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. The examination may be used to help fulfill a core requirement for Business degrees, as a Social Science general education course, or as a free elective for all Excelsior College degree programs that allow for free electives.

- 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 grade.

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

Exam-takers 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.

Examination Length and Scoring

The examination consists of approximately 120 questions, most of which are multiple choice; for samples of all the item types on this exam, see the sample items in the back of this guide. Some items are unscored, pretest items. The pretest items are embedded throughout the exam and are indistinguishable from the scored items. You will have two (2) hours to complete the examination. Your score will be reported as a letter grade.

UExcel Exam Resources

Excelsior College Bookstore

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

The bookstore is available online at: www.excelsior.edu/bookstore

UExcel Practice Exams

The official UExcel practice exams are highly recommended as part of your study plan. Once you register for your UExcel exam, you are eligible to purchase the corresponding practice exam, which can be taken using any computer with a supported Web browser. Each practice exam includes two forms that you may take within a 180-day period.
Excelsior College Library

Enrolled Excelsior College students can access millions of authoritative resources online through the Excelsior College Library. 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. Special library pages relate to the nursing degree exams and other selected exams. To access it, visit www.excelsior.edu/library (login is required).

Our library provides:

- 24/7 availability
- The world’s most current authoritative resources
- Help and support from staff librarians

Online Tutoring

Excelsior College offers online tutoring through SMARTTHINKING™ to connect with tutors who have been trained in a variety of academic subjects. To access SMARTTHINKING, go to www.excelsior.edu/smarthinking. Once there, you may download a copy of the SMARTTHINKING Student Handbook as a PDF.

MyExcelsior Community

MyExcelsior Community enables Excelsior College students and alumni to interact with their peers online. As members, students can participate in real-time chat groups, join online study groups, buy and sell used textbooks, and share Internet resources. Enrolled students have automatic access from their MyExcelsior page. Visit www.excelsior.edu/myexcelsiorcommunity.

Preparing for UExcel Exams

How Long Will It Take Me to Study?

A UExcel exam enables you to show that you’ve learned material comparable to one or more 15-week college-level courses. As an independent learner, you should study and review as much as you would for a college course. For a 3-credit course in a subject they don’t know, most students would be expected to study nine hours per week for 15 weeks, for a total of 135 hours.

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** (if you are an enrolled student, search for partners on MyExcelsior Community)
- **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.
Using UExcel Practice Exams

We recommend taking the first form of the practice exam when you begin studying, to see how much you already know. After taking the first practice exam, check your performance on each question and find out why your answer was right or wrong. This feedback will help you improve your knowledge of the subject and identify areas of weakness that you should address before taking the exam. Take the second form of the practice exam after you have finished studying. Analyze your results to identify the areas that you still need to review.

Although there is no guarantee, our research suggests that students who do well on the practice exams are more likely to pass the actual exam than those who do not do well (or do not take advantage of this opportunity).

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 is not affiliated with any test preparation firm and does not endorse the products or services of these companies. 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.

Preparing for This Exam

Prior Knowledge

A good understanding of high school algebra is assumed.

Using the Content Outline

Each content area in the outline includes (1) the recommended minimum hours of study to devote to that content area and (2) 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 in other editions.

This content outline contains examples of the types of information you should study. Although these examples are numerous, 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 study materials listed below are recommended by Excelsior College as the most appropriate resources to help you study for the examination. For information on ordering from the Excelsior College Bookstore, see page 1 of this guide. You may also find resource materials in college libraries. Public libraries may have some of the textbooks or may be able to obtain them through an interlibrary loan program.

You should allow sufficient time to obtain resources and to study before taking the exam.

Textbooks

This textbook was used by the examination development committee to verify all questions on the exam.

Microeconomics: Principles, problems, and policies.

This textbook may be purchased from the Excelsior College Bookstore. www.excelsior.edu/bookstore

Open Educational Resources

The Saylor Foundation provides free, high quality courses through online, self-paced, free learning resources.

Saylor Foundation: Principles of Microeconomics
https://learn.saylor.org/course/econ101

MIT, Principles of Microeconomics (Lecture Notes, Assignemtns, and Exams sections)
http://ocw.mit.edu/courses/economics/14-01sc-principles-of-microeconomics-fall-2011/

OCL, ECON 201: Microeconomics
http://opencourselibrary.org/econ-201-microeconomics/

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.
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.
2. State the nature and functions of product markets.
3. Understand the nature and functions of factor markets.
4. Use graphs and tables to illustrate cost and revenue of firms in different market structures.
5. Comprehend the role of government in promoting greater efficiency and equity in the economy.
6. Illustrate the usefulness of economic analysis in real-world situations.
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.

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<th>Content Area</th>
<th>Percent of the Examination</th>
<th>Hours of Study</th>
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<td>I. Introduction to Economics and the Economy</td>
<td>25%</td>
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<td>II. Markets and Behavior</td>
<td>20%</td>
<td>27</td>
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<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>
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<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>
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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  | 34 HOURS OF STUDY

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 | 27 HOURS OF STUDY

Ch. 4, Elasticity
Ch. 5, Market Failures
Ch. 6, Elasticity
Ch. 7, Utility Maximization
Ch. 8, Behavioral Economics
Ch. 9, Businesses and the Cost of Production
Ch. 10, Pure Competition in the Short Run

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 | 27 HOURS OF STUDY

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

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
   7. Three oligopoly models
8. Oligopoly and advertising
9. Oligopoly and efficiency

### IV. Resource Markets

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<th>27 HOURS OF STUDY</th>
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<td>Ch. 15, Wage Determination</td>
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<td>Ch. 16, Rent, Interest, and Profit</td>
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<td>Ch. 17, Natural Resource and Energy Economics</td>
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#### 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
3. Natural resource economics

### V. Government Issues and Policies

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<td>Ch. 5 Appendix, Public Choice Theory and Voting Paradoxes</td>
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<td>Ch. 19, Antitrust Policy and Regulation</td>
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<tr>
<td>Ch. 24, International Trade</td>
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#### 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
Sample Questions

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 12–14 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?

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?

The equilibrium wage will 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.
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. (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. (IIB1)
   1) It plots units consumed per meal \((x\text{-axis})\) against total utility \((y\text{-axis})\).
   2) Average utility is not a valid curve.
   3) The marginal utility curve plots units consumed per meal \((x\text{-axis})\) against marginal utility \((y\text{-axis})\), not total utility.
   4) The total cost curve plots quantity \((x\text{-axis})\) against total costs \((y\text{-axis})\).

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.

*correct answer
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 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).  
*correct answer
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.
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