Introduction to Microeconomics

CREDIT HOURS 3
LEVEL LOWER

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Before You Choose This UExcel Exam

Uses for the Examination

- Excelsior College, the test developer, recommends granting three (3) semester hours of lower-level undergraduate credit to students who receive a letter grade of C or higher on this examination.
- Other colleges and universities also recognize this exam as a basis for granting credit or advanced standing.
- Individual institutions set their own policies for the amount of credit awarded and the minimum acceptable score.

Examinees who have applied to Excelsior College should ask their academic advisor where this exam fits within their degree program.

Examinees not enrolled in an Excelsior College degree program should check with the institution from which they wish to receive credit to determine whether credit will be granted and/or to find out the minimum grade required for credit. Those who intend to enroll at Excelsior College should ask an admissions counselor where this exam fits within their intended degree program.

For more information on exam availability and actual testing information, see the Exam Registration and Information Guide.

Examination Length and Scoring

This examination consists of 120 multiple choice and other type questions. You will have two (2) hours to complete the exam. Your score will be reported as a letter grade. Questions are scored either correct (1) or incorrect (0). There is no partial credit. Each credit-bearing exam contains pretest questions, which are embedded throughout the exam. They are indistinguishable from the scored questions. It is to your advantage to do your best on all the questions. Pretest questions are being tried out for use in future versions of the exam.

The UExcel exams do not have a fixed grading scale such as A = 90–100%, B = 80–90%, and so forth, as you might have seen on some exams in college courses. Each UExcel test has a scale that is set by a faculty committee and is different for each exam. The process, called standard setting, is described in more detail in the Technical Handbook. Excelsior puts each exam through a standard setting because different test questions have different levels of difficulty. To explain further, getting 70% of the questions right on the exam when the questions are easy does not show the same level of proficiency as getting 70% of questions correct when the questions are hard. Every form of a test (a form contains the test questions) has its own specific grading scale tailored to the particular questions on each exam form.

Please also note that on each form, some of the questions (referred to as pretest questions) count toward the score and some do not; the grading scale applies only to those questions that count toward the score. The area with percentage ratings on the second page of your score report is intended to help identify relative strengths and weaknesses and which content areas to emphasize, should you decide to take the examination again. Your grade
is based on only the scored questions. Therefore, the percentage ratings do not necessarily reflect the total percentage that counted toward your grade.

For the best view of the types of questions on this exam, see the sample questions in the back of this guide. Practice, practice, practice!

**Score Reporting**

For most of our examinations, based on performance, an examinee is awarded a letter grade of A, B, C, or F. A letter grade of D can be given, but credit is awarded for A, B, and C letter grades only. The letter grades reported to examinees indicate that their performance was equivalent to the performance of students who received the same letter grade in a comparable, on-campus course.

More specifically, the letter grade indicates the examinee’s proficiency relative to the learning outcomes specified in the exam content guide. Following are general descriptions of examinee performance at each level:

**Letter Grade Description**

A  Highly Competent: Examinee’s performance demonstrates an advanced level of knowledge and skill relative to the learning outcomes.

B  Competent: Examinee’s performance demonstrates a good level of knowledge and skill relative to the learning outcomes.

C  Marginally Competent: Examinee’s performance demonstrates a satisfactory level of knowledge and skill relative to the learning outcomes.

D  Not Competent (no credit recommended): Examinee’s performance demonstrates weak knowledge of the content and minimal skill relative to the learning outcomes. ¹

F  Fail (no credit recommended): Examinee’s performance demonstrates no knowledge of the content and no skill in the subject relative to the learning outcomes.

Credit is transcripted by Excelsior College for examinees who achieve letter grades of C or higher.

We encourage colleges and universities to use the Excelsior College letter grades of A, B, and C as acceptable standards for awarding credit.

¹ In general, two-hour exams do not award a D letter grade.

See page 22, at the back of this content guide, for a sample UEexcel Grade Report for Examinations.

**Excelsior College Bookstore**

The Excelsior College Bookstore offers recommended textbooks and other resources to help you prepare for UEexcel exams.

The bookstore is available online at (login required): [www.excelsior.edu/bookstore](http://www.excelsior.edu/bookstore)

**Excelsior College Library**

Library services are available to students enrolled in a degree program at Excelsior College. Created through our partnership with the Sheridan Libraries of The Johns Hopkins University, the library provides access to journal articles, books, websites, databases, reference services, and many other resources. To access the Excelsior College Library, visit [www.excelsior.edu/library](http://www.excelsior.edu/library) (login is required). Access to the library is available 24/7.

**Take Charge of Your Own Learning**

At Excelsior College, independent, self-directed study supported by resources we help you find is not a new concept. We have always stressed to students who take exams that they are acting as their own teacher, and that they should spend as much time studying for an exam as they would spend in a classroom and on homework for a corresponding college course in the same subject area.

