply at a particular price
- D** how much people want the product if it is free

30 Study the information below and use it to answer the question that follows.

Civilian Unemployment Rate: 1995 to 1999



Economic Report of the President: 2000, Bureau of Labor Statistics

The data in the bar graph shows

- A that the number of unemployed workers in Group 1 is greater than the number of unemployed workers in Group 2 from 1995 to 1999
- B that the unemployment rate for all workers was a serious economic problem by the late 1990s
- C that the percentage of unemployed workers in Group 1 was roughly twice as high as the percentage of all unemployed workers in the labor force from 1995 to 1999
- D that the percentage of unemployed workers in Group 2 was higher than the percentage of all workers who were unemployed from 1995 to 1999

31 People against raising the minimum wage argue that when a legal minimum wage is established above the equilibrium wage in the labor market

- A there will be an increase in unemployment
- B the quantity of labor demanded by firms will increase
- C the quantity of labor supplied will decrease
- D employers will have an incentive to use more labor and less capital

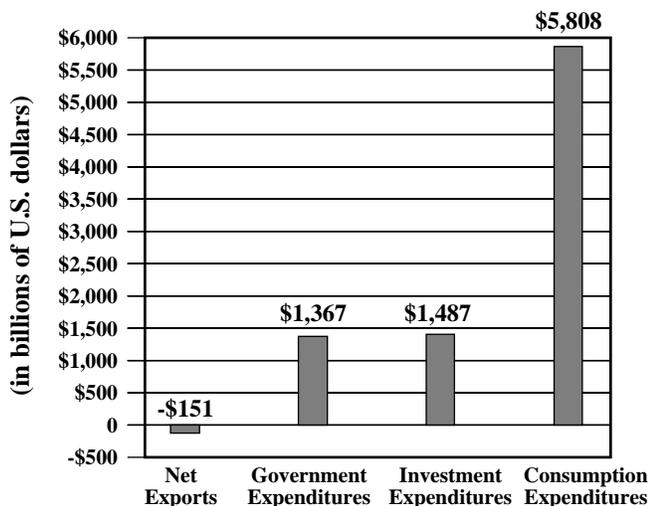
32 What basic economic problem do both higher-income nations and lower-income nations have in common?

- A too many unskilled laborers
- B lack of capital goods
- C too much government
- D scarcity of resources

ECONOMICS

- 33** Study the information below and use it to answer the question that follows.

U.S. Economic Data: 1998



*Statistical Abstract of the United States: 1999,
Bureau of Economic Analysis*

The data shows that the U.S. Gross Domestic Product in 1998 was about

- A \$3 trillion
 - B \$6 trillion
 - C \$8.5 trillion
 - D \$11.5 trillion
- 34** Which of the following is MOST important for economic growth?
- A efficient use of resources
 - B ample tax revenues
 - C availability of resources
 - D a large labor force

- 35** Which of the following is an attempt by a firm to increase the demand for its product?

- A the imposition of a price ceiling on the product
- B an advertising strategy designed to change consumer tastes and preferences
- C a marketing strategy to make the good scarce and therefore more expensive
- D a production strategy to flood the market with the good or service

- 36** Study the information below and use it to answer the question that follows.

Year	Yen per Euro
1	90
2	115
3	80

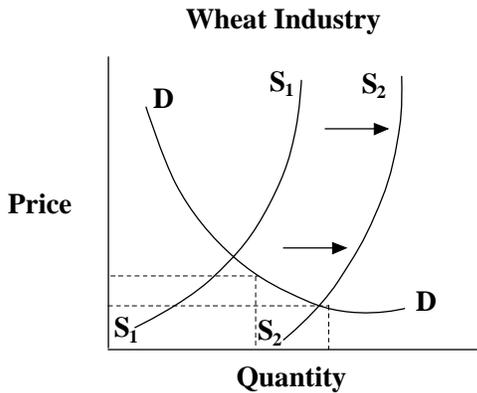
The table shows the hypothetical international value of the Japanese yen in terms of the European euro. Which of the following BEST explains why the yen per euro changed from year 1 to year 2?

- A Japanese consumers increased the demand for European goods and services.
 - B Japanese business firms increased their exports to European markets.
 - C Japanese investment in European securities increased.
 - D The inflation rate in Europe increased at a faster rate than it did in Japan.
- 37** When the value of money was based on its silver content, new discoveries of silver were frequently followed by periods of
- A recession
 - B recovery
 - C shortage
 - D inflation

38 The Federal Reserve System conducts its business directly with

- A the government and banks
- B stock markets and bond markets
- C individuals and firms
- D product markets and factor markets

39 Study the information below and use it to answer the question that follows.



Of the following, which situation would cause the shift of the supply curve from S₁ to S₂?

