

Economic Principles in Action Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What situation occurs when there is a budget surplus?**
 - A. Expenditures exceed revenue**
 - B. Income exceeds expenditures**
 - C. Break-even financial status**
 - D. Debt increase**

- 2. When is demand considered elastic?**
 - A. Demand remains constant regardless of price**
 - B. Only luxury items have elastic demand**
 - C. A small price change leads to a significant quantity change**
 - D. Elasticity is always greater than one**

- 3. Which stage of the business cycle is followed by a contraction?**
 - A. Expansion**
 - B. Trough**
 - C. Peak**
 - D. Recovery**

- 4. Globalization promotes which of the following factors?**
 - A. Increased isolation of economies**
 - B. Better cultural understanding among nations**
 - C. Limited exchange of ideas and technology**
 - D. Decreased international cooperation**

- 5. What is unemployment defined as?**
 - A. Individuals unable to find jobs despite willingness to work**
 - B. Individuals employed part-time seeking full-time work**
 - C. Individuals who are retired**
 - D. Individuals not actively seeking employment**

- 6. What is the primary purpose of tariffs?**
 - A. To lower the costs of domestic goods**
 - B. To promote international tourism**
 - C. To protect domestic industries and generate government revenue**
 - D. To encourage foreign investment**

- 7. How is labor productivity measured?**
- A. By comparing goods produced to the labor hours used**
 - B. By analyzing economic growth trends**
 - C. Through fiscal policies implemented by governments**
 - D. By evaluating total GDP over a fiscal year**
- 8. Why are price floors typically set by the government?**
- A. To maintain a competitive market**
 - B. To protect producers' income**
 - C. To reduce the supply of goods**
 - D. To increase consumer prices**
- 9. Which of the following represents natural resources used in the production of goods and services?**
- A. Human Capital**
 - B. Physical Capital**
 - C. Labor**
 - D. Land/Natural Resources**
- 10. Which of the following can shift the aggregate demand curve?**
- A. Changes in production costs**
 - B. Changes in consumer confidence**
 - C. Changes in the labor market**
 - D. Changes in technological advancements**

Answers

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1. B
2. C
3. C
4. B
5. A
6. C
7. A
8. B
9. D
10. B

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Explanations

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1. What situation occurs when there is a budget surplus?

- A. Expenditures exceed revenue
- B. Income exceeds expenditures**
- C. Break-even financial status
- D. Debt increase

A budget surplus occurs when the income or revenue collected exceeds the expenditures or spending over a specific period. This situation indicates that an individual, business, or government has more money coming in than going out, leading to a positive balance. This scenario is significant because it provides opportunities for saving, investing, or reducing existing debt. A budget surplus can facilitate future growth and financial stability, allowing the entity to allocate surplus funds towards projects, savings, or debt repayment, enhancing overall fiscal health. The other scenarios involve situations of imbalance, such as spending more than is earned, breaking even with no surplus or deficit, or increasing debt, which do not accurately define a budget surplus.

2. When is demand considered elastic?

- A. Demand remains constant regardless of price
- B. Only luxury items have elastic demand
- C. A small price change leads to a significant quantity change**
- D. Elasticity is always greater than one

Demand is considered elastic when a small change in price leads to a significant change in the quantity demanded by consumers. This concept is rooted in the relationship between price and quantity demanded: when the demand for a product is elastic, it means that consumers are very responsive to changes in price. If the price decreases slightly, a large number of consumers will increase their purchases, and conversely, if the price rises slightly, many consumers will reduce their purchases significantly. In economics, elasticity is quantitatively measured, and when elasticity is greater than one, it indicates that demand is elastic. This responsiveness is particularly evident in goods that are not necessities or that have many substitutes available, where consumers can easily shift their purchasing behavior based on price fluctuations.

3. Which stage of the business cycle is followed by a contraction?

- A. Expansion
- B. Trough
- C. Peak**
- D. Recovery

The business cycle consists of various stages that economies experience, including expansion, peak, contraction, and trough. After a contraction, which is characterized by a decline in economic activity, the subsequent stage is known as a trough. During the trough, the economy reaches its lowest point, marking the end of the contraction period. Following this stage, the economy typically begins to recover, leading to expansion once again. A contraction occurs after a peak, where the economy is performing at its highest levels. However, the peak signifies a transition point that does not lead directly to recovery. Instead, it leads down into a contraction phase. Understanding this progression in the business cycle provides crucial insights into economic fluctuations and helps in making informed decisions based on economic conditions.

4. Globalization promotes which of the following factors?

- A. Increased isolation of economies
- B. Better cultural understanding among nations**
- C. Limited exchange of ideas and technology
- D. Decreased international cooperation

Globalization promotes better cultural understanding among nations by facilitating the exchange of ideas, goods, and services across borders. As countries become more interconnected through trade, travel, and technology, people from different cultures interact more frequently. This leads to greater awareness and appreciation of diverse traditions, values, and practices. Such interactions can help foster mutual respect and understanding, breaking down stereotypes and misconceptions. By sharing cultural experiences, societies can learn from one another, leading to enriched perspectives and collaboration on various global issues. The other options do not align with the principles of globalization. Increased isolation of economies contradicts the essence of globalization, which is inherently about connectivity and integration. Similarly, globalization encourages the exchange of ideas and technology rather than limiting it. Lastly, it generally promotes international cooperation rather than decreasing it, as countries often find common ground to collaborate on economic, social, and environmental challenges.