Begin by studying the content outline contained in this content guide, at its most detailed level. You will see exactly which topics are covered, and where chapters on those topics can be found in the Recommended Resources. You will see exactly where you might need to augment your knowledge or change your approach.

The content outline, along with the learning outcomes for this exam and recommended textbooks, will serve as your primary resources.
How Long Will It Take Me to Study?

Study for a UExcel exam is comparable to an equivalent college-level course. As an independent learner, you should study and review as much as you would for the same subject in a campus-based college course. If you already have a background in the subject, you may be able to pass the exam successfully with fewer hours of study. It depends upon the learner as well as the subject, the number of credits (for example, a 6- or 8-credit exam will require more hours of study than a 3-credit exam), and the length of the exam. We strongly encourage you to create a long-term action or study plan, so that you have a systematic approach to prepare for the exam. We've included guidelines for creating such a plan.

How Can I Create an Effective Long-Term Study Plan?

1. **Determine the time you will require to complete your preparation for this exam.** If you have not studied the subject before, you should plan to budget approximately 45 hours of study time for every credit: 135 hours for 3 credits, 180 hours for 4 credits, 270 hours for 6 credits, and 360 hours for 8 credits. These hours are rules of thumb based on expectations for a student taking a course in the subject; it may take you more or less time, depending on how familiar you are with the material and how easily you absorb the information studying on your own. Aside from the content review, you should then factor in time to search for and use other resources, and to complete any projects and assignments in the study materials that will clarify your understanding of the topics in the content outline (that part in the content guide where the specific areas of study are spelled out). Spend more time on concepts and areas in which you feel you are weak. Totaled, this is approximately the amount of time you should expect to devote to a three-credit, campus-based course. The actual amount of time you require depends on many factors, and will be approximate. If your background is weak, you may need to set aside substantially more than 135–150 hours. If your background is strong, you may budget less time.

   Take a few minutes to review the content outline to assess your familiarity with the content. Then, in the space below, write the number of hours you will allocate to complete preparing for the exam.

   Hours Required =

2. **Determine the time you will have available for study.**

   In self-study, you need structure, as well as motivation and persistence, and a methodical approach to preparation. There is no set class to keep you on task. You have to do that yourself. Construct a time-use chart to record your daily activities over a one-week period. The most accurate way to do this is to complete the chart on a daily basis to record the actual amount of time you spend eating, sleeping, commuting, working, watching television, caring for others and yourself, reading, and everything else in an adult’s life. However, if your schedule is regular, you might prefer to complete the chart in one sitting and, perhaps, by consulting your appointment book or planner.

   After you have recorded your activities, you will be ready to schedule study periods around these activities or, perhaps, instead of some of them. In the space below, write the number of hours you will be able to set aside for study each week.

   Hours Required =

3. **Divide the first number by the second number.**

   This will give you the number of weeks you will need to set aside for independent study. For example, if you think you will require 170 hours of study and you have 10 hours available to study each week, divide 170 hours by 10 hours and you will get 17. This means that you will need about 17 weeks to complete this course of study. However, you will also need to allow about a week for review and self-testing. Moreover, to be on the safe side, you should also add two weeks to allow for unforeseen obstacles and times when you know you will not be able to study (e.g., during family illnesses or holidays). So, in this case, you should allot a total of 18 to 19 weeks to complete your study.

4. **Schedule your examination to coincide with the end of your study period.**

   For example, if you plan to allow 18 weeks for study, identify a suitable examination date and begin study at least 18 weeks before that date. (The date you
begin study assumes that you will have received all of your study materials, particularly textbooks, by that time.)

5. Format a long-term study plan.

You will need to use a calendar, planner, or some other tool to format and track your long-term study plan. Choose a method that is convenient and one that keeps you aware of your study habits on a daily basis. Identify the days and exact hours of each day that you will reserve for study throughout your whole independent study period. Check to see that the total number of hours you designate for study on your long-term study plan adds up to the number of hours you have determined you will need to complete this course of study (Step 1).

6. Record in your long-term study plan the content you plan to cover during each study period.

Enter the session numbers, review, and examination preparation activities you will complete during each study period. While it is suggested that approximately 160–170 hours of study is required for this exam, each and every student may require different timelines based on their comfort with, and comprehension of, the material.

You now have a tentative personal long-term study plan. Keep in mind that you will have to adjust your study plan, perhaps several times, as you study. It is only by actually beginning to work systematically through the material, using the content outline, that you will be able to determine accurately how long you should allow for each unit.

What Learning Strategy Should I Use?

The following guidelines are intended to help you acquire the grounding in the knowledge and skills required for successful completion of this examination.

1. Approach learning with a positive attitude.

Most students are capable of learning subject content if they devote enough time and effort to the task. This devotion will give you a positive edge and a feeling of control.

