

Western Governors University (WGU) ECON2000 D089 Principles of 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. What is the term for individuals employed in jobs that offer fewer hours than they desire?**
 - A. Cyclical Unemployment**
 - B. Underemployed**
 - C. Discouraged Workers**
 - D. Frictional Unemployment**

- 2. What is the primary effect of expansionary monetary policy?**
 - A. Decrease in aggregate demand**
 - B. Increase in unemployment rates**
 - C. Increase in money supply and decrease in interest rates**
 - D. Reduction in national debt**

- 3. What is achieved when a government collects more money in taxes than it spends in a given year?**
 - A. Budget Deficit**
 - B. Budget Surplus**
 - C. Balanced Budget**
 - D. Phillips Curve**

- 4. The aggregate demand curve represents what aspect of the economy?**
 - A. The supply of goods only**
 - B. Spending on domestic goods and services**
 - C. Government expenditures only**
 - D. International trade balances**

- 5. What describes the relationship identified in the Law of Diminishing Marginal Returns?**
 - A. Increased input leads to higher average costs**
 - B. Increased input leads to decreased output**
 - C. Increased input leads to decreased marginal output**
 - D. Increased input leads to higher marginal costs**

6. What economic issue is defined as stagflation?

- A. High inflation with low unemployment**
- B. High inflation with high unemployment**
- C. Low inflation with high growth**
- D. Low inflation with low unemployment**

7. Which term describes a legal limit set by the government on how high the price of a product can be?

- A. Price Floor**
- B. Price Ceiling**
- C. Rent Control**
- D. Subsidy**

8. The downward (negative) slope of the production possibility frontier represents which economic principle?

- A. The Law of Diminishing Returns**
- B. Marginal Cost**
- C. Opportunity Cost**
- D. Supply**

9. What financial instruments are referred to collectively as securities?

- A. Stocks and bonds**
- B. Mutual funds**
- C. Derivatives**
- D. Currency**

10. Who is a wholesaler?

- A. A retailer who sells directly to consumers**
- B. A person or company that sells goods in large quantities to retailers**
- C. An individual who imports goods from abroad**
- D. A government official who regulates product sales**

Answers

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

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Explanations

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1. What is the term for individuals employed in jobs that offer fewer hours than they desire?

- A. Cyclical Unemployment**
- B. Underemployed**
- C. Discouraged Workers**
- D. Frictional Unemployment**

The term "underemployed" refers to individuals who are working in jobs that do not provide the desired number of hours or full utilization of their skills and education. This can encompass part-time workers who wish to work full-time, those in jobs that significantly underuse their qualifications, or both. Recognizing someone as underemployed highlights a mismatch between the individual's skills, availability, and the job opportunities actually accessible to them. Understanding this concept is crucial because it can affect economic measurements like the unemployment rate. While underemployed individuals are not counted among the officially unemployed, their situation reflects a form of economic distress and inefficiency that can impact overall productivity and labor market health. Identifying underemployment is important for policymakers and economists to ensure that the labor market functions effectively and that workers can find opportunities that match their skills and desired working hours.

2. What is the primary effect of expansionary monetary policy?

- A. Decrease in aggregate demand**
- B. Increase in unemployment rates**
- C. Increase in money supply and decrease in interest rates**
- D. Reduction in national debt**

The primary effect of expansionary monetary policy is an increase in the money supply and a decrease in interest rates. When a central bank, such as the Federal Reserve, implements expansionary monetary policy, it aims to stimulate economic activity. This is typically done by lowering interest rates and increasing the money supply through mechanisms such as open market operations, where the central bank buys government securities. As interest rates decrease, borrowing becomes cheaper for consumers and businesses. This encourages spending and investment, leading to an increase in aggregate demand. With more money circulating in the economy, businesses are more likely to invest in new projects, and consumers are more likely to spend rather than save. This overall boost in economic activity can help combat recessions or slow economic growth. In contrast, a decrease in aggregate demand is generally tied to contractionary policies aimed at cooling down an overheating economy, and an increase in unemployment rates can occur when there is reduced economic activity or during contractions. Lastly, reduction in national debt is typically a fiscal policy concern rather than a direct effect of monetary policy, as it relates more to government spending and taxation. Thus, the increase in money supply and decrease in interest rates encapsulate the primary goal and effect of expansionary monetary policy.

