Solve the following multiple-choice problems and mark the answers on the scantron provided. Make sure to include your name and section number on the scantron (Each problem is worth 2 points).

1. **Why is a judiciary system so important for economic growth?**
   (a) Because it punishes the wealthy (like Martha Stewart) and helps promote equality
   (b) Because it helps promote fair competition by issuing patents
   (c) Because it puts non-productive individuals behind bars
   (d) Because it protects property rights

2. **If Spain’s Gross Domestic Product increases from $250 billion to $2 trillion in 60 years, approximately by what rate is Spain’s GDP increasing?**
   (a) 1.3%
   (b) 2.4%
   (c) 3.6%
   (d) 4.8%

3. **Which one of the following statements is generally correct?**
   (a) Less developed economies grow at a slower rate than highly developed economies
   (b) Transition economies are usually wealthier than highly developed economies
   (c) Highly developed economies grow at a faster rate than transition economies
   (d) Less developed economies tend to have good infrastructure

4. **Which of the following countries is the best example of a transition economy?**
   (a) Somalia
   (b) Ireland
   (c) Sweden
   (d) Chile

5. **Real GDP is $10,000 in Transinia and $80,000 in Technolica. If real GDP grows by 7.2% every year in Transinia and by 3.6% in Technolica, how long would it take for real GDP to be the same in both countries assuming that the rate of growth in both countries does not change?**
   (a) 40 years
   (b) 50 years
   (c) 60 years
   (d) 70 years
Use the following information to answer problems 6 through 8. Suppose that there are only two goods in the world — corn and rice. Country A can produce up to 150 tons of corn or up to 150 tons of rice, and Country B can produce up to 200 tons of corn or up to 50 tons of rice. Assume that the PPFs of both countries have a constant slope.

6. Which statement is true based on the information above?
   (a) Country A has an absolute advantage in producing corn
   (b) Country B has an absolute advantage in producing rice
   (c) Country A has a comparative advantage producing corn
   (d) Country B has a comparative advantage producing corn

7. What is the marginal cost of corn in Country B?
   (a) 1/4 tons of rice
   (b) 3/4 tons of rice
   (c) 4/3 tons of rice
   (d) 4 tons of rice

8. If each of the countries specialized in the good in which it has a comparative advantage and traded, which of the following would improve the terms of trade for country A?
   (a) If country A became more efficient at producing rice
   (b) If country A became more efficient at producing corn
   (c) If country B became more efficient at producing rice
   (d) If country B became more efficient at producing corn

9. Which of the following statements is NOT correct?
   (a) Countries with high economic freedom tend to grow faster than countries with little economic freedom
   (b) Countries with a large, powerful government tend to grow faster than countries with a small non-interventionist government
   (c) Countries with low income but good institutions tend to grow faster than countries with high income and good institutions
   (d) Countries with a high rate of savings and investment tend to grow faster than countries with a high rate of consumption

10. Which of the following events will increase the supply of dollars in the Foreign Exchange Market?
    (a) If the United States unilaterally reduced its trade barriers and increased its imports
    (b) If the stock markets in London, Paris and Frankfurt were booming
    (c) If most people expected the dollar to appreciate
    (d) If fewer Americans traveled abroad
Use Figure 4-1, which shows a small economy with a $8 tariff on watches, to answer problems 11 through 13.

11. By how much would imports of watches fall as a result of the tariff?
(a) By 5 watches
(b) By 7 watches
(c) By 9 watches
(d) By 12 watches

12. At least how high does the tariff have to be to prevent any imported watches from entering the country?
(a) $12
(b) $14
(c) $16
(d) $18

13. How much revenue will the government collect from this tariff?
(a) $72
(b) $88
(c) $108
(d) $120

14. Which of the following groups is most likely to benefit from a U.S. tariff on coffee?
(a) Coffee growers in Columbia
(b) Restaurant owners
(c) Tea suppliers
(d) Consumers
15. If Greece, a small open economy, is a net exporter of cheese, which of the following would occur if the world price of cheese increased?
(a) The amount of cheese consumed domestically would fall
(b) The domestic supply of cheese would decrease
(c) The amount of cheese exported would fall
(d) All of the above will occur

16. A tariff on steel would steel to all of the following effects, EXCEPT
(a) An increase in the quantity of steel that is domestically produced
(b) An increase in government revenue
(c) An decrease in consumer welfare
(d) A decrease in the prices of cars

17. Suppose that Costa Rica, a small open economy, is a net importer of wheat and the demand for bread in the country rises. Which of the following would occur if Costa Rica had a quota on wheat assume that most bread is baked domestically?
(a) The amount of wheat imported would rise
(b) The domestic supply of wheat would rise
(c) Government revenue would increase
(d) The world price of wheat would rise

18. Which of the following events would cause the Euro to depreciate?
(a) If the European governments lower the interest rates on their bonds
(b) If Europeans exported more goods to the United States
(c) If Americans expected the Euro to appreciate
(d) If more Americans visited Europe

19. If Chile fixes its peso to the U.S. dollar and the number of travelers to Chile increases, what must the Chilean government do to keep the currency fixed?
(a) Sell U.S. dollars in their foreign exchange reserve for other foreign currencies
(b) Sell Chilean Pesos in exchange for foreign currencies
(c) Buy Chilean Pesos using foreign currencies
(d) Sell Chilean government bonds

20. Which of the following events will increase the amounts of dollars exchanged in the Foreign Exchange Market and will cause the dollar to depreciate?
(a) If investors were expecting a rally (a rise in prices) in the New York Stock Exchange
(b) If the U.S. government raised the interest rate that it offers on its bonds
(c) If Japan lowered the interest rates that it offered on its bonds
(d) If more Americans traveled abroad