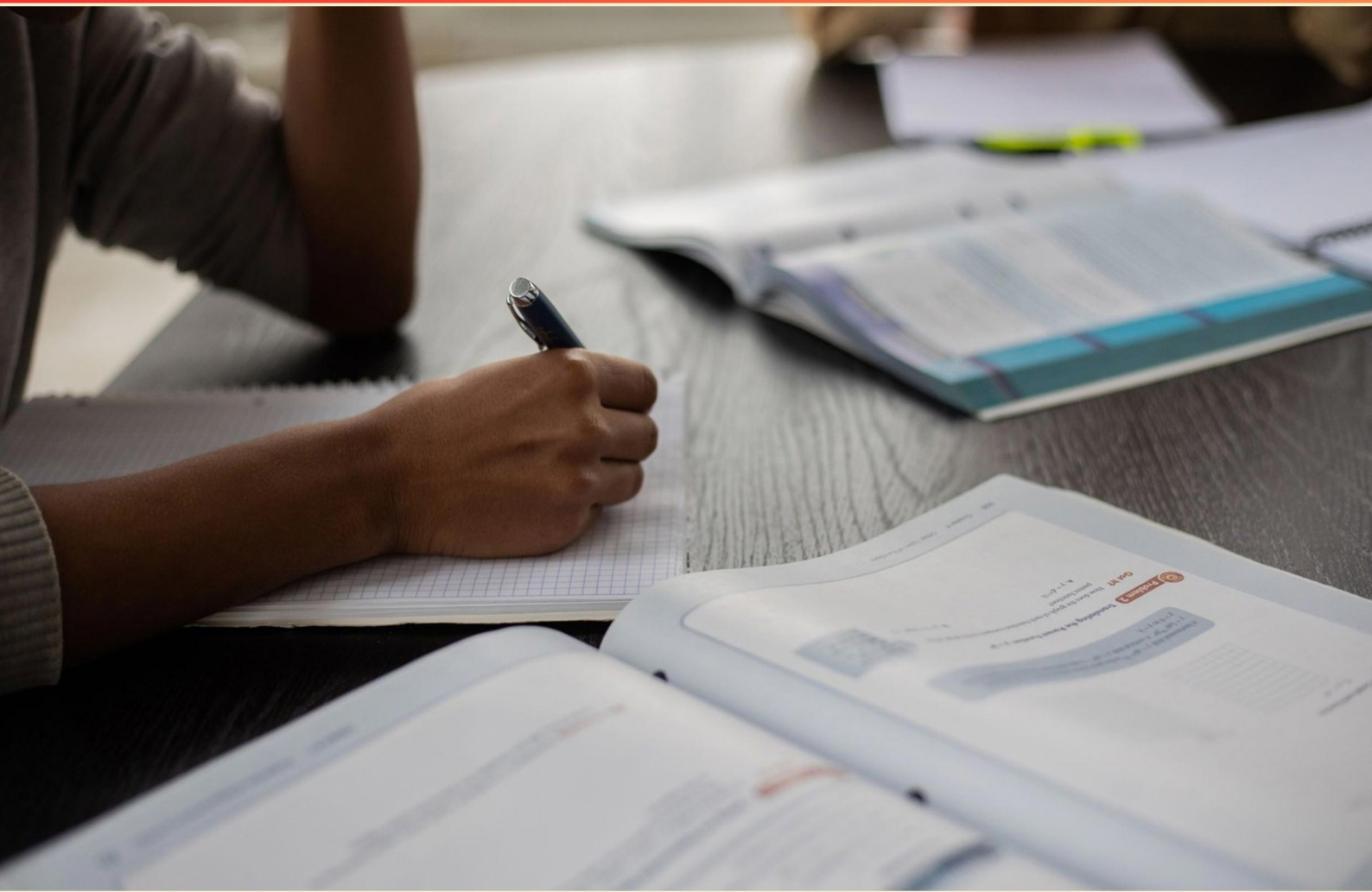


TEXAS A&M UNIVERSITY (TAMU) ECON202 PRINCIPLES OF ECONOMICS PRACTICE EXAM 1 (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE

<https://tamu-econ202-exam1.examzify.com>



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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. In which situation would the price elasticity of supply likely be high?**
 - A. When production can be quickly increased
 - B. When resources are scarce
 - C. When there are few firms in the market
 - D. When fixed costs are high
- 2. What is the formula for Opportunity Cost?**
 - A. Number of units produced x Price
 - B. Number of units given up x Price
 - C. Market price per unit x Total units sold
 - D. Cost of production - Revenue generated
- 3. Why are oil markets considered very inelastic?**
 - A. There is an unlimited supply of oil
 - B. Drilling new wells takes time, making output adjustments difficult
 - C. Consumers can easily switch to alternative energy sources
 - D. Government regulations are not strict
- 4. In what scenario does the demand for luxury goods tend to be more elastic?**
 - A. When the demand is absolutely necessary
 - B. When substitutes are unavailable
 - C. When it significantly affects a budget
 - D. When consumers have other options available
- 5. What is the formula for comparative advantage?**
 - A. (What we gain) / (What we can produce)
 - B. (What we give up) / (If we make)
 - C. (If we make) / (What we gain)
 - D. (Total output) / (Total input)
- 6. When a sharp increase in supply is generated, what is the likely outcome?**
 - A. Large increase in quantity and price
 - B. Significant fall in price with minimal change in quantity
 - C. Stability in both price and quantity
 - D. Decrease in total market demand

7. What is key to achieving efficiency in an economy?

- A. Government intervention
- B. Investing other people's money
- C. People investing their own money
- D. Increasing regulations

8. What does a budget constraint represent?

- A. The maximum price a consumer can pay
- B. The total income available to spend
- C. The set of things a person can afford
- D. The limitation of goods in the market

9. What is the focus of positive economics?

- A. It is concerned with prescriptive statements about what should be
- B. It emphasizes subjective opinions and beliefs
- C. It deals with objective statements about the world that can be tested
- D. It focuses on abstract theories and models

10. What are the two main reasons for concentrated production?

- A. Economy of demand and consumer preferences
- B. Economy of specialization and repetition
- C. Increased consumer choice
- D. Decreased market competition

Answers

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

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Explanations

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1. In which situation would the price elasticity of supply likely be high?

A. When production can be quickly increased

B. When resources are scarce

C. When there are few firms in the market

D. When fixed costs are high

The price elasticity of supply measures how responsive the quantity supplied of a good is to a change in its price. A high price elasticity of supply indicates that producers can increase the quantity supplied quickly when prices rise. When production can be quickly increased, suppliers can respond to price changes swiftly, which results in a larger percentage change in the quantity supplied compared to the percentage change in price. This situation typically arises in industries where production processes are flexible, inputs are readily available, and production capacity can be expanded without significant delays or costs. As a result, demand surges may lead to rapid adjustments in supply, showcasing a high elasticity. In contrast, scenarios involving scarce resources, few firms in the market, or high fixed costs generally lead to lower price elasticity of supply because they restrict the ability to adjust output in response to price changes. Scarce resources can limit production capacity, few firms can mean less competition and potentially less incentive to expand quickly, and high fixed costs can make it more difficult for producers to increase output without incurring significant costs.

2. What is the formula for Opportunity Cost?

A. Number of units produced x Price

B. Number of units given up x Price

C. Market price per unit x Total units sold

D. Cost of production - Revenue generated

Opportunity cost refers to the value of the next best alternative that is foregone when a choice is made. In economic terms, it quantifies what you give up in order to pursue a certain action or decision, typically measured in terms of the benefits associated with that alternative. The correct choice highlights that opportunity cost is calculated by considering the number of units given up multiplied by their price. This emphasizes that when you choose to allocate resources (such as time, money, or effort) towards one option, the cost is not just the monetary expense but also includes the potential earnings or value derived from the alternative that was not chosen. For instance, if an individual decides to invest time in studying for a degree instead of working, the opportunity cost includes the income that could have been earned during that time, which can be expressed in terms of the units of work (such as hours) declined and the wage rate per hour. This understanding of opportunity cost is crucial in economics, as it helps individuals and businesses to make more informed decisions by weighing the potential benefits and costs of different choices.