5. What is unemployment defined as?

- A. Individuals unable to find jobs despite willingness to work**
- B. Individuals employed part-time seeking full-time work
- C. Individuals who are retired
- D. Individuals not actively seeking employment

Unemployment is defined as individuals who are unable to find jobs despite their willingness to work. This definition focuses on those who are actively seeking employment but are currently without a job. It recognizes the efforts of these individuals to join the labor force and highlights the disconnect between their desire for work and the availability of jobs. The other options represent different situations that do not fit the definition of unemployment. Individuals employed part-time seeking full-time work are typically considered underemployed rather than unemployed, as they are still engaged in some form of work. Those who are retired have withdrawn from the labor force entirely and do not seek employment, so they cannot be classified as unemployed. Lastly, individuals not actively seeking employment are not considered unemployed, as the definition requires active job searching to qualify for unemployment status. Thus, the answer encapsulates the essential characteristics of unemployment in the labor market.

6. What is the primary purpose of tariffs?

- A. To lower the costs of domestic goods
- B. To promote international tourism
- C. To protect domestic industries and generate government revenue**
- D. To encourage foreign investment

The primary purpose of tariffs is to protect domestic industries and generate government revenue. When a government imposes tariffs, which are taxes on imported goods, it increases the cost of those goods relative to domestic products. This can make domestic goods more competitive in price, encouraging consumers to purchase locally made products, thereby fostering growth in domestic industries. In addition to protection, tariffs can also serve as a source of revenue for the government. The taxes collected from tariffs can be used to fund various government programs and initiatives. This dual purpose of providing protection and generating revenue is crucial in shaping trade policies and economic strategies, leading many countries to implement tariffs as a form of regulation on international trade. The other options presented do not capture the primary function of tariffs. Lowering costs of domestic goods would typically be achieved through subsidies or other forms of support, promoting international tourism is unrelated to tariffs, and encouraging foreign investment usually requires an open market rather than barriers such as tariffs.

7. How is labor productivity measured?

- A. By comparing goods produced to the labor hours used**
- B. By analyzing economic growth trends
- C. Through fiscal policies implemented by governments
- D. By evaluating total GDP over a fiscal year

Labor productivity is primarily measured by the ratio of goods produced to the labor hours used in the production process. This measurement focuses on how efficiently labor is utilized to create output within an economy. By comparing the total output, such as the number of goods produced or services rendered, to the number of hours worked, we can derive a clear understanding of productivity levels. A higher ratio indicates that more output is being generated per hour of labor, signaling greater efficiency and productivity in the workforce. The other options address different economic concepts but do not directly reflect the mechanics of measuring labor productivity. Economic growth trends provide insights into overall economic performance but do not specifically measure productivity per labor hour. Fiscal policies relate to government spending and taxation decisions that influence economic activity without directly measuring productivity. Evaluating total GDP over a fiscal year offers a broad view of economic performance but does not focus on the efficiency of labor in producing that output.

8. Why are price floors typically set by the government?

- A. To maintain a competitive market
- B. To protect producers' income**
- C. To reduce the supply of goods
- D. To increase consumer prices

The government typically sets price floors to protect producers' income. A price floor is a minimum price established for a particular good or service, and it is often implemented in industries where producers might struggle to earn a sustainable livelihood, such as agriculture. By setting a price floor above the equilibrium price, the government ensures that producers receive a minimum level of income for their products, which can help stabilize the market and encourage production. This intervention is vital in markets where fluctuations in prices could severely affect the producers' ability to cover costs, leading to economic instability and decreased supply. In this context, the price floor acts as a safety net for producers, ensuring that they can continue operating and that their livelihoods are protected against market volatility. This is especially relevant in sectors that are crucial for food security and economic stability in a region. Other options do not accurately reflect the primary purpose of price floors. For instance, maintaining a competitive market typically would not require price floors; in fact, price floors can create surpluses that disrupt competition. Reducing the supply of goods is not the goal of a price floor, as it aims to support producers by encouraging them to supply more at the guaranteed minimum price. Lastly, while price floors can influence consumer prices, they are not intended

9. Which of the following represents natural resources used in the production of goods and services?

- A. Human Capital
- B. Physical Capital
- C. Labor
- D. Land/Natural Resources**

The selection of land or natural resources as the representation of resources used in the production of goods and services is accurate because it directly pertains to the inputs derived from nature that are utilized in the creation of economic products. Natural resources include all the materials and elements sourced from the Earth, such as minerals, water, forests, and agricultural fields. These resources are fundamental to various industries, providing the raw materials necessary for manufacturing, agriculture, energy production, and more. Natural resources are distinguished from human capital, which refers to the skills, knowledge, and experience possessed by individuals, and from physical capital, which encompasses manufactured assets like machinery and tools used in production. Labor pertains to the human effort involved in the production process but does not represent resources derived from nature. By focusing on land or natural resources, we identify the essential inputs that are foundational to the production and fulfillment of economic activity.

10. Which of the following can shift the aggregate demand curve?

- A. Changes in production costs**
- B. Changes in consumer confidence**
- C. Changes in the labor market**
- D. Changes in technological advancements**

The aggregate demand curve represents the total quantity of goods and services demanded across all levels in an economy at various price levels. Shifts in this curve can occur due to various factors that influence overall demand. Changes in consumer confidence are a significant factor that can shift the aggregate demand curve. When consumer confidence is high, individuals tend to spend more on goods and services, stimulating demand. Conversely, when consumer confidence decreases, spending tends to decline, which can reduce aggregate demand. This psychological aspect plays a vital role in influencing consumption patterns, as consumers base their decisions on perceptions of economic stability, job security, and future income expectations. Production costs, changes in the labor market, and technological advancements primarily affect the aggregate supply curve by influencing how much can be produced at a given price level. While these factors may impact overall economic performance, they do not directly cause shifts in aggregate demand in the same way that changes in consumer confidence do. Hence, consumer confidence is the clear driver that specifically affects the aggregate demand curve.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://econprinciplesinaction.examzify.com>

We wish you the very best on your exam journey. You've got this!

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