

Future Business Leader Achievements (FBLA) Economics Practice Exam (Sample)

Study Guide



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SAMPLE

Questions

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- 1. What is "marginal cost"?**
 - A. The total cost of producing all units of a good**
 - B. The cost of producing one additional unit of a good or service**
 - C. The average cost per unit produced**
 - D. The fixed cost of production**

- 2. A bakery has fixed costs of \$5,000 per month and variable costs of \$1.00 per loaf of bread. How much profit will the bakery earn if it sells 5,000 loaves of bread per month at \$2.00 per loaf?**
 - A. \$1,000 per month**
 - B. \$500 per month**
 - C. \$0 per month**
 - D. -\$1,000 per month**

- 3. What factor does not contribute to economic growth?**
 - A. Technological innovation**
 - B. Improvements in productivity**
 - C. Higher interest rates**
 - D. Increases in human capital**

- 4. What does "economic efficiency" refer to?**
 - A. A situation where resources are wasted**
 - B. The ability to produce more with the same resources**
 - C. An optimal allocation of resources where it is impossible to make any one individual better off without making someone else worse off**
 - D. The maximum output with minimal input**

- 5. What are "investments" in economic terms?**
 - A. Short-term financial transactions and loans**
 - B. Allocating resources, usually money, to generate income or profit**
 - C. Government expenditures on public services**
 - D. Personal savings accounts with low interest**

- 6. What is the primary distinction between nominal GDP and real GDP?**
- A. Nominal GDP is adjusted for inflation**
 - B. Real GDP is measured at current prices**
 - C. Nominal GDP is measured at constant prices**
 - D. Nominal GDP is measured at current prices**
- 7. Which of the following is an example of a nontariff import barrier?**
- A. Raising taxes on imported products**
 - B. Requiring special safety checks on all imported products**
 - C. An import tax levied on a service instead of a product**
 - D. An embargo**
- 8. Define "comparative advantage."**
- A. The ability to produce a good using fewer resources than another producer**
 - B. The ability to carry out a particular economic activity at a lower opportunity cost than another**
 - C. A situation where a country can produce everything more efficiently than others**
 - D. The determination of which goods can be traded between nations**
- 9. In a market economy, what primarily determines prices?**
- A. Government regulations**
 - B. Consumer preferences**
 - C. Supply and demand**
 - D. Historical trends**
- 10. Which of the following statements about externalities is correct?**
- A. They only affect the parties involved in the transaction**
 - B. They can lead to market failure in the presence of negative externalities**
 - C. They are always positive in nature**
 - D. They have no impact on public policy**

Answers

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

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Explanations

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1. What is "marginal cost"?

- A. The total cost of producing all units of a good
- B. The cost of producing one additional unit of a good or service**
- C. The average cost per unit produced
- D. The fixed cost of production

Marginal cost refers specifically to the cost associated with producing one additional unit of a good or service. It is a fundamental concept in economics because it helps businesses determine the optimal level of production. By analyzing marginal cost, firms can assess whether producing an additional unit would be profitable compared to the revenue generated from selling that extra unit. When marginal cost is less than the price at which the product can be sold, it typically indicates that increasing production could lead to greater overall profits. The understanding of marginal cost is crucial in decision-making processes for businesses as they seek to maximize efficiency and profitability in production. This concept aids in resource allocation, pricing strategies, and assessing economies of scale. In contrast, other options illustrate different cost concepts: the total cost encompasses all expenses incurred in production, the average cost divides total costs by the quantity produced, and fixed costs represent expenses that do not change with production levels. All these aspects are important in the broader context of economics, but they do not directly define the additional costs incurred from producing one more unit, which is the essence of marginal cost.

2. A bakery has fixed costs of \$5,000 per month and variable costs of \$1.00 per loaf of bread. How much profit will the bakery earn if it sells 5,000 loaves of bread per month at \$2.00 per loaf?