- A The government reduces subsidies to wheat farmers.
- B New fertilizers increase wheat crop yields.
- C Firms exit the wheat industry.
- D Drought reduces industry output by 25%.

40 Entrepreneurship and labor interact in which of the following ways?

- A Entrepreneurship makes decisions about the use of labor.
- B Labor makes decisions about the use of entrepreneurship.
- C Both entrepreneurship and labor receive payment in the form of interest.
- D Both entrepreneurship and labor receive payments in the form of rent.

41 FIELD TEST ITEM

ECONOMICS

42 FIELD TEST ITEM

44 FIELD TEST ITEM

43 FIELD TEST ITEM

45 FIELD TEST ITEM



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SECTION II

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ECONOMICS

46 In the American economy, the goal of economic equity is MOST connected with

- A giving participants a fair chance to succeed
- B restoring laissez-faire capitalism
- C creating limits on corporate profits
- D subsidizing businesses that would otherwise fail

47 On the island of Yap, large circular stones are used for money. The main reason why this type of money serves its function as a medium of exchange is because it is

- A very portable
- B highly divisible
- C accepted as payment
- D prized in foreign transactions

48 Study the information below and use it to answer the question that follows.

Foreign Exchange Rates
(Tuesday, July 3, 2001)

Country/ Currency	Foreign Currency in U.S. Dollars	U.S. Dollars in Foreign Currency
Canada/ Dollar	.6625	1.5095

Keisha traveled to Canada and took \$100 in U.S. currency. When Keisha exchanged the \$100 for an equivalent sum in Canadian dollars, she received about

- A 33 Canadian dollars
- B 66 Canadian dollars
- C 100 Canadian dollars
- D 150 Canadian dollars

49 Which of the following situations BEST illustrates the concept of regional specialization?

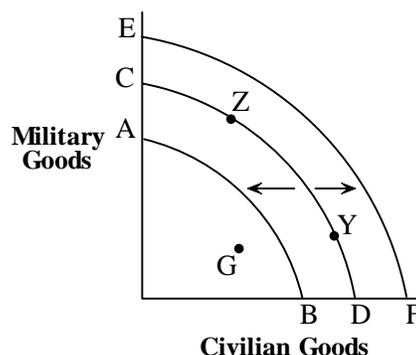
- A cattle ranching in Connecticut
- B evergreen nurseries in Florida
- C grape vineyards in California
- D pineapple plantations in Idaho

50 In the U.S., how are public goods paid for?

- A Private firms collect fees from their employees.
- B Non-profit organizations collect charitable donations from people.
- C The government collects tax revenues from individuals and firms.
- D Corporations make profits from selling goods and services.

51 Study the information below and use it to answer the question that follows.

**Production in the
United States: World War II**



The entry of women into the American labor force during World War II was one important reason for

- A a shift from curve CD to point G
- B a shift from curve EF to curve CD
- C a movement from point Y to point Z
- D a shift from curve CD to curve EF

52 Which form of business organization is easiest to organize but is LEAST able to benefit from specialization?

- A sole proprietorship
- B partnership
- C limited partnership
- D corporation

53 Firm X has developed a new mechanical device and has patented all of the key components used in its production. As the sole producer of this device, Firm X is a

- A geographic monopoly
- B natural monopoly
- C technological monopoly
- D government monopoly

54 Of the following groups, the one hurt the LEAST by unanticipated inflation is

- A workers who have cost-of-living adjustments in their labor contracts
- B people who have saved money in accounts with a fixed interest rate
- C banks that have made long term, fixed rate mortgage loans
- D consumers who buy goods and services at prevailing market prices

55 Country X is currently investing heavily in research and development (R&D), mainly in the areas of information and communications technologies. All of the following are predictable results of these investments EXCEPT

- A future economic growth
- B future increases in labor productivity
- C the creation of labor-intensive industries
- D the creation of advanced capital goods

56 Study the information below and use it to answer the question that follows.

Per Capita GNP for Selected Countries: 1998

Countries	Per capita GNP
Country 1	\$410
Country 2	\$2,260
Country 3	\$8,600
Country 4	\$34,310

Human Development Report: 2000; United Nations Development Program

Which of these matches the per capita GNP for Countries 1, 2, 3, and 4, respectively?