2. Diligently complete the exact work you specified in your study plan.

Your study plan is being designed for the specific purpose of helping you achieve the learning outcomes for this exam.

3. Be an active learner.

You should actively engage in the learning process. Read critically, take notes, and continuously monitor your comprehension. Keep a written record of your progress, highlight content you find difficult to grasp, and seek assistance from someone in your learning community who can help you if you have difficulty understanding a concept.

4. Be patient: you may not understand everything immediately.

When encountering difficulty with new material, be patient with yourself and don't give up. Understanding will come with time and further study. Sometimes you may need to take a break and come back to difficult material. This is especially true for any primary source material (original letters, documents, and so forth) that you may be asked to read. The content outline will guide you through the material and help you focus on key points. You will find that many concepts introduced in earlier sessions will be explained in more detail in later sessions.

5. Apply your learning to your daily life.

Use insights you gain from your study to better understand the world in which you live. Apply the learning whenever you can. Look for instances that support or contradict your reading on the subject.

6. Accommodate your preferred way of learning.

How do you learn best? Common ways to learn are reading, taking notes and making diagrams, and by listening to someone (on video or live). Others learn by doing. Do any of these descriptions apply to you? Or does your learning style vary with the learning situation? Decide what works for you and try to create a learning environment to accommodate your preferences.
**Study Tips**

Become an active user of the resource materials. Aim for understanding rather than memorization. The more active you are when you study, the more likely you will be to retain, understand, and apply the information.

The following techniques are generally considered to be active learning:

- **preview or survey** each chapter
- **highlight or underline** text you believe is important
- **write questions or comments** in the margins
- **practice re-stating content** in your own words
- **relate what you are reading** to the chapter title, section headings, and other organizing elements of the textbook
- **find ways to engage** your eyes, your ears, and your muscles, as well as your brain, in your studies
- **study with a partner or a small group**
- **prepare your review notes** as flashcards or create recordings that you can use while commuting or exercising

When you feel confident that you understand a content area, review what you have learned. Take a second look at the material to evaluate your understanding. If you have a study partner, the two of you can review by explaining the content to each other or writing test questions for each other to answer. Review questions from textbook chapters may be helpful for partner or individual study, as well.

Study smart for your UExcel exam! Success starts with establishing a relationship with your advisor.

**Using UExcel Practice Exams**

The official UExcel practice exams are highly recommended as part of your study plan. They can be taken using any computer with a supported web browser such as Google Chrome.

The practice exam package comes with two sets of questions. Please be aware that there will be fewer questions on the practice exams than there will be on the exam you take for credit. Generally, the practice questions will not be the same as the ones you will see when you take the actual exam for credit. They are intended to expose you to the types of questions you’ll encounter in the actual exam. Practice questions are a tool, and do not provide a full exam experience. For example, the practice question sets do not have time limitations. Begin with the Content Guide, especially the detailed content outline. Memorizing specific questions and answers on the practice sets is not as effective as using the questions to practice, along with the content outline, to see which concepts you may need to study further. To register for the practice exam, visit www.excelsior.edu and log into your MyExcelsior account. **Please note: You must be registered for the corresponding credit-bearing exam before you can register for the practice exam.**

Practice exams are not graded. Rather, they are intended to help you make sure you understand the subject and give you a sense of what the questions will be like on the exam for credit. Ideally, you would check any questions you got wrong, look at the explanations, and go back to the textbook to reinforce your understanding. After taking both forms of the practice exam, you should feel confident in your answers and confident that you know the material listed in the content outline.

Practice exams are one of the most popular study resources. Practice exams are typically shorter than the credit-bearing exam. Since the questions are drawn from the same pool of questions that appear on the credit-bearing exam, what you will see when you sit for the graded exam will be roughly the same. Used as intended, these practice exams will enable you to:

- Review the types of questions you may encounter on the actual exam.
- Practice testing on a computer in a timed environment.
- Practice whenever and wherever it is convenient for you.

Take two different forms of a practice exam within a 180-day period. (We highly recommend that you take the first form of the practice exam as a pretest, early in the study period. Use the results to identify areas to further study and carry out a plan. Then take the second form as a post-test and see how much you have improved.)

Although there is no guarantee, our research suggests that exam takers who do well on the practice exams are more likely to pass the actual exam than those who do not take advantage of the opportunity. Note that since the practice exams are not graded (calibrated) the same way as the scores on the credit-bearing exam, it will be hard for you to use the practice exams...
as a way to predict your score on the credit-bearing exam. The main purpose of the practice exams is for you to check your knowledge and to become comfortable with the types of questions you are likely to see in the actual, credit-bearing exam.