- A. \$1,000 per month
- B. \$500 per month
- C. \$0 per month**
- D. -\$1,000 per month

To determine the profit earned by the bakery, we first need to calculate the total revenue, total costs, and then find the profit by subtracting the total costs from total revenue. The total revenue can be calculated by multiplying the number of loaves sold by the price per loaf. In this case, the bakery sells 5,000 loaves at \$2.00 each, resulting in a total revenue of: $5,000 \text{ loaves} \times \$2.00/\text{loaf} = \$10,000$. Next, we need to calculate the total costs, which include both fixed and variable costs. The fixed costs are given as \$5,000 per month, and the variable costs are \$1.00 per loaf. Since the bakery sells 5,000 loaves, the total variable costs are: $5,000 \text{ loaves} \times \$1.00/\text{loaf} = \$5,000$. Now, we sum the fixed and variable costs to get the total costs: $\text{Total costs} = \text{Fixed costs} + \text{Variable costs}$ $\text{Total costs} = \$5,000 + \$5,000 = \$10,000$. Finally, we calculate the profit by subtracting the total costs from the total revenue: $\text{Profit} = \text{Total revenue} - \text{Total costs}$ $\text{Profit} =$

3. What factor does not contribute to economic growth?

- A. Technological innovation
- B. Improvements in productivity
- C. Higher interest rates**
- D. Increases in human capital

Higher interest rates do not contribute to economic growth and can often have the opposite effect. When interest rates are increased, the cost of borrowing money rises. This typically leads to reduced spending by consumers and businesses, as loans become more expensive. As a result, investment in new projects, expansion of businesses, and consumer spending all may decline, which can slow down economic growth. In contrast, factors such as technological innovation and improvements in productivity directly enhance the efficiency and output of the economy. Technological advancements can lead to new products and services, while better productivity means that more can be produced with the same amount of resources. Additionally, increases in human capital, which relate to education, skills, and experience of the workforce, contribute to a more efficient and innovative economy, ultimately driving growth. These factors support a sustainable increase in economic activity, while higher interest rates generally hinder it.

4. What does "economic efficiency" refer to?

- A. A situation where resources are wasted
- B. The ability to produce more with the same resources
- C. An optimal allocation of resources where it is impossible to make any one individual better off without making someone else worse off**
- D. The maximum output with minimal input

Economic efficiency is defined as an optimal allocation of resources where it is impossible to make one individual better off without making someone else worse off, also known as Pareto efficiency. This concept emphasizes that resources are being utilized in a way that maximizes the overall benefit to society. In this scenario, any reallocation of resources that could potentially improve the situation for one person would necessarily detract from another, underscoring the idea of balanced resource distribution. In contexts of economic efficiency, the focus is often on achieving the best possible outcomes without unnecessary waste or loss. Achieving this optimal state requires careful management of resources to ensure that they are being used in the most effective manner possible. This principle is central to various economic theories and illustrates the complexity of resource allocation in economic systems. Other choices highlight different aspects of economic concepts but do not capture the full meaning of economic efficiency as succinctly. For instance, the notion of producing more with the same resources relates to productivity but not necessarily to the welfare or distribution of resources among individuals. The idea of maximum output with minimal input pertains to productivity efficiency but does not encapsulate the necessary balance of welfare among individuals. Likewise, mentioning wasted resources contradicts the core principle of efficiency, which inherently seeks to minimize waste and maximize

5. What are "investments" in economic terms?

- A. Short-term financial transactions and loans
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- C. Government expenditures on public services
- D. Personal savings accounts with low interest

Investments in economic terms refer to the allocation of resources, typically money, with the expectation of generating income or profit over time. This concept is foundational in economics as it encompasses a variety of activities, such as purchasing stocks, bonds, or real estate, and engaging in business ventures designed to yield returns. By committing funds to these opportunities, individuals or organizations anticipate a future benefit, often in the form of financial gain. This perspective is essential as it highlights the proactive engagement with resources to leverage future wealth creation and economic growth. Other options, while related to financial activities, do not encapsulate the broad definition of investments. For example, short-term financial transactions and loans represent specific types of financial activities rather than the broader strategy of generating profit through resource allocation. Government expenditures focus on spending allocated for public services, which may not directly correlate with profit generation. Similarly, personal savings accounts earn interest but do not actively engage in the investment process aimed at generating higher returns compared to the potential growth achieved through diverse investments.

6. What is the primary distinction between nominal GDP and real GDP?

- A. Nominal GDP is adjusted for inflation
- B. Real GDP is measured at current prices
- C. Nominal GDP is measured at constant prices
- D. Nominal GDP is measured at current prices**

The primary distinction between nominal GDP and real GDP lies in how they account for price changes over time, specifically inflation or deflation. Nominal GDP is measured using current prices, meaning it reflects the total market value of all final goods and services produced in a country within a given time period, evaluated at the prices that exist at that time. This makes nominal GDP sensitive to price level changes; if prices rise due to inflation, nominal GDP may indicate growth simply due to higher prices rather than an actual increase in production. In contrast, real GDP adjusts for inflation by using constant prices from a specific base year. This adjustment allows for a more accurate reflection of an economy's true growth in terms of the quantity of goods and services produced, as it removes the effects of price level changes. Therefore, the correct understanding is that nominal GDP is measured at current prices, distinguishing it from real GDP, which is adjusted for inflation.

