

# Honor Economics Practice Exam (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. Which market structure is characterized by a single seller, high barriers to entry, and no competition?**
  - A. Monopoly**
  - B. Pure (Perfect) Competition**
  - C. Monopolistic Competition**
  - D. Oligopoly**
  
- 2. Which term is 'A group of buyers and sellers of a particular good or service'?**
  - A. Allocate**
  - B. Market**
  - C. Resources**
  - D. Command**
  
- 3. Which statement accurately describes how the Consumer Price Index (CPI) is measured?**
  - A. CPI excludes housing costs and tracks only food and energy prices.**
  - B. CPI measures changes in the prices of all goods and services in the economy as a whole.**
  - C. CPI tracks changes in the price of a fixed basket of goods over time.**
  - D. CPI is the same as the unemployment rate.**
  
- 4. Where does the marginal cost curve intersect the average total cost curve?**
  - A. At the minimum of ATC.**
  - B. At the maximum of ATC.**
  - C. It never intersects.**
  - D. It is always above ATC.**
  
- 5. If a firm has economies of scale, what happens to average costs as output increases?**
  - A. Average costs rise as output increases.**
  - B. Average costs stay constant as output increases.**
  - C. Average costs fall as output increases.**
  - D. Economies of scale do not affect average costs.**

- 6. Which term means 'To distribute according to some plan or system'?**
- A. Specialization**
  - B. Allocate**
  - C. Market**
  - D. Economics**
- 7. Which law states that suppliers offer more of a good at higher prices?**
- A. Law of Diminishing Returns**
  - B. Law of Demand**
  - C. Law of Supply**
  - D. Law of Scarcity**
- 8. When does a country's currency appreciate?**
- A. Supply of the domestic currency rises**
  - B. Domestic inflation rises**
  - C. Demand for the domestic currency rises**
  - D. Demand for foreign currencies rises relative to the domestic currency**
- 9. In a market with upward-sloping supply and downward-sloping demand, a leftward shift in demand due to a decrease in consumer income will lead to what effect on equilibrium price and quantity, ceteris paribus?**
- A. Price falls and quantity falls.**
  - B. Price falls but quantity rises.**
  - C. Price rises and quantity falls.**
  - D. Price rises and quantity rises.**
- 10. Which policy would most directly increase a country's potential output in the long run?**
- A. Increase government spending.**
  - B. Tax incentives for investment and deregulation.**
  - C. Import restrictions.**
  - D. Increase tariffs.**

## Answers

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

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## **Explanations**

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1. Which market structure is characterized by a single seller, high barriers to entry, and no competition?

**A. Monopoly**

**B. Pure (Perfect) Competition**

**C. Monopolistic Competition**

**D. Oligopoly**

**Monopoly.** The key idea is that one firm dominates the entire market, facing little to no competition. High barriers to entry prevent others from entering, so the sole seller can influence price and output without rival firms eroding their position. In this setup there aren't close substitutes available, and new entrants can't easily challenge the dominant firm. By contrast, markets with many sellers (pure/perfect competition or monopolistic competition) or a few large firms (oligopoly) still have some competition or interdependence among firms, not a single seller.

2. Which term is 'A group of buyers and sellers of a particular good or service'?

**A. Allocate**

**B. Market**

**C. Resources**

**D. Command**

**A market** is the arena where buyers and sellers of a particular good or service interact to make exchanges. In a market, demand from consumers meets supply from producers, and the price that results expresses the balance between how much people want the good and how much is available. This price serves as a signal and incentive, guiding decisions about production and consumption. The other terms don't fit this concept: allocate is about distributing resources, resources are inputs used to produce goods, and command implies an order from authority, not a place where voluntary exchange occurs.

3. Which statement accurately describes how the Consumer Price Index (CPI) is measured?

**A. CPI excludes housing costs and tracks only food and energy prices.**

**B. CPI measures changes in the prices of all goods and services in the economy as a whole.**

**C. CPI tracks changes in the price of a fixed basket of goods over time.**

**D. CPI is the same as the unemployment rate.**

**CPI** measures changes in the cost of living by following a fixed basket of goods and services that reflect what households typically buy. By keeping the basket constant, any rise or fall in the index comes from price changes, not from people switching what they purchase. The basket is weighted to match average spending patterns and prices are collected for a broad range of items—housing, food, transportation, and more—so the index shows how much the typical consumer's purchases would cost over time. This is different from other measures like the GDP deflator, which covers all produced goods and services and uses current quantities, or the unemployment rate, which tracks labor market conditions rather than prices.

**4. Where does the marginal cost curve intersect the average total cost curve?**

- A. At the minimum of ATC.**
- B. At the maximum of ATC.**
- C. It never intersects.**
- D. It is always above ATC.**

The key idea is how marginal cost relates to the average total cost. If the cost of producing one more unit is below ATC, that extra unit pulls ATC down; if it's above ATC, it pushes ATC up. The only point where ATC stops falling and starts rising is when MC equals ATC. At that exact quantity, ATC reaches its lowest point, so the intersection occurs at the minimum of ATC. The other statements don't fit because the ATC curve's minimum isn't a maximum, MC isn't always above ATC, and MC does cross ATC at that single minimum point.