**About Test Preparation Services**

Preparation for UExcel® exams and Excelsior College® Examinations, though based on independent study, is supported by Excelsior College with a comprehensive set of exam learning resources and services designed to help you succeed. These learning resources are prepared by Excelsior College so you can be assured that they are current and cover the content you are expected to master for the exams. These resources, and your desire to learn, are usually all that you will need to succeed.

There are test-preparation companies that will offer to help you study for our examinations. Some may imply a relationship with Excelsior College and/or make claims that their products and services are all that you need to prepare for our examinations.

Excelsior College does not endorse the products and services of any tutorial or test preparation firm. We do not review the materials provided by these firms for the content or compatibility of their material and resources with UExcel® exams or Excelsior College Examinations®. No test preparation vendor is authorized to provide admissions counseling or academic advising services, or to collect any payments, on behalf of Excelsior College. Excelsior College does not send authorized representatives to a student’s home nor does it review the materials provided by test preparation companies for content or compatibility with Excelsior College examinations.

To help you become a well-informed consumer, we suggest that before you make any purchase decision regarding study materials provided by organizations other than Excelsior College, you consider the points outlined on our website at [www.excelsior.edu/testprep](http://www.excelsior.edu/testprep).

**Exam Preparation Strategies**

Each learner is different. However, all learners should read the content outline in the exam’s Content Guide and ensure that they have mastered the concepts. For someone with no prior knowledge of the subject, a rule of thumb is 135 hours of study for a 3-credit exam—this number is just to give you an idea of the level of effort you will need, more or less.

**Content Guides**

This content guide is the most important resource. It lists the outcomes, a detailed content outline of what is covered, and textbooks and other study resources. It also has sample questions and suggestions for how to study. Content guides are updated periodically to correspond with changes in particular examinations and in textbook editions. Examinees can download any of the latest free UExcel content guides by visiting the individual exam page or from the list at [www.excelsior.edu/contentguides](http://www.excelsior.edu/contentguides).

**Using the Content Outline**

Each content area in the content outline includes the most important sections of the recommended resources for that area. These annotations are not intended to be comprehensive. You may need to refer to other chapters in the recommended textbooks. Chapter numbers and titles may differ among textbook editions.

This content outline contains examples of the types of information you should study. Although these examples are many, do not assume that everything on the exam will come from these examples. Conversely, do not expect that every detail you study will appear on the exam. Any exam is only a broad sample of all the questions that could be asked about the subject matter.

**Using the Sample Questions and Rationales**

Each content guide provides sample questions to illustrate those typically found on the exam. These questions are intended to give you an idea of the level of knowledge expected and the way questions are typically phrased. The sample questions do not sample the entire content of the exam and are not intended to serve as an entire practice test.
Recommended Resources for the UExcel Exam in Introduction to Microeconomics

The resources listed below were selected by the faculty members on the examination committee for use in developing this exam.

Resources listed under “Strongly Recommended” were used by the committee to verify all the questions on the exam. Please refer to the Content Outline to see which parts of the exam are cross-referenced to these resources.

Resources listed under “Optional” provide additional material that may deepen or broaden your understanding of the subject, or that may provide an additional perspective on the exam content. Textbook resources, both Strongly Recommended and Optional, may be purchased from the Excelsior College bookstore at www.excelsior.edu/bookstore.

You should allow ample time to obtain the necessary resources and to study sufficiently before taking the exam, so plan appropriately, with an eye towards your own personal learning needs. See the sections in this guide on the Excelsior College Bookstore and the Excelsior College Library, and under Reducing Textbook Costs, to help you secure the Strongly Recommended resources successfully.

Textbook Editions

Textbook editions listed in the UExcel content guides may not be the same as those listed in the bookstore. Textbook editions may not exactly match up in terms of table of contents and organization, depending upon the edition. However, our team of exam developers checks exam content against every new textbook edition to verify that all subject areas tested in the exam are still adequately available in the study materials. If needed, exam developers will list additional Strongly Recommended resources to ensure that all topics in the exam are still sufficiently covered. Public libraries may have the textbooks you need, or may be able to obtain them for you through interlibrary loan to reduce textbook costs. You may also consider financial aid, if you qualify, to further help defray the steep cost of textbooks. A section on open educational resources (OER) has been included in this guide to help you locate additional, possibly free resources to augment your study.

Strongly Recommended


Optional Resources

The examination development committee did not identify any specific Optional resources for this exam. If you would like to explore specific topics in more depth, we encourage you to refer to available Open Educational Resources (OER).

Reducing Textbook Costs

Many students know it is less expensive to buy a used textbook, and buying a previous edition is also an option. The Excelsior College bookstore includes a buyback feature and a used book marketplace, as well as the ability to rent digital versions of textbooks for as long as students need them. Students are encouraged to explore these and the many other opportunities available online to help defray textbook costs.

Open Educational Resources

There are many resources available online free of charge that may further enhance your study for the exam. Known as Open Educational Resources (OER), these may be textbooks, courses, tutorials, or encyclopedias. Any additional OER that you find independently should be used to augment study—not as replacements for the Strongly Recommended resources.

