



- Name: _____
 - Date: _____
 - Section: _____
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BUS 201: Principles of Global Economics

Quiz #1: Suggested Solutions

Fall 2025

INSTRUCTIONS:

- Write your name, date, and section clearly at the top of the first page.
- This is a closed-book quiz. You may not use your textbook, class notes, or electronic devices.
- The quiz consists of three parts: Definitions, Multiple Choice, and Short Answers.
- For definitions, write in complete sentences. Limit each definition to 3 sentences.
- For multiple-choice questions, circle the single best answer. Only one option is correct.
- For short-answer questions, write your responses in complete sentences. Limit your response to 5 sentences or fewer.
- The total time allowed is 100 minutes. Manage your time carefully.

Problem 1. Definitions**(5 Points Each)**

Select six items on the list of items below, and provide a definition of the items that you chose.

- Opportunity Cost
- Imports
- Complementary Good
- Quantity Demanded
- Inflation
- Thinking at the Margin
- Comparative Advantage
- Scarcity
- Equilibrium Price

- **Opportunity Cost:**
The value of the next best alternative that must be given up when a choice is made.
- **Quantity Demanded:**
The specific amount of a good or service that consumers are willing and able to buy at a particular price.
- **Comparative Advantage:**
The ability of a person or country to produce a good at a lower opportunity cost than another producer.
- **Imports:**
Goods and services produced abroad and purchased domestically.
- **Inflation:**
A sustained increase in the overall level of prices in the economy.
- **Scarcity:**
The condition that resources are limited while human wants are unlimited.
- **Complementary Good:**
A product that is often used together with another product, so when the price of one rises, demand for the other falls.
- **Thinking at the Margin:**
Considering the additional benefits and costs of a small change in an activity or decision.
- **Equilibrium Price:**
The market price at which the quantity demanded equals the quantity supplied.

Problem 2. Multiple Choice

(5 Points Each)

2.A. Which of the following best illustrates the concept of scarcity?

- a) A student choosing between spending an evening studying or going out with friends**
- b) A country with unlimited resources producing goods without trade-offs
- c) Consumers buying more coffee when the price falls
- d) Firms lowering prices to reduce a surplus

2.B. Which of the following best describes opportunity cost?

- a) The explicit money payments made to purchase a good or service
- b) The value of the best alternative forgone when a choice is made**
- c) The extra cost of producing one more unit of output
- d) The total cost of producing all units of output

2.C. Which statement is true if the economy is producing on its Production Possibility Frontier (PPF)?

- a) The economy is producing inefficiently
- b) The economy cannot increase the production of one good without reducing the other**
- c) The economy can produce above the PPF if workers are fully employed
- d) The opportunity cost of one good is unrelated to the slope of the PPF

2.D. Which of the following is a normative statement?

- a) Increasing the money supply causes inflation
- b) A decrease in income tax rates increases household spending
- c) The government should provide free public college education**
- d) Unemployment falls when output rises

2.E. Which of the following best illustrates the Law of Demand?

- a) Coffee sellers increase output as prices rise
- b) Consumers buy fewer bagels when cream cheese prices rise
- c) Consumers buy more coffee when coffee prices fall**
- d) The supply of coffee increases after a technological improvement

Problem 2. Multiple Choice (continued)**(5 Points Each)**

2.F. Which of the following statements correctly distinguishes absolute advantage from comparative advantage?

- a) Absolute advantage always determines the gains from trade, while comparative advantage rarely matters
- b) A country cannot have an absolute advantage in both goods, but it can have a comparative advantage in both goods
- c) Comparative advantage refers to being more productive overall, while absolute advantage refers to specializing in the good with the lowest opportunity cost
- d) Absolute advantage refers to producing more of a good with the same resources, while comparative advantage refers to producing a good at a lower opportunity cost**

2.G. Which of the following would cause a shift in the demand curve for a normal good?