3. Why are oil markets considered very inelastic?

- A. There is an unlimited supply of oil
- B. Drilling new wells takes time, making output adjustments difficult**
- C. Consumers can easily switch to alternative energy sources
- D. Government regulations are not strict

Oil markets are considered very inelastic primarily because drilling new wells takes time, making it difficult for producers to quickly adjust their output in response to changing prices. Inelasticity in this context means that even significant changes in price lead to relatively small changes in the quantity of oil supplied. When oil prices increase, producers may want to increase production to take advantage of higher prices. However, the process of exploring for new oil fields, obtaining permits, and drilling new wells is not immediate. This long lead time means that the supply of oil cannot be quickly ramped up or down, leading to inelastic supply characteristics in the short run. In contrast, the other options suggest factors that do not enhance inelasticity. The idea of unlimited supply is misleading as real-world oil supply is constrained by finite resources. The ease of switching to alternative energy sources implies a more elastic demand, as consumers can adjust their energy choices if prices rise. Lastly, strict government regulations can affect the oil market, but they typically do not directly correlate with the fundamental inelastic nature of oil supply in response to price changes.

4. In what scenario does the demand for luxury goods tend to be more elastic?

- A. When the demand is absolutely necessary
- B. When substitutes are unavailable
- C. When it significantly affects a budget
- D. When consumers have other options available**

The demand for luxury goods tends to be more elastic when consumers have other options available. This elasticity occurs because luxury goods are non-essential items that individuals can choose to purchase or forgo based on their preferences and the prices of substitutes. When alternatives exist, consumers are more sensitive to changes in price; if the price of a luxury item rises, they can easily switch to a different product that fulfills a similar desire or need without the financial burden. In contrast, if luxury goods are considered absolutely necessary or if no substitutes are available, the demand does not exhibit significant elasticity. Similarly, when luxury purchases significantly impact a consumer's budget, they might still prioritize them but may be more constrained by their financial situation, leading to relatively inelastic demand. Thus, the presence of readily available alternatives enhances sensitivity to price changes, which is the defining characteristic of elastic demand in this context.

5. What is the formula for comparative advantage?

- A. (What we gain) / (What we can produce)
- B. (What we give up) / (If we make)**
- C. (If we make) / (What we gain)
- D. (Total output) / (Total input)

The concept of comparative advantage is critical in economics as it helps determine how individuals or nations can gain from trade. The formula for comparative advantage involves comparing the opportunity costs of producing goods, which is represented as what is given up in order to produce another good. In this context, the correct component to identify comparative advantage is assessing the trade-offs between the production of different goods. Specifically, the formula captures the idea that comparative advantage is found when a party can produce a good at a lower opportunity cost than another party. Therefore, the ratio of what is given up (the opportunity cost of producing another good) to what can be produced (the good being analyzed) essentially lays out the foundation for determining who has the comparative advantage in producing a particular good. This understanding allows for better resource allocation and specialization, leading to more effective trade strategies. Ultimately, by identifying who can produce what good with a lower opportunity cost, parties can engage in trade that benefits them both, maximizing total output.

6. When a sharp increase in supply is generated, what is the likely outcome?

- A. Large increase in quantity and price
- B. Significant fall in price with minimal change in quantity**
- C. Stability in both price and quantity
- D. Decrease in total market demand

When there is a sharp increase in supply, it typically leads to a significant fall in price due to the basic principles of supply and demand. As the supply curve shifts to the right, the market becomes saturated with more goods available than before. This surplus causes sellers to compete by lowering prices to attract buyers, which generally results in a decreased price level in the market. While the quantity of goods available for sale increases, the price decline can be significant enough that the overall quantity demanded may not change drastically, especially in the short term. Therefore, even though the supply has increased, the primary and notable outcome is the significant fall in price. This option reflects the economic principle that, in an oversupplied market, price falls to encourage demand, while the quantity may only increase slightly or remain relatively stable in response to the price change, depending on consumer preferences.