Most sites for university-based OER can be searched through www.ocwconsortium.org and/or www.oercommons.org.

Sites that specialize in web courses designed by college professors under contract with the website sponsor, rather than in web versions of existing college courses, include:

www.education-portal.com
www.opencourselibrary.org (abbreviated as OCL)
We have included specific courses that cover material for one or more UExcel® exams from the sites in the listings above. It’s worth checking these sites frequently to see if new courses have been added that may be more appropriate or may cover an exam topic not currently listed.

Sites like Khan Academy (www.khanacademy.com) and iTunes U feature relatively brief lessons on very specific topics rather than full courses. Full courses are also available on iTunes U (http://www.apple.com/education/ipad/itunes-u/). We have chosen a few courses and collections for this listing.

**Open Online Textbooks**

BookBoon  
http://bookboon.com/en/textbooks-ebooks

Flatworld Knowledge  
http://catalog.flatworldknowledge.com/#our-catalog

**College Readiness**

Khan Academy  
http://www.khanacademy.org/

Hippocampus  
http://www.hippocampus.org/

Open Course Library  
http://opencourselibrary.org/collg-110-college-success-course/

**Study Aids**

Education Portal  
http://education-portal.com/

Khan Academy  
http://www.khanacademy.org/

Annenberg Learner  
http://www.learner.org/

OpenCourseWare  
http://ocwconsortium.org/en/courses/search

OER Commons  
http://www.oercommons.org/

Open Course Library  
http://www.opencourselibrary.org/

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To achieve academic success, rate yourself at Excelsior College’s Self-Regulated Learning Lab. Visit the Diagnostic Assessment & Achievement of College Skills site at https://srl.daacs.net/

It’s free!
Content Outline

**General Description of the Examination**

The UExcel Introduction to Microeconomics examination is based on material typically taught in a one-semester, three-credit, introductory course in microeconomics.

The examination measures knowledge, understanding, and application of the terminology used in economics and the concepts of market behavior, market structures, resource markets, and government issues and policies.

Those beginning to study for this exam should be familiar with concepts covered in high-school level algebra.

**Learning Outcomes**

After you have successfully worked your way through the recommended study materials, you should be able to demonstrate the following learning outcomes:

1. Demonstrate a thorough understanding of the principles of economics that apply to the functions of individual decision makers, both consumers and producers within the larger economic system. (Aligns to GECC 5.1)
2. State the nature and functions of product markets. (Aligns to GECC 5.1)
3. Understand the nature and functions of factor markets. (Aligns to GECC 5.1)
4. Use graphs and tables to illustrate cost and revenue of firms in different market structures. (Aligns to GECC 2.2)
5. Understand the role of government in promoting greater efficiency and equity in the economy. (Aligns to GECC 5.1)
6. Illustrate the usefulness of economic analysis in real-world situations. (Aligns to GECC 5.1)

**General Education Career Competencies Addressed in this Exam**

GECC-2: Mathematical and Scientific Problem Solving: Apply mathematical concepts and reasoning to solve problems that involve quantitative information.

GECC-5: Global Understanding: Explain how social, political, economic, or cultural forces shape relations between individuals and groups around the world.
Content Outline

The content outline describes the various areas of the test, similar to the way a syllabus outlines a course. To fully prepare requires self-direction and discipline. Study involves careful reading, reflection, and systematic review.

The major content areas on the Introduction to Microeconomics examination, the percent of the examination, and the hours to devote to each content area are listed below.

<table>
<thead>
<tr>
<th>Content Area</th>
<th>Percent of the Examination</th>
<th>Hours of Study*</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Introduction to Economics and the Economy</td>
<td>25%</td>
<td>34</td>
</tr>
<tr>
<td>II. Markets and Behavior</td>
<td>20%</td>
<td>27</td>
</tr>
<tr>
<td>III. Market Structures</td>
<td>20%</td>
<td>27</td>
</tr>
<tr>
<td>IV. Resource Markets</td>
<td>20%</td>
<td>27</td>
</tr>
<tr>
<td>V. Government Issues and Policies</td>
<td>15%</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Approximate: For those examinees who know the topic well, less time may be needed to learn the subject matter. For those who are new to the subject matter, more time may be required for study.

NOTE: Occasionally, examples will be listed for a content topic to help clarify that topic. However, the content of the examination is not limited to the specific examples given.