- A Haiti, Norway, Russia, South Korea
- B Russia, Haiti, South Korea, Norway
- C South Korea, Haiti, Norway, Russia
- D Haiti, Russia, South Korea, Norway

57 The MOST important factor affecting consumer spending is

- A the level of current consumer debt
- B the amount of assets held by consumers such as homes, cars, stocks, or bonds
- C the expectations of consumers of what the economy will be in the future
- D the level of current consumer income

58 The BEST example of a progressive tax in the United States is

- A the federal excise tax on gasoline
- B the Social Security tax
- C the federal personal income tax
- D state sales taxes

ECONOMICS

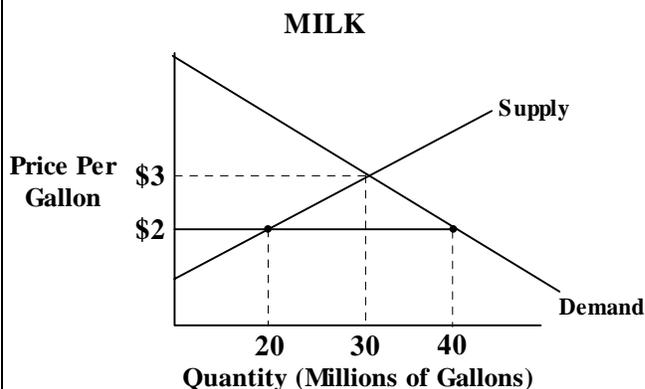
59 If a nation encourages entrepreneurship, then which of the following is likely to occur?

- A very little change in overall production of goods and services
- B the development of many new products and process methods
- C fewer applications to the United States Patent Office
- D a decline in the number of new businesses started

60 FIELD TEST ITEM

61 FIELD TEST ITEM

62 Use the graph below to answer the question that follows.



Suppose the government set a binding price ceiling at \$2. What would be the quantity demanded and the quantity supplied?

	<u>Demanded</u>	<u>Supplied</u>
A	20	40
B	30	30
C	40	30
D	40	20

63 Which of the following is an example of an investment in human capital?

- A A company builds a new factory.
- B A state puts in a new highway.
- C A person goes to college.
- D A country builds new schools.

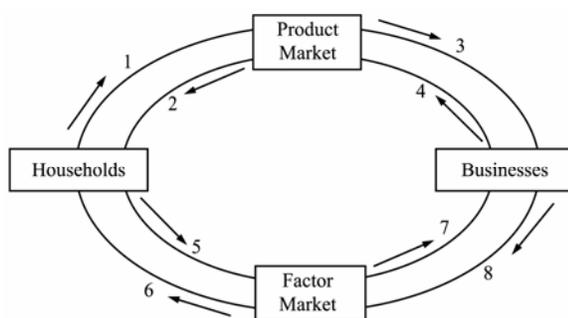
64 In the year 2000, Microsoft founder Bill Gates was the world's richest person. The origins of Gates' vast financial fortune stemmed from his

- A inherited wealth
- B entrepreneurial skills
- C experience in human relations
- D concern for the natural environment

65 The BEST example of structural unemployment in an economy is someone

- A between jobs or entering the work force
- B out of work due to a change in the business cycle
- C out of work due to a seasonal downturn in business
- D whose job skills do not match the economy's needs

66 Study the information below and use it to answer the question that follows.



The flow of goods and services to consumers is illustrated by

- A 4 to 2
- B 8 to 6
- C 2 to 5
- D 6 to 1

67 The payments for land, labor, capital, and entrepreneurial ability respectively are

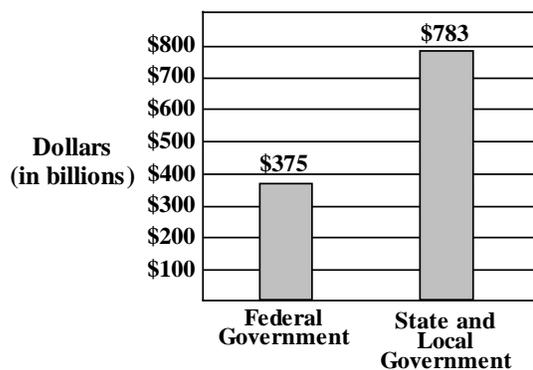
- A rent, profit, wages, and interest
- B profits, wages, interest, and rent
- C rent, wages, interest, and profit
- D wages, rent, profit, and interest

68 Which of the following is true about a shareholder in a corporation?

- A A shareholder is part owner of that business.
- B A shareholder may not share in the earnings of that corporation.
- C A shareholder may not transfer his share to another party without permission.
- D A shareholder is liable for any debts accumulated by that corporation.

69 Study the information and use it to answer the question.

U.S. Government Expenditures and the GDP : 1999
(Measured in Current Dollars)



*Survey of Current Business (Feb. 2001),
U.S. Department of Commerce*

The nominal GDP in 1999 was \$9.3 trillion. What percentage of the nation's nominal GDP was comprised of government expenditures?