3. What is achieved when a government collects more money in taxes than it spends in a given year?

- A. Budget Deficit**
- B. Budget Surplus**
- C. Balanced Budget**
- D. Phillips Curve**

When a government collects more money in taxes than it spends in a given year, this situation is referred to as a budget surplus. A budget surplus occurs when the revenue generated from taxes exceeds the government's expenditures, indicating that the government is operating with a financial gain rather than a loss. This surplus can serve various purposes, such as paying down public debt, saving for future needs, or funding new initiatives without the need for additional borrowing. A budget surplus is usually seen as a positive economic indicator, suggesting that the government is managing its finances prudently and has extra funds that can be allocated for public services or investments. In contrast, a budget deficit occurs when expenditures surpass revenues, indicating that the government is borrowing or using reserves to finance its operations. A balanced budget occurs when revenues equal expenditures, meaning the government neither has a surplus nor a deficit. The Phillips curve, on the other hand, relates to the relationship between inflation and unemployment and does not pertain to government budget figures.

4. The aggregate demand curve represents what aspect of the economy?

- A. The supply of goods only**
- B. Spending on domestic goods and services**
- C. Government expenditures only**
- D. International trade balances**

The aggregate demand curve represents the total quantity of goods and services demanded across all levels of the economy at varying price levels. It illustrates the relationship between the overall price level in the economy and the total amount of spending on domestic goods and services. This curve encompasses all components of demand in the economy, including consumption by households, investment by businesses, government spending, and net exports (exports minus imports). When the price level decreases, the quantity of goods and services demanded typically increases, and vice versa. Thus, the aggregate demand curve effectively captures the overall spending behavior of consumers and businesses in the domestic economy, making it a crucial tool for understanding economic activity and fluctuations. In contrast, other options focus only on specific components or aspects of the economy, such as supply or government expenditures, and therefore do not encompass the broader concept of aggregate demand represented in option B.

5. What describes the relationship identified in the Law of Diminishing Marginal Returns?

- A. Increased input leads to higher average costs**
- B. Increased input leads to decreased output**
- C. Increased input leads to decreased marginal output**
- D. Increased input leads to higher marginal costs**

The Law of Diminishing Marginal Returns illustrates a fundamental principle in production and economics, stating that as more of a variable input is added to a fixed amount of resources, the additional output generated from that input will eventually begin to decline. In this context, when an additional unit of input is utilized—such as labor or raw materials—the gain in output (or marginal output) initially increases, but after a certain point, the effectiveness of that added input begins to drop. This decline in additional output occurs because the fixed inputs become saturated, and there are limits to how much productivity can improve when just one factor of production is increased. By stating that increased input leads to decreased marginal output, the correct answer encapsulates this critical observation of production dynamics. It captures the essence of the law, particularly emphasizing that while total output may continue to increase with more inputs, the rate at which it increases—the marginal output—will begin to diminish, leading to a less efficient production process. Understanding this relationship is essential for making informed decisions in resource allocation and optimizing production levels.

6. What economic issue is defined as stagflation?

- A. High inflation with low unemployment**
- B. High inflation with high unemployment**
- C. Low inflation with high growth**
- D. Low inflation with low unemployment**

Stagflation is defined as an economic condition characterized by high inflation coupled with high unemployment. This situation is particularly challenging for policymakers because the typical tools used to combat inflation, such as increasing interest rates, can further exacerbate unemployment. Conversely, measures aimed at reducing unemployment, like increasing government spending, can worsen inflation. Stagflation reflects a stagnation in economic growth combined with the detrimental effects of rising prices, making it a unique and complex economic issue. Understanding this phenomenon is crucial for analyzing and addressing fluctuations in economic performance and inflation rates within an economy.