**5. If a firm has economies of scale, what happens to average costs as output increases?**

- A. Average costs rise as output increases.**
- B. Average costs stay constant as output increases.**
- C. Average costs fall as output increases.**
- D. Economies of scale do not affect average costs.**

Economies of scale means that as a firm increases production, its average cost per unit falls. This happens because fixed costs are spread over more units, making each unit cheaper, and because larger output can bring efficiency gains like specialization, learning, and bulk purchasing. So, when output rises, the average cost tends to decrease. If average costs rose with more output, that would indicate diseconomies of scale; if they stayed constant, that would imply constant returns to scale. But with economies of scale, the trend is clearly downward.

**6. Which term means 'To distribute according to some plan or system'?**

- A. Specialization**
- B. Allocate**
- C. Market**
- D. Economics**

Allocating describes the act of distributing resources according to a plan or system. It captures the purposeful step of assigning inputs to different uses or areas based on a set plan. Specialization is about focusing on a particular task to improve efficiency, not the act of distributing. The market refers to the overall system where goods and services are bought and sold, which influences distribution but isn't the action itself. Economics is the broader study of how resources are used and distributed, not the specific process of distributing according to a plan. For example, a government budget allocates funds to education, defense, and health according to a plan, illustrating allocation in action.

**7. Which law states that suppliers offer more of a good at higher prices?**

- A. Law of Diminishing Returns**
- B. Law of Demand**
- C. Law of Supply**
- D. Law of Scarcity**

The main idea is that suppliers respond to higher prices by offering more of the good, all else equal. When the price increases, the potential profit from selling each unit is higher, so producing and selling more units becomes worthwhile. That incentive pushes the quantity supplied upward, which is why the supply curve slopes upward: higher prices motivate firms to expand production or allocate more resources to that good. This behavior holds in typical market conditions, though real-world limits like capacity can cap how much can be increased. The other options don't describe this producer-side response. The law of diminishing returns deals with how adding more inputs to a fixed resource eventually yields less additional output, not with how price affects supply. The law of demand describes how, all else equal, higher prices reduce the quantity demanded by consumers, not how producers respond. The law of scarcity refers to the fundamental problem of limited resources and unlimited wants, not the specific price-quantity relationship of supply.

**8. When does a country's currency appreciate?**

- A. Supply of the domestic currency rises**
- B. Domestic inflation rises**
- C. Demand for the domestic currency rises**
- D. Demand for foreign currencies rises relative to the domestic currency**

Appreciation happens when the domestic currency strengthens against other currencies, and the key driver is demand for that currency. When more buyers want to hold the domestic currency—perhaps because higher interest rates, better growth prospects, or safer assets attract investors—the currency's price in foreign exchange rises. As demand increases, the value of the domestic currency goes up, meaning it can buy more foreign currency. If the domestic currency's supply rises, its value would fall rather than rise. Higher domestic inflation tends to reduce the currency's value as it erodes purchasing power and can lower demand relative to foreign currencies. Likewise, if demand for foreign currencies rises relative to the domestic one, people exchange domestic currency for foreign currency more, leading to depreciation of the domestic currency.

**9. In a market with upward-sloping supply and downward-sloping demand, a leftward shift in demand due to a decrease in consumer income will lead to what effect on equilibrium price and quantity, ceteris paribus?**

- A. Price falls and quantity falls.**
- B. Price falls but quantity rises.**
- C. Price rises and quantity falls.**
- D. Price rises and quantity rises.**

When consumer income falls, the demand for goods decreases at every price, so the demand curve shifts left. With the supply curve sloping upward, the market must settle at a new intersection where both price and quantity are lower. At the lower price, producers supply less, so the equilibrium quantity falls as well. Thus the net effect is a drop in both price and quantity. The other outcomes would require a shift in either the supply curve or the opposite direction of the demand shift, which isn't the scenario described.

**10. Which policy would most directly increase a country's potential output in the long run?**

- A. Increase government spending.**
- B. Tax incentives for investment and deregulation.**
- C. Import restrictions.**
- D. Increase tariffs.**

Long-run potential output is driven by the economy's capacity to produce: capital stock, technology, and efficiency. Policies that directly expand this capacity—like encouraging more investment and reducing unnecessary regulatory obstacles—shift the economy's long-run supply outward. Tax incentives for investment spur firms to add to capital and adopt new technologies, while deregulation lowers the costs and delays of productive activity. Over time, these effects build the capital base and improve productivity, raising potential output. In contrast, increasing government spending mainly stimulates demand and can boost short-run output without reliably raising future capacity; and import restrictions or higher tariffs typically reduce efficiency and hamper long-run growth by limiting trade and the spread of ideas and technologies.

## 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](mailto:hello@examzify.com).**

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

**<https://honoreconomics.examzify.com>**

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

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