18. Price control regulations that fix a maximum price below the market equilibrium typically lead to:
A. a persistent market shortage (excess demand)
B. a market surplus (excess supply)
C. an immediate decline in black market operations
D. an automatic increase in corporate profits
Answer: A
Detailed Explanation: When government enforces a price ceiling below equilibrium, producers reduce their supply because it is less profitable, while consumers demand more due to the lower price, causing a shortage.

19. Which of the following factors will cause a movement along the demand curve for gas rather than a shift of the curve?
A. A change in the market price of gas itself
B. A change in consumer household income levels
C. A change in the price of substitute solar power
D. A change in consumer tastes and preferences
Answer: A
Detailed Explanation: A change in the price of the good itself causes a change in "quantity demanded," which shows up as a movement along the static demand curve. Other factors shift the entire curve.

20. When a consumer's income increases and he buys more of a luxury item, the income elasticity coefficient is:

A. positive and greater than one
B. negative
C. zero
D. positive but less than one
Answer: A
Detailed Explanation: For luxury or superior goods, a rise in income leads to a more than proportional increase in demand, making the income elasticity of demand positive and greater than unity ($Ey > 1$).

21. The economic system where all resources are owned, controlled, and allocated by the government is called a:
A. command (socialist) economy
B. free-market (capitalist) economy
C. mixed economy
D. traditional economy
Answer: A
Detailed Explanation: In a command economy, a central planning authority answers the fundamental questions of what to produce, how to produce, and for whom to produce.

22. Which of the following is a corporate characteristic of a free-market economic system?
A. Price determination via the invisible hand of demand and supply

$3.5 = \frac{\%\text{ change in Quantity}}{10\%} \implies \%\text{ change in Quantity} = 3.5 \times 10\% = 35\%$.

31. The fundamental assumption of "ceteris paribus" in economic analysis translates to:
A. all other factors remaining constant
B. the market system is in perfect equilibrium
C. consumers always act with perfect rationality
D. government does not intervene in market trading
Answer: A
Detailed Explanation: Ceteris paribus is a Latin phrase used to isolate the relationship between two specific economic variables by freezing all other external influences.

32. A production possibility curve (PPC) is typically concave to the origin due to the:
A. law of increasing opportunity costs
B. presence of perfect resource substitution
C. constant returns to scale across all industries
D. intervention of government price floors
Answer: A
Detailed Explanation: As a society shifts resources to produce more of one good, it must redirect resources that are increasingly less suited for that product, meaning larger amounts of the alternative good must be sacrificed.

Answer: A
Detailed Explanation: Land earns rent; labor receives wages or salaries; capital accumulates interest; and the entrepreneur receives profit for managing risks.

55. In the circular flow of income for a simple two-sector economy, households supply factors of production to firms and receive:
A. factor incomes (wages, rent, interest, profit)
B. finished consumer goods and retail products
C. direct commercial investment capital funds
D. government welfare transfer payment allowances
Answer: A
Detailed Explanation: Households own the factors of production and sell them to firms in the factor market. In return, firms pay households factor incomes, which households then spend on goods.

56. Net National Product (NNP) is calculated mathematically as:
A. Gross National Product minus Depreciation ($GNP - \text{Depreciation}$)
B. Gross Domestic Product plus Net Factor Income from Abroad
C. Personal Income minus Direct Personal Taxation charges
D. Total National Income divided by population headcount

B. Unit of account
C. Store of value
D. Standard of deferred payment
Answer: A
Detailed Explanation: As a medium of exchange, money is universally accepted in exchange for goods and services, allowing trade to occur smoothly without needing both parties to want each other's items.

82. The precautionary motive for holding money, according to John Maynard Keynes, is driven by the desire to:
A. cover unexpected emergencies and unplanned expenses
B. conduct daily routine household transactions
C. speculate on the future price movements of corporate bonds
D. pay statutory monthly direct taxes to the internal revenue service
Answer: A
Detailed Explanation: Keynes identified three motives for holding cash: the transactional motive (daily needs), the precautionary motive (unexpected emergencies), and the speculative motive (financial investments).

83. Commercial banks create money primarily through the process of:
A. advancing loans from customer demand deposits

Detailed Explanation: Terms of Trade measures a country's export purchasing power. It is calculated as $\frac{\text{Index of Export Prices}}{\text{Index of Import Prices}} \times 100$. A higher ratio means a country can buy more imports with the same volume of exports.

107. Hyperinflation is characterized by an economic situation where:
A. prices rise at an extremely rapid and uncontrollable rate
B. the value of money increases sharply over a short period
C. consumers cut back on spending due to a lack of cash
D. government cuts the money supply to revalue the currency
Answer: A
Detailed Explanation: Hyperinflation occurs when the money supply grows excessively, causing money to lose its value rapidly. This forces people to spend cash as fast as possible before prices climb even higher.

108. According to the quantity theory of money, if the velocity of circulation (V) and the volume of transactions (T) are constant, a doubling of the money supply (M) will cause the price level (P) to:
A. double
B. fall by half
C. remain unchanged