I. Introduction to Economics and the Economy

25 PERCENT OF EXAM

Ch. 1, Limits, Alternatives, and Choices
Ch. 2, The Market System and the Circular Flow
Ch. 3, Demand, Supply, and Market Equilibrium

A. Limits, alternatives, and choices
   1. The economic perspective
   2. Theories, principles, and models
   3. Microeconomics and macroeconomics

4. Individuals’ economizing problem
5. Society’s economizing problem
6. Production possibilities model
7. Unemployment, growth, and the future

B. The market system and the circular flow
   1. Economic systems
   2. Characteristics of the market system
   3. The five fundamental questions
   4. The “invisible hand”
   5. The demise of the command systems
   6. The circular flow model

C. Demand, supply, and market equilibrium
   1. Markets
   2. Demand
   3. Supply
   4. Market equilibrium
   5. Government-set prices
II. Markets and Behavior

**20 PERCENT OF EXAM**

Ch. 6, Elasticity
Ch. 7, Utility Maximization
Ch. 9, Businesses and the Cost of Production

A. Elasticity, consumer surplus, and producer surplus
   1. Price elasticity of demand
   2. Price elasticity of supply
   3. Cross elasticity and income elasticity of demand
   4. Consumer and producer surplus

B. Consumer behavior
   1. Law of diminishing marginal utility
   2. Theory of consumer behavior
   3. Utility maximization and the demand curve
   4. Applications and extensions

C. The costs of production
   1. Economic costs
   2. Short-run production relationships
   3. Short-run production costs
   4. Long-run production costs
   5. Applications and illustrations

III. Market Structures

**20 PERCENT OF EXAM**

Ch. 10, Pure Competition in the Short Run
Ch. 11, Pure Competition in the Long Run
Ch. 12, Pure Monopoly
Ch. 13, Monopolistic Competition
Ch. 14, Oligopoly and Strategic Behavior

A. Pure competition
   1. Four market models
   2. Pure competition: characteristics and occurrence
   3. Demand as seen by a purely competitive seller
   4. Profit maximization in the short run: total-revenue-total-cost approach
   5. Profit maximization in the short run: marginal-revenue-marginal-cost approach
   6. Marginal cost and short-run supply
   7. Profit maximization in the long run
   8. Pure competition and efficiency

B. Pure monopoly
   1. An introduction to pure monopoly
   2. Barriers to entry
   3. Monopoly demand
   4. Output and price determination
   5. Economic effects of monopoly
   6. Price discrimination
   7. Regulated monopoly

C. Monopolistic competition and oligopoly
   1. Monopolistic competition
   2. Price and output in monopolistic competition
   3. Monopolistic competition and efficiency
   4. Product variety
   5. Oligopoly
   6. Oligopoly behavior: a game-theory overview
IV. Resource Markets

20 PERCENT OF EXAM

Ch. 16, The Demand for Resources
Ch. 17, Wage Determination
Ch. 18, Rent, Interest, and Profit
Ch. 19, Natural Resource and Energy Economics

A. The demand for resources
   1. Significance of resource pricing
   2. Marginal productivity theory of resource demand
   3. Determinants of resource demand
   4. Elasticity of resource demand
   5. Optimal combination of resources
   6. Marginal productivity theory of income distribution

B. Wage determination
   1. Labor, wages, and earnings
   2. General level of wages
   3. A purely competitive labor market
   4. Monopsony model
   5. Three union models
   6. Bilateral monopoly model
   7. The minimum-wage controversy
   8. Wage differentials
   9. Pay for performance

C. Rent, interest, and profit
   1. Economic rent
   2. Interest
   3. Economic profit
   4. Income shares

D. Natural resource and energy economics
   1. Resource supplies: doom or boom?
   2. Energy economics

V. Government Issues and Policies

15 PERCENT OF EXAM

Ch. 16, Public Finance: Expenditures and Taxes
Ch. 4 Appendix, Information Failures
Ch. 5 Appendix, Public Choice Theory and Voting Paradoxes
Ch. 21, Antitrust Policy and Regulation
Ch. 26, International Trade

A. Public choice theory and the economics of taxation
   1. Revealing preferences through majority voting
   2. Government failure
   3. Apportioning the tax burden
   4. Tax incidence and efficiency loss

B. Antitrust policy and regulation
   1. The antitrust laws
   2. Antitrust policy: issues and impacts
   3. Industrial regulation
   4. Deregulation
   5. Social regulation

C. International trade
   1. Some key facts
   2. The economic basis for trade
   3. Comparative advantage
   4. Supply and demand analysis of exports and imports
   5. Trade barriers
   6. The case for protection
   7. The World Trade Organization
The sample questions give you an idea of the level of knowledge expected in the exam and how questions are typically phrased. They are not representative of the entire content of the exam and are not intended to serve as a practice test.

Rationales for the questions can be found on pages 16–18 of this guide. In that section, the correct answer is identified and each answer is explained. The number in parentheses at the beginning of each rationale refers to the corresponding section of the content outline. For any questions you answer incorrectly, return to that section of the content outline for further study.