7. Which term describes a legal limit set by the government on how high the price of a product can be?

- A. Price Floor
- B. Price Ceiling**
- C. Rent Control
- D. Subsidy

The term that describes a legal limit set by the government on how high the price of a product can be is a price ceiling. A price ceiling is established to protect consumers from excessively high prices for essential goods or services, ensuring they remain affordable. For instance, if the market price of housing or staple goods rises significantly, a government may implement a price ceiling to keep those prices below a certain level, which helps ensure access for consumers. This intervention can prevent prices from reaching a point where they may no longer be affordable for many people. While other options like rent control are specific applications of price ceilings, particularly in the housing market, and subsidies refer to financial support provided by the government to encourage production or consumption, the broader term for limiting a price to prevent it from rising too high is indeed price ceiling. Price floors, on the other hand, indicate the minimum price that can be charged for a good or service, which is a different concept altogether.

8. The downward (negative) slope of the production possibility frontier represents which economic principle?

- A. The Law of Diminishing Returns
- B. Marginal Cost
- C. Opportunity Cost**
- D. Supply

The downward (negative) slope of the production possibility frontier (PPF) illustrates the concept of opportunity cost. As production shifts from one good to another, the resources must be reallocated, which often leads to a decrease in the quantity of the good being forgone. The curve illustrates that to produce more of one good, the economy must reduce the production of another good, indicating that there is a trade-off involved. This trade-off demonstrates that resources are limited and cannot be used simultaneously for the production of both goods. The steeper the slope at any given point on the PPF, the higher the opportunity cost of producing one good over the other, highlighting the fundamental economic principle that choices must be made due to scarcity. The downward slope effectively communicates the idea that as you produce more of one good, you give up quantities of another, which is the essence of opportunity cost in economics.

9. What financial instruments are referred to collectively as securities?

- A. Stocks and bonds**
- B. Mutual funds**
- C. Derivatives**
- D. Currency**

The term "securities" refers to a broad category of financial instruments that represent an ownership position, a creditor relationship, or rights to ownership. Stocks and bonds are the primary forms of securities. Stocks represent ownership in a company, providing shareholders with voting rights and a claim on future earnings in the form of dividends. Bonds, on the other hand, are debt instruments that involve borrowing funds from investors for a defined period in exchange for periodic interest payments and the return of the bond's face value upon maturity. The significance of classifying stocks and bonds together as securities lies in their regulation and the roles they play in financial markets. Both are traded on exchanges and are used by companies and governments to raise capital from investors. This classification helps streamline the regulatory frameworks governing these instruments, ensuring investor protection and market integrity. Other financial instruments like mutual funds, derivatives, and currency do not fall under the same primary definition. While mutual funds invest primarily in stocks and bonds and derive their value from them, they are considered a collection of securities rather than securities themselves. Derivatives are financial contracts whose value is derived from the price movements of underlying assets, which may include securities but are distinct from them. Currency pertains to the medium of exchange used in transactions and isn't classified as

10. Who is a wholesaler?

- A. A retailer who sells directly to consumers**
- B. A person or company that sells goods in large quantities to retailers**
- C. An individual who imports goods from abroad**
- D. A government official who regulates product sales**

A wholesaler is defined as a person or company that sells goods in large quantities to retailers or other businesses rather than to individual consumers. This role is critical in the supply chain as it allows manufacturers to efficiently distribute their products on a larger scale. Wholesalers typically buy in bulk and benefit from lower prices, which they can then offer to retailers, who in turn mark up the price for end consumers. This relationship helps reduce the need for producers to interact directly with every retailer and allows for a streamlined distribution process. The other options do not accurately represent the role of a wholesaler. Retailers, for