ONRAMPS ECONOMICS COLLEGE PRACTICE EXAM (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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

1. Profit-maximizing quantity is found where

A. MR = MC

B. Price equals marginal cost

C. Total revenue equals total cost

D. ATC equals price

2. Allocative efficiency is defined as

A. Achieving productive efficiency

B. Maximizing total profits

C. Producing the optimal quantity of some output

D. Producing the maximum quantity of output

3. Which of the following is an explicit cost?

A. Costs paid out of pocket

B. Wages paid by a firm

C. Payments that are actually made

D. Depreciation as non-cash expense

4. Ronald Coase argued that clearly defined laws would give parties incentive to

A. Internalize externalities

B. Reduce transaction costs

C. Expand government intervention

D. Create litigation

5. Which of the following is NOT listed as a solution to monopoly?

A. Break up monopoly

B. Reduce barriers to entry

C. Regulate the market

D. Nationalize the industry

6. What does marginal revenue represent?

A. Total revenue from all units sold

B. Revenue per unit sold on average

C. The incremental revenue from selling one additional unit

D. The maximum possible revenue if all units are sold

7. What is rent seeking?

A. Rent seeking is an activity that creates wealth by innovation and productivity.

B. Rent seeking is an economic concept that occurs when an entity seeks to gain wealth without making any contribution to the benefit of society.

C. Rent seeking is price discrimination in markets.

D. Rent seeking refers to government taxation to fund public goods.

8. How does the average variable cost curve help a firm know whether it should shut down immediately?

A. Shut down when price is below AVC

B. Shut down when price equals ATC

C. Shut down when price is above AVC

D. Shut down when AVC is decreasing

9. A price taker operates in which market structure when there are no barriers to entry?

A. Monopoly

B. Oligopoly

C. Competitive market

D. Monopolistic competition

10. If a negative externality exists, an unregulated firm tends to produce more than the social optimum and charge a price that is

A. greater than the social optimum; price is too high

B. greater than the social optimum; price is too low

C. less than the social optimum; price is too high

D. equal to the social optimum; price reflects social costs

Answers

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

Explanations

1. Profit-maximizing quantity is found where

A. MR = MC

B. Price equals marginal cost

C. Total revenue equals total cost

D. ATC equals price

Profit-maximizing output comes from balancing the extra revenue you get from selling one more unit with the extra cost of producing that unit. This balance occurs when marginal revenue equals marginal cost. If the additional revenue from one more unit, MR, is greater than the additional cost, MC, producing one more unit raises profit, so you should keep increasing output. If MR is less than MC, producing another unit would reduce profit, so you should cut back. The point where they are equal is the best tradeoff, giving the highest possible profit. Why the other ideas don't capture the maximization focus: total revenue equaling total cost would give zero profit, which is not about maximizing how much profit you earn. The idea that price equals marginal cost is a related condition in some models (like perfect competition) where MR equals price, but the general profit-maximizing rule is MR = MC. The condition ATC equals price describes zero profit in a specific long-run equilibrium, not the profit-maximizing level of output.

2. Allocative efficiency is defined as

A. Achieving productive efficiency

B. Maximizing total profits

C. Producing the optimal quantity of some output

D. Producing the maximum quantity of output

Allocative efficiency is achieved when the quantity produced of a good is the one that society values most, meaning the benefit from one more unit equals the cost of producing that unit. This is the optimal quantity where marginal benefit equals marginal cost: producing more would add more cost than benefit, and producing less would leave additional value untapped. So the defining idea is producing the optimal quantity of some output. The other ideas describe producing at the lowest possible cost for a given output (productive efficiency), maximizing profits for a firm, or producing the maximum possible output, none of which capture the balance between value and cost that allocative efficiency requires.

3. Which of the following is an explicit cost?

A. Costs paid out of pocket

B. Wages paid by a firm

C. Payments that are actually made

D. Depreciation as non-cash expense

Explicit costs are the actual cash outlays a firm makes to obtain resources for production. They involve money changing hands in the production process, such as paying wages, rent, or materials. Depreciation is not an explicit cost because it is a non-cash expense—an accounting allocation of the wear on capital rather than a current cash payment. The best description of an explicit cost is "payments that are actually made," since it highlights the cash transactions that define explicit costs. Wages paid by a firm are also explicit costs, because they are payments that are made. Costs paid out of pocket convey the same idea, but the key is that explicit costs require real cash payments in the period.

4. Ronald Coase argued that clearly defined laws would give parties incentive to

A. Internalize externalities

B. Reduce transaction costs

C. Expand government intervention

D. Create litigation

The main idea is that clearly defined property rights give people a direct incentive to bargain over spillover effects, so externalities are internalized through private negotiation. When laws spell out who owns what and what rights each party has, those affected by a positive or negative externality can bargain to reach a deal that reflects the true costs and benefits of their actions. If transaction costs are low, the bargaining leads to an outcome where private decisions align with social costs and benefits, making the external effect part of the market price. So the incentive is to internalize externalities—to incorporate the external costs or benefits into private decisions through voluntary exchange. While clearer laws can also lower the costs of bargaining, that's the enabling condition, not the main incentive.