- A about 5%
- B about 12%
- C about 17%
- D about 21%

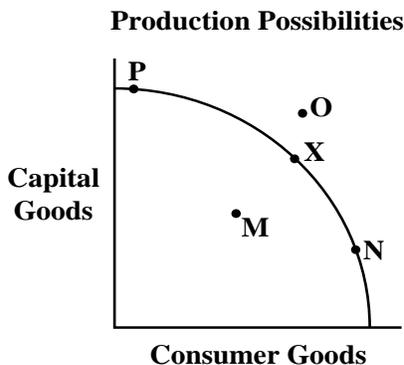
70 In which economic system does the government own the means of production?

- A traditional
- B mixed
- C market
- D command

71 Eric received a \$2,000 bonus from his employer. He deposited the entire amount in a one-year certificate of deposit with a simple interest rate of 5%. When the CD matured, how much interest had Eric earned?

- A \$10
- B \$20
- C \$50
- D \$100

72 Study the graph below and use it to answer the following question.



The probable impact of corporate downsizing is a movement from point X to

- A point M
- B point N
- C point O
- D point P

73 A market economy has an advantage over a traditional economy in that the market economy

- A controls prices and wages
- B fixes incomes of consumers
- C limits the profits of large corporations
- D adjusts to consumer demands over time

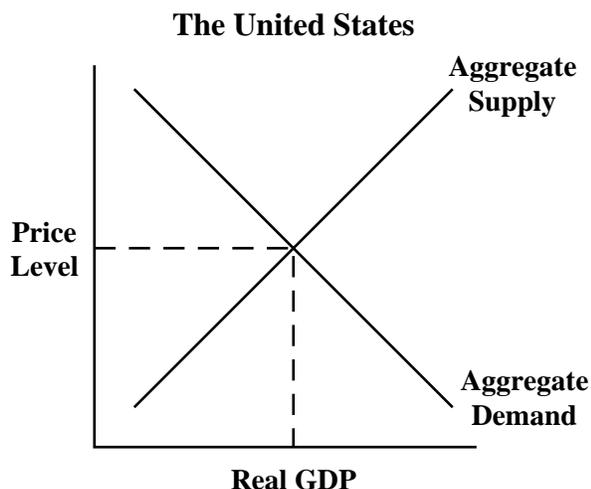
74 When aggregate demand exceeds aggregate supply in an economy, the MOST immediate result is

- A inflation
- B deflation
- C unemployment
- D a budgetary surplus

75 Which of the following determines the division of the economy's output among groups and individuals in a market system?

- A the incomes of individuals
- B labor unions through collective bargaining
- C marketing departments within firms
- D federal and state laws

76 Study the information below and use it to answer the question.



An oil embargo placed on the United States by major oil producing nations would likely result in

- | | <u>Price Level</u> | <u>Real GDP</u> |
|---|--------------------|-----------------|
| A | increase | increase |
| B | increase | decrease |
| C | decrease | increase |
| D | decrease | decrease |

77 Which of the following is an example of a microeconomic decision?

- A whether to increase or decrease the money supply
- B whether to increase or decrease taxes
- C how to reduce the unemployment rate
- D how many hours an employee should work each week

78 In which market structure does a firm have greatest control over its product's price?

- A perfect competition
- B monopoly
- C oligopoly
- D monopolistic competition

79 If the federal government is attempting to encourage spending by consumers and businesses, a fiscal policy BEST serving this purpose would be

- A decreasing taxes
- B decreasing government spending
- C reducing the investment tax credit
- D balancing the budget

80 The power of labor unions in the United States is based on

- A the principle of mutual advantage
- B their ability to bargain collectively
- C the fact that most unions are closed shops
- D the principle of comparative advantage

81 Which of the following taxes is MOST regressive?

- A the federal income tax
- B a sales tax on food
- C a luxury tax
- D the corporate income tax

82 In a market economy, how are the basic economic questions of what, how, and for whom to produce answered?

- A by using a nation's social customs and traditions
- B by using a combination of traditional and command economies
- C by the individuals and firms in the nation's marketplace
- D by the nation's federal and/or local governments

83 Interdependence and price leadership are characteristics of firms in what kind of market structure?

- A monopoly
- B oligopoly
- C monopolistic competition
- D perfect competition

84 Which of the following results when federal government expenditures are less than the federal government's total receipts?

- A a trade surplus
- B a federal budget deficit
- C a negative balance of payments
- D a federal budget surplus

85 Loans extended for longer periods of time often involve higher interest rates in order to

- A compensate the lender for greater risk
- B compensate the buyer for using savings to make a purchase
- C encourage consumers to buy durable goods for extended periods of time
- D encourage savings

86 FIELD TEST ITEM

87 FIELD TEST ITEM

88 FIELD TEST ITEM

ECONOMICS

89 FIELD TEST ITEM

90 FIELD TEST ITEM