1. An individual has an income of $100 and is looking to buy an amount of two types of products, music downloads and cellphone applications. The price of downloads is $2. The price of cellphone applications is $4. Which combination is on this consumer’s budget line?
   1) 30 music downloads and 15 cell phone applications
   2) 40 music downloads and 20 cell phone applications
   3) 25 music downloads and 10 cell phone applications
   4) 20 music downloads and 15 cell phone applications

2. Why is the United States considered one of the highly free economic systems in the world by the Heritage Foundation?
   1) A high percentage of public schools provide free lunch to students from low-income families.
   2) State government is free to do many things such as issue driver licenses, create and collect state income taxes, and set legal drinking and smoking ages.
   3) Many stores in the US economy often offer free samples to customers to try their products.
   4) Businesses, workers, and consumers have a high degree of freedom in using economic resources, producing goods, choosing jobs, and buying goods.

3. The inverse relationship between price and quantity demanded is graphically represented by the demand curve that is of which description?
   1) upward sloping
   2) horizontal
   3) downward sloping
   4) vertical

4. Which is an example of elastic demand?
   (Select the 2 that apply.)
   1) A 10 percent increase in price leads to a 5 percent decrease in quantity demanded.
   2) An 8 percent increase in price leads to a 2 percent decrease in quantity demanded.
   3) A 5 percent increase in price leads to a 10 percent decrease in quantity demanded.
   4) A 2 percent increase in price leads to a 5 percent decrease in quantity demanded.
   5) A 5 percent increase in price leads to a 5 percent decrease in quantity demanded.
5. What does the graph below illustrate?

It illustrates a typical
1) total utility curve.
2) average utility curve.
3) marginal utility curve.
4) total cost curve.

6. In the graph below, which curve is most likely to represent average fixed cost?

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

7. Which term refers to a market structure in which many firms sell a differentiated product, entry is relatively easy, firms have some control over price, and there is considerable nonprice competition?
1) pure competition
2) pure monopoly
3) monopolistic competition
4) oligopoly

8. What approach is most likely to give a firm monopoly power?
1) paying its workers more
2) opening more new stores
3) obtaining a patent on its product
4) launching an advertising campaign

9. Why do firms produce so many different types of the same product, such as cereal?
1) Companies in purely competitive industries have to produce different varieties of their product just to stay alive.
2) Pure monopolies produce different varieties of their product just to please the government and keep away any regulation.
3) Advertising firms put pressure on firms to create variety, which creates business for the advertising firms.
4) Companies in monopolistic competitive industries face zero long-run economic profits, and product variety helps keep positive economic profits in the short run.

10. What will happen if the demand for automobiles increases?
1) The demand for labor will decrease.
2) The quantity of labor demanded will decrease.
3) The demand for labor will increase.
4) The quantity demanded of labor will increase.

11. In a labor market that is considered to be a bilateral monopoly, what will the equilibrium wage be?
1) the monopolistic wage.
2) the perfectly competitive wage.
3) logically indeterminate.
4) the monopsonistic wage.
12. What is fertility rate is required to keep a population constant?
   1) 1.1
   2) 1.5
   3) 2.1
   4) 2.5

13. Many political candidates move their position toward the center when going from a primary election campaign to a general election campaign. This behavior is best explained by which model?
   1) the mean-voter model
   2) the median-voter model
   3) the average-voter model
   4) the consensus-voter model

14. Which legislation contains this provision?

   "Every contract, combination in the form of a trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations is declared to be illegal."
   1) Celler-Kefauver Act
   2) Sherman Act
   3) Federal Trade Commission Act
   4) Clayton Act

15. Which is an argument against the validity of the cheap foreign labor argument?
   1) Gains from trade are fundamentally based on comparative advantage, not absolute advantage.
   2) What is important is the wage of the worker, not the labor cost per unit of output.
   3) Lower wages necessarily translate into lower labor cost per unit of output.
   4) Gains from trade are only based on absolute advantage.
SECTION FOUR
Rationales

1. (IA4)
   1) \((30 \times 2) + (15 \times 4) = $120 > $100\)
   2) \((40 \times 2) + (20 \times 4) = $160 > $100\)
   3) \((25 \times 2) + (10 \times 4) = $90 < $100\)
   *4) \((20 \times 2) + (15 \times 4) = $100\) which is on the budget line

2. (IB2)
   1) Free economic system is not defined on the basis of free food.
   2) State rights is a political concept, not the basis for defining an economic system.
   3) This is a promotion practice and has nothing to do with a free economic system.
   *4) This describes freedom of enterprise and freedom of choice, the two types of freedom that are fundamental to a free economic system.

3. (IC2)
   1) Demand curve is downward sloping.
   2) The inverse relationship between price and quantity demanded implies that the demand curve must be downward sloping.
   *3) The typical demand curve that illustrates the inverse relationship between price and quantity demanded must be downward sloping.
   4) See 3).