- a) A fall in the price of the good
- b) An increase in consumer incomes**
- c) A decrease in the cost of producing coffee
- d) A temporary surplus of coffee at the current price

2.H. If the price of bread is set above the equilibrium price:

- a) There will be a shortage, and sellers will raise prices
- b) There will be a surplus, and sellers will lower prices**
- c) The market will remain in equilibrium
- d) Quantity demanded will equal quantity supplied

Problem 3. Short Answer

(10 Points Each)

3.A. The table below shows the quantities of coffee supplied at different prices by four individual sellers in a local market.

- Briefly describe how market supply can be derived from this information,

For each price point, add up the four sellers' quantity supplied to find the market quantity supplied. In other words, add quantity supplied for each supplier *horizontally*.

- Derive the market Q^s at each price in the table below.

Price	Frodo's Q^s	Sam's Q^s	Merry's Q^s	Pippin's Q^s	Market Q^s
\$1	2	1	0	0	3
\$2	4	2	0	2	8
\$3	6	3	0	4	13
\$4	8	4	5	6	23
\$5	10	5	5	8	28

3.B. Why is it that “trade can make everyone better off”? Give a real-world example.

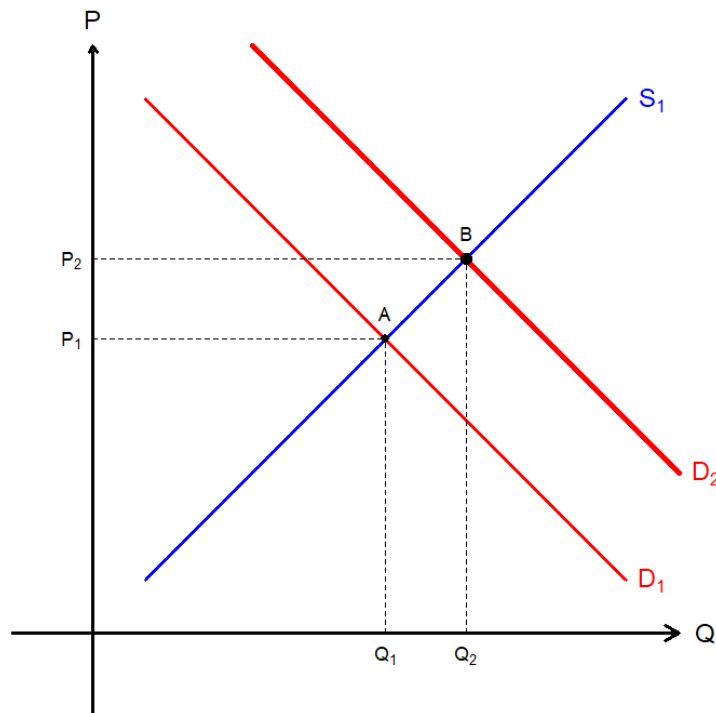
Trade can make everyone better off because it allows individuals, firms, or countries to specialize in the goods and services in which they have a comparative advantage. By doing so, total output increases, and through exchange, all parties can consume a larger variety and quantity of goods than they could produce alone.

In the global semiconductor supply chain, the United States leads in chip design and high-end manufacturing equipment; the Netherlands specializes in lithography machines (ASML); Japan provides key materials such as photoresists and silicon wafers; and South Korea produces memory chips at large scale. No single country can efficiently produce semiconductors alone, but together they achieve higher output and innovation.

Problem 3. Short Answer (continued)

(10 Points Each)

- 3.C. The market for coffee is at its equilibrium at point A , with the price at P_1 and quantity at Q_1 . Suppose that new research showing that drinking one cup of coffee a day can help with weight loss is widely distributed through social media. On the graph provided, illustrate the effect of this new research on the market for coffee. Label the new demand curve as D_2 , the new equilibrium point as B , the new equilibrium price P_2 , and equilibrium quantity Q_2 .



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