7. Which of the following is an example of a nontariff import barrier?

- A. Raising taxes on imported products**
- B. Requiring special safety checks on all imported products**
- C. An import tax levied on a service instead of a product**
- D. An embargo**

Requiring special safety checks on all imported products exemplifies a nontariff import barrier, as it involves conditions and regulations that must be met for goods to enter a country without imposing a direct tax. Nontariff barriers are trade restrictions that do not involve tariffs but can significantly impact the flow of imports. Such regulations can include health and safety standards, customs procedures, and specific technical requirements that products must comply with to be sold in a market. In this context, the requirement for safety checks adds a layer of compliance that can discourage or limit imports by increasing the costs and complexities of bringing products into the market. This is particularly relevant in industries where consumer safety is a priority, and regulators want to ensure high standards are met. Consideration of the other options helps clarify why they do not fit as nontariff barriers. Raising taxes on imported products directly influences the price of imports through tariff measures, while an import tax levied on a service also represents a form of tariff barrier, even if it's applied to services instead of goods. An embargo, on the other hand, is a complete restriction on trade with a specific country or the exchange of specific products and is generally enforced through legal and governmental means, representing a more extreme form of

8. Define "comparative advantage."

- A. The ability to produce a good using fewer resources than another producer**
- B. The ability to carry out a particular economic activity at a lower opportunity cost than another**
- C. A situation where a country can produce everything more efficiently than others**
- D. The determination of which goods can be traded between nations**

Comparative advantage refers to the ability of an individual, firm, or country to carry out a particular economic activity at a lower opportunity cost than another entity. This concept highlights that even if one country is less efficient in producing all goods compared to another country, it can still benefit from specialization and trade by focusing on the goods it produces relatively more efficiently. For instance, if Country A can produce both cars and textiles but has a much lower opportunity cost for textiles, while Country B has a lower opportunity cost for cars, both countries can benefit from specializing in what they produce best and trading with each other. This mutual specialization allows countries to enjoy a greater total output and variety of goods. The other provided options do not align with the definition of comparative advantage; they focus on absolute efficiency or trade logistics rather than the core principle of opportunity cost, which is essential to understanding why comparative advantage is such a crucial element in international trade and economics.

9. In a market economy, what primarily determines prices?

- A. Government regulations**
- B. Consumer preferences**
- C. Supply and demand**
- D. Historical trends**

In a market economy, prices are primarily determined by the forces of supply and demand. This fundamental economic principle states that the price of a good or service is established at the point where the quantity supplied by producers meets the quantity demanded by consumers. When demand for a product increases and supply remains constant, prices tend to rise as consumers are willing to pay more. Conversely, if supply exceeds demand, prices generally fall as sellers compete to attract buyers. Understanding supply and demand dynamics is crucial because they reflect consumer behavior and production capacity. If consumers suddenly desire more of a product, they may bid up prices, prompting producers to manufacture more to meet this new demand. Likewise, shifts in production costs or technology can influence supply, impacting market prices accordingly. This is a clear representation of how a market-based economy operates without central planning, where individual buyers and sellers make decisions that inherently shape market conditions leading to price determination.

10. Which of the following statements about externalities is correct?

- A. They only affect the parties involved in the transaction**
- B. They can lead to market failure in the presence of negative externalities**
- C. They are always positive in nature**
- D. They have no impact on public policy**

The correct statement regarding externalities is that they can lead to market failure in the presence of negative externalities. Externalities refer to costs or benefits that affect third parties who did not choose to incur that cost or benefit. When negative externalities are present, such as pollution from a factory affecting nearby residents, the true costs of production are not reflected in the market price. This discrepancy can result in overproduction of goods that generate negative externalities, leading to market failure, where resources are not allocated efficiently. In contrast to this concept, the other statements do not hold true. Externalities indeed affect third parties beyond those directly involved in a transaction, suggesting that they do not only involve the parties in the transaction. Additionally, externalities can be negative or positive; not all externalities are beneficial. Lastly, externalities typically influence public policy significantly, as governments often intervene to correct the inefficiencies caused by them, such as implementing regulations or taxes to address negative externalities.