5. Which of the following is NOT listed as a solution to monopoly?

A. Break up monopoly

B. Reduce barriers to entry

C. Regulate the market

D. Nationalize the industry

The issue this question tests is how policymakers counter monopoly power to improve welfare. The standard ways are to increase competition or regulate the market. Breaking up a monopoly directly reduces market power by turning one strong firm into several, more competitive firms. Making it easier for new rivals to enter the market changes the competitive dynamics, preventing a single firm from keeping prices high. Regulating the market imposes rules on price or output to curb the monopolist's ability to charge excessive prices, aiming to imitate competitive outcomes even when true competition isn't present. Nationalizing the industry—putting it under government ownership—is not typically listed as a standard remedy in this context. While government ownership could eliminate private monopoly power, it replaces private control with a public monopoly and can bring different inefficiencies and political incentives. In basic discussions of remedies to monopoly, it isn't treated as one of the usual policy options, which is why it's not considered the correct choice here.

6. What does marginal revenue represent?

A. Total revenue from all units sold

B. Revenue per unit sold on average

C. The incremental revenue from selling one additional unit

D. The maximum possible revenue if all units are sold

Marginal revenue is the incremental money a firm earns from selling one more unit. It's the change in total revenue when quantity sold increases by one. For example, if total revenue rises from 10 to 18 dollars when you add one unit, the marginal revenue of that additional unit is 8 dollars. This concept explains why marginal revenue can be less than the price: lowering the price to sell more units often reduces revenue on all units, not just the extra one. In perfect competition, marginal revenue equals the price, while in other market structures MR typically declines as output rises. Firms use MR to decide how much to produce, aiming for the output level where marginal revenue equals marginal cost.

7. What is rent seeking?

A. Rent seeking is an activity that creates wealth by innovation and productivity.

B. Rent seeking is an economic concept that occurs when an entity seeks to gain wealth without making any contribution to the benefit of society.

C. Rent seeking is price discrimination in markets.

D. Rent seeking refers to government taxation to fund public goods.

Rent seeking is trying to increase one's wealth by shaping laws, regulations, or policies rather than by producing something of value. It means obtaining economic rents—profits above normal return—through political influence, subsidies, licenses, or monopolies, which shifts wealth to the rent-seeker without adding overall value to society. For example, lobbying for a tariff, a patent extension, or a protected market restricts competition and raises profits, but does not create new wealth. In contrast, true wealth creation comes from innovation and productive work, not from manipulating rules. It's not about price discrimination or simply funding public goods through taxation; those capture or allocate resources in different ways, whereas rent seeking specifically relies on obtaining favorable treatment through the political process.

8. How does the average variable cost curve help a firm know whether it should shut down immediately?

A. Shut down when price is below AVC

B. Shut down when price equals ATC

C. Shut down when price is above AVC

D. Shut down when AVC is decreasing

The key idea is that, in the short run, a firm must cover its variable costs to stay afloat. The average variable cost (AVC) curve shows the per-unit variable cost at each output level, and the lowest point of that curve is the shutdown price. If the market price falls below that minimum, the firm cannot cover its variable costs no matter how much it produces, so producing would add losses beyond the fixed costs. Shutting down then minimizes losses to just the fixed costs. If the price is at or above the minimum AVC, the firm can cover its variable costs by producing, so it should continue operating (preserving the ability to contribute to fixed costs and potentially earn a profit if price is high enough).

9. A price taker operates in which market structure when there are no barriers to entry?

A. Monopoly

B. Oligopoly

C. Competitive market

D. Monopolistic competition

In a market with no barriers to entry, many firms compete and no single firm can influence the going price. Each firm takes the market price as given and cannot set it on its own, which is the hallmark of a price taker. This situation describes a competitive market: product is often similar across sellers, there are no restrictions that keep new competitors out, and free entry or exit ensures profits, if any, are driven to zero in the long run. Because new firms can enter freely, if profits appear, more sellers enter and supply increases, pushing the price down until only normal profits remain. That dynamic—price taking plus free entry—defines the competitive market structure. Monopolies have one seller and barriers to entry, so the firm can set price. Oligopolies feature a few firms with interdependent pricing and entry barriers. Monopolistic competition has many firms, but product differentiation gives each firm some price-making power, not a perfect price taker.

10. If a negative externality exists, an unregulated firm tends to produce more than the social optimum and charge a price that is

A. greater than the social optimum; price is too high

B. greater than the social optimum; price is too low

C. less than the social optimum; price is too high

D. equal to the social optimum; price reflects social costs

When there's a negative externality, the social cost of producing a good is higher than the private cost faced by the firm. The firm ignores those extra costs, so it tends to produce more than what's socially optimal. The price the firm charges is based on its private marginal cost, not the higher social cost. That makes the price too low relative to the value society places on the good once external costs are counted. So you get too much output and a price that doesn't reflect the full social cost—the price is too low and quantity is too high compared to the social optimum.

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://onrampseconomicscollege.examzify.com

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