4. (IIA1)
   1) This is an example of inelastic demand because the change in price produces a smaller percentage change in quantity demanded.
   2) See 1).
   *3) This is an example of elastic demand because the change in price produces a larger percentage change in quantity demanded.
   *4) See 3).
   5) This is not an example of elastic demand because the change in price does not result in a larger percentage change in quantity demanded.

5. (IIB1)
   *1) It plots units consumed per meal (x-axis) against total utility (y-axis).
   2) Average utility is not a valid curve.
   3) The marginal utility curve plots units consumed per meal (x-axis) against marginal utility (y-axis), not total utility.
   4) The total cost curve plots quantity (x-axis) against total costs (y-axis).

6. (IIC3)
   *1) A represents average fixed cost.
   2) B represents average variable cost.
   3) C represents average (total) cost.
   4) D represents marginal cost.
7. (IIIA1)
1) This is a market structure in which a very large number of firms sell a standardized product, into which entry is very easy, in which the individual seller has no control over the product price, and in which there is no nonprice competition. It is a market characterized by a very large number of buyers and sellers.

2) A pure monopoly is a market structure in which one firm is the sole seller for a product or service.

*3) Monopolistic competition is characterized by a relatively large number of sellers producing differentiated products.

4) Oligopoly involves only a few sellers of a standardized or differentiated product.

8. (IIIB2)
1) Worker pay may be affected by a firm's monopoly status, but by itself cannot turn a firm into a monopoly. Pay is not a barrier to entry.

2) A larger number of stores does not prevent other firms from entering the industry.

*3) A patent will (at least for 20 years) create a legal barrier to entry for this firm's competitors.

4) An ad campaign does not prevent other firms from entering the industry.

9. (IIIC4)
1) Companies in purely competitive industries produce a homogenous good, so there can be no different varieties produced.

2) A pure monopoly company produces a good that has few, if any, substitutes. There would be little motivation to produce different varieties of their product, especially to forestall government regulation.

3) A firm would produce varieties of its good if it increased the producing firm's profit, not the profit of the advertising firm.

*4) This is correct. The introduction of a new variety of the company's product will often produce a short-run boost in profits and put off to another day the certain zero long-run economic profits.

10. (IVA2)
1) If the demand for automobiles were to increase, we would not expect the demand for labor to decrease. We would expect it to increase.

2) If the demand for automobiles were to increase, we would not necessarily expect the quantity of labor demanded to decrease. The quantity of labor demanded will decrease only if the price of labor increases.

*3) If the demand for automobiles were to increase, we would expect the demand for labor to increase also.

4) If the demand for automobiles were to increase, we would not expect the quantity demanded of labor to increase. The quantity of demanded of labor will only increase if the price of labor decreases.

11. (IVB5)
1) The monopolistic wage is the wage that the monopoly would want, but the monopsonist will want to hire fewer workers at a lower wage rate, so this would not be an equilibrium point.

2) The perfectly competitive wage is where the unrestricted market demand and supply curves intersect. This would not be the choice of either the monopolist or the monopsonist.

*3) The monopsonist will seek a below competitive equilibrium wage and the monopolist will seek an above equilibrium wage; therefore, the resulting wage is logically indeterminate. It will depend on the negotiating skills of each party.

4) The monopsonistic wage is below the wage that the monopoly would want.

12. (IVD1)
1) See 3).

2) See 3).

*3) Taking into account infant and child mortality, a total fertility rate of about 2.1 births per woman per lifetime is necessary to keep the population constant, since 2.1 children equals 1 child to replace the mother, 1 child to replace the father, and 0.1 extra child who can be expected to die before becoming old enough to reproduce.

4) See 3).
13. (VA1)
1) The candidate will choose a policy that the appeals to the middle, or median, voter since that will generate the largest number of votes.

*2) Appealing to the middle, or median, voter will generate the largest number of votes.

3) See 1).
4) See 1).

14. (VB1)
1) The Celler-Kefauver Act amended the Clayton Act by prohibiting one firm from obtaining the physical assets of another firm when the effect would be reduced competition.

*2) This is from the Sherman Act of 1890, which outlawed restraints of trade as well as monopolization.

3) The Federal Trade Commission Act created the five-member Federal Trade Commission, which has joint federal responsibility with the U.S. Justice Department for enforcing the antitrust laws.

4) The Clayton Act was designed to strengthen and make explicit the intent of the Sherman Act.

15. (VC6)
1) Comparative advantage is the basis of trade. A nation can have lower absolute wages, but what is important is the wage rate relative to the productivity level. Lower wages do not necessarily imply cheaper per unit production costs.

*2) Labor cost per unit of output matters more than wages when calculating average cost of production.

3) Cost per unit of output is a function of both wage rates and productivity levels.

4) Trade is fundamentally based on comparative advantage.

*correct answer
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