

TECEP® Test Description for ECO-112-TE

MICROECONOMICS

This exam assesses students' knowledge of how people manage their limited resources. It also evaluates students' understanding of the how individual households and firms make decisions and interact. (3 credits)

- **Test format:** 100 multiple choice questions (1 point each)
 - **Passing score:** 70% (70/100 points).Your grade will be reported as CR (credit) or NC (no credit).
 - **Time limit:** 2 hours
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OUTCOMES ASSESSED ON THE TEST

- Explain the role economics plays in the tradeoffs people and organizations make.
- Identify the relationship of trade, including comparative and absolute advantage, to the decisions made by domestic firms.
- Describe the importance of market forces as they determine market demand and supply versus individual demand and supply.
- Describe the role elasticity plays in determining demand and pricing decisions of the firm.
- Identify the differences between producer surplus and consumer surplus.
- Explain the role taxation plays in supply and demand.
- Define marginal utility, total utility, and diminishing utility.
- Identify the differences between private, common, and public goods.
- Describe the relationship between productivity and the different costs of production.
- Describe the various market structures, their characteristics, and the effects of each structure in relationship to the market.
- Identify the differences between economic and accounting profit.
- Explain discrimination in the labor market.



- Describe income inequality and poverty and the policies to reduce them.
- Define the theory of consumer choice and how consumers act to optimize their choices.
- Describe ideas in political economy and their use in social choice.

TOPICS ON THE TEST AND THEIR APPROXIMATE DISTRIBUTION

The table below indicates the main topics covered by this exam and the approximate percentage of the exam devoted to each main topic. Under the main topic heading is a list of related—but more specific—topics. It is important to review these topics to determine how much prior knowledge you have and/or how much additional study is necessary.

Topic	Percentage
Basic concepts in economics <ul style="list-style-type: none"> • General principles of economics • How to think like an economist • Comparative advantage, interdependence and the gains from trade • Positive and normative economics 	15%
Supply and Demand <ul style="list-style-type: none"> • Market forces of supply and demand; elasticity and its application • Supply, demand, and government policies • Consumers, producers, and the efficiency of markets • Costs of taxation; application of international trade: price controls 	30%
Economics of the Public Sector <ul style="list-style-type: none"> • Public policies, externalities • Public goods, common goods, and private goods • Design of the tax system 	10%
Firm Behavior and the Organization of Industry <ul style="list-style-type: none"> • Costs of production, measures of costs; firms in competitive markets, profit maximization; monopoly • Monopolistic competition; oligopoly 	20%
Economics of Labor Markets <ul style="list-style-type: none"> • Markets for the factors of production • Earnings and discrimination • Income inequality and poverty 	15%



Other Issues in Microeconomics <ul style="list-style-type: none"> • Theory of consumer choice • Frontiers of microeconomics • Political economy 	10%
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STUDY MATERIALS

Below is a list of recommended study materials to help prepare you for your exam. Most textbooks in this subject include the topics listed above and will prepare you for the test. If you choose another text, be sure to compare its table of contents against the topic list to make sure all topics are covered.

Title
Colander, D. C. (2012). <i>Economics</i> (9th ed.). New York: McGraw Hill/Irwin.
Mankiw, N. G. (2015). <i>Principles of Microeconomics</i> (7th ed.). Stamford, CT: Cengage.

In addition to the study materials listed above, you may also wish to review the list of open source materials identified below. We encourage you to explore these resources to make sure that you are familiar with multiple perspectives on the topics above. All of these resources are openly licensed*, which means that they are free to be [revised, remixed, reused, redistributed, and retained](#), so long as their unique terms are followed. You can learn more about open licensing [here](#).

Resource Licensing Guide	
Title	License
(2019). ECON101: Principles of Microeconomics [Saylor course]. Saylor Academy.	CC BY 3.0
Greenlaw, S. A., & Shapiro, D. (2018). Principles of Microeconomics (2nd ed.). Houston, TX: OpenStax.	CC BY 4.0
(2019). Microeconomics [Khan Academy course]. Mountain View, CA: Khan Academy.	n/a
* Note: This course is <i>not</i> open source; however, it is free of cost.	



SAMPLE QUESTIONS

The questions below are designed to help you study for your TECEP. Answering these questions does not guarantee a passing score on your exam.

Please note that the questions below **will not** appear on your exam.

Multiple-Choice

1. A rational decision maker does which of the following?
 - a. Takes an action only if the combined benefits of that action and previous actions exceed the combined costs of that action and previous actions
 - b. Takes an action only if the marginal benefit of that action exceeds the marginal cost of that action
 - c. Ignores marginal changes and focuses instead on "the big picture"
 - d. Ignores the likely effects of government policies when he or she makes choices

2. Economists generally believe that making assumptions is
 - a. a good idea, since doing so helps to simplify the complex world and make it easier to understand
 - b. a good idea, since economic analysis without assumptions leads to complicated results that the general public finds hard to understand
 - c. a bad idea, since doing so invariably leads to data-collection problems
 - d. a bad idea, since doing so leads to the omission of important ideas and variables from economic models

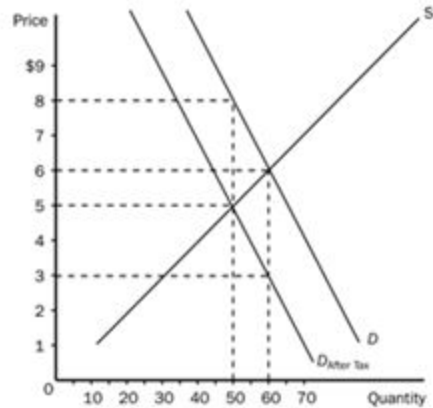
3. Comparative advantage is based on
 - a. dollar price
 - b. labor cost
 - c. capitol cost
 - d. opportunity cost

4. In a market economy
 - a. demand determines supply and supply, in turn, determines prices
 - b. supply determines demand and demand, in turn, determines prices
 - c. supply and demand determine prices and prices, in turn, allocate the economy's scarce resources
 - d. the allocation of scarce resources determines prices and prices, in turn, determine supply and demand



5. If demand is price inelastic, then
- buyers do not respond much to a change in price
 - buyers respond substantially to a change in price, but the response is very slow
 - buyers do not respond much to advertising, fads, or general changes in tastes
 - the demand curve is very flat
6. According to the graph on the right, the equilibrium price in the market before the tax is imposed is

- \$3.50
- \$5.00
- \$6.00
- \$8.00



7. Market failure is the inability of
- some unregulated markets to allocate resources efficiently
 - a market to establish an equilibrium price
 - buyers to place a value on the good or service
 - buyers to interact harmoniously with sellers in the market
8. Claudia would be willing to pay as much as \$100 per week to have her house cleaned. John's opportunity cost of cleaning Claudia's house is \$70 per week. Assume Claudia is required to pay a tax of \$40 when she hires someone to clean her house for a week. Which of the following is correct?
- Claudia will now clean her own house
 - John will continue to clean Claudia's house, but his producer surplus will decline.
 - Claudia will continue to hire John to clean her house, but her consumer surplus will decline.
 - Total economic welfare (consumer surplus plus producer surplus plus tax revenue) will increase.
9. Within a country, the domestic price of a product will equal the world price if
- trade restrictions are imposed on the product
 - the country chooses to import, but not export, the product
 - the country chooses to export, but not import, the product
 - the country allows free trade



10. Employing a lawyer to draft and enforce a private contract between parties wishing to solve an externality problem is an example of a(n) _____ cost

- a. opportunity
- b. implicit
- c. sunk
- d. transaction

11. The government provides public goods because

- a. private markets are incapable of producing these types of goods
- b. free-riders make it difficult for private markets to supply the socially optimal quantity
- c. markets are always better off with some government oversight
- d. external benefits will accrue to private producers

12. To gauge the sacrifice made by a taxpayer, we should use the _____ tax rate.

- a. marginal
- b. average
- c. sales
- d. lump-sum

13. Since the 1980s, Wal-Mart stores have appeared in almost every community in America.

Wal-Mart buys its goods in large quantities and, therefore, at cheaper prices. Wal-Mart also locates its stores where land prices are low, usually outside of the community business district. Many customers shop at Wal-Mart because of low prices. Local retailers, like the neighborhood drug store, often go out of business because they lose customers. This story demonstrates that

- a. consumers do not react to changing prices
- b. there are diseconomies of scale in retail sales
- c. there are economies of scale in retail sales
- d. there are diminishing returns to producing and selling retail goods

14. For any given price, a firm in a competitive market will maximize profit by selecting the level of output at which price intersects the

- a. average total cost curve
- b. average variable cost curve
- c. buyers marginal cost curve
- d. marginal revenue curve

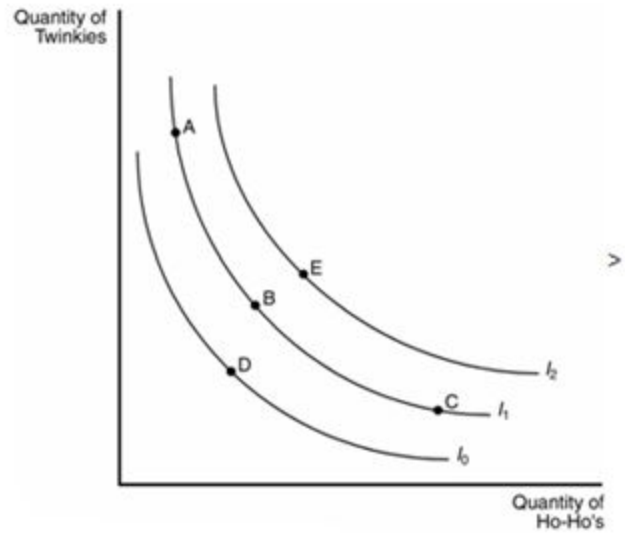


15. For a monopoly firm, which of the following equalities is always true?
- a. Price = average revenue
 - b. Price = marginal revenue
 - c. Price = total revenue
 - d. Marginal revenue = marginal cost
16. When a firm operates with excess capacity
- a. it must be a perfectly competitive firm
 - b. it must be a monopolistically competitive firm
 - c. additional production would increase the average total cost
 - d. additional production would lower the average total cost
17. Oligopolies can end up looking like competitive markets if the number of firms is
- a. small and they all cooperate
 - b. small and they do not cooperate
 - c. large and they all cooperate
 - d. large and they do not cooperate
18. Which of the following would shift a market labor supply curve to the left?
- a. Labor-augmenting technology
 - b. A change in worker tastes so that workers want to retire later
 - c. A decrease in the supply of factors such as capital
 - d. An increase in the wage paid to workers in a competing market
19. The belief that education makes a person more productive and thereby raises his or her wage is referred to as the _____ view of education.
- a. compensating-differential
 - b. human-capital
 - c. natural-ability
 - d. unmeasured-variables



20. Judging from the figure, a person that chooses to consume bundle C is likely to

- a. receive higher total utility than at point A
- b. gain more satisfaction from bundle C than bundle A
- c. receive higher marginal utility from Ho-Ho's than from Twinkies
- d. receive higher marginal utility from Twinkies than from Ho-Ho's



ANSWERS TO SAMPLE QUESTIONS

- | | | |
|--------|---------|---------|
| 1. (b) | 8. (a) | 15. (a) |
| 2. (a) | 9. (d) | 16. (d) |
| 3. (d) | 10. (d) | 17. (d) |
| 4. (c) | 11. (b) | 18. (d) |
| 5. (a) | 12. (b) | 19. (b) |
| 6. (c) | 13. (c) | 20. (d) |
| 7. (a) | 14. (c) | |