7. What is key to achieving efficiency in an economy?

- A. Government intervention
- B. Investing other people's money
- C. People investing their own money**
- D. Increasing regulations

Achieving efficiency in an economy hinges on the principle that individuals and firms tend to utilize resources in a way that maximizes their own utility or profit. When people invest their own money, they are more likely to make decisions that reflect their interests, risk preferences, and estimated returns. This personal stake fosters a sense of responsibility and encourages careful consideration of how best to allocate resources, leading to more efficient outcomes. When individuals use their own funds, they also directly experience the consequences of their investment choices, which promotes a more efficient allocation of resources in response to supply and demand conditions. These personal investments often drive innovation, productivity, and competitive practices, thus enhancing overall economic efficiency. In comparison, options like government intervention or increasing regulations may sometimes lead to inefficiencies due to bureaucratic delays or misalignment with market forces. Investing other people's money can result in a disconnect between the investor and the investment outcomes, as the lack of personal financial stakes may lead to riskier or less prudent decision-making. Therefore, the greatest potential for efficiency arises when individuals are incentivized to invest their own resources.

8. What does a budget constraint represent?

- A. The maximum price a consumer can pay
- B. The total income available to spend
- C. The set of things a person can afford**
- D. The limitation of goods in the market

A budget constraint represents the set of things a person can afford given their income and the prices of goods and services. It illustrates the trade-offs a consumer faces when deciding how to allocate their resources among various options. The budget constraint delineates the combinations of goods that can be purchased without exceeding the available budget. Understanding this concept is crucial in economics because it informs consumer choices and highlights the idea of opportunity cost—the notion that choosing one option inevitably comes at the expense of another. The area inside the budget constraint area represents affordable combination points, while points outside the constraint are unattainable given the consumer's budget. This visual representation helps explain fundamental principles of consumer behavior and decision-making processes in economics.

9. What is the focus of positive economics?

- A. It is concerned with prescriptive statements about what should be
- B. It emphasizes subjective opinions and beliefs
- C. It deals with objective statements about the world that can be tested**
- D. It focuses on abstract theories and models

Positive economics focuses on objective statements about the economy that can be tested and validated through observation and evidence. It seeks to understand how economic systems operate by analyzing data and making factual claims about economic behavior and relationships without making judgments about whether those outcomes are desirable or not. For instance, positive economics might study the relationship between unemployment rates and inflation, examining how changes in one variable can statistically correlate with changes in another. This approach allows economists to develop theories based on empirical evidence, which can then be evaluated through data analysis. In contrast, prescriptive elements of economics would fall under normative economics, which involves opinions about what ought to be. Similarly, emphasizing subjective opinions steers away from the objectivity that defines positive economics. While abstract theories and models can be useful, they need to be grounded in observable phenomena to contribute effectively to positive economics. Therefore, the focus on objective statements makes positive economics distinct and reinforces its role in providing a factual basis for understanding economic behavior.

10. What are the two main reasons for concentrated production?

- A. Economy of demand and consumer preferences
- B. Economy of specialization and repetition**
- C. Increased consumer choice
- D. Decreased market competition

Concentrated production is primarily driven by the economy of specialization and repetition, which enhances efficiency and productivity. When a production process is concentrated, it allows workers and machines to specialize in specific tasks. This specialization means that each worker or machine can become highly skilled and efficient in their designated role, leading to faster production times and lower costs per unit. Furthermore, repetition in production processes helps firms optimize their operations. As tasks are repeated, systems and workflows can be refined, which minimizes errors and waste. This synergy between specialization and repetition results in significant increases in output, allowing businesses to benefit from scale economies. By concentrating production, companies can produce goods at a lower cost, ultimately benefiting both the firm and consumers by offering goods at more competitive prices. In summary, the combination of specialization and the advantages gained from repetitive processes stands as the foundational reasoning behind the concept of concentrated production.

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://tamu-econ202-exam1.examzify.com>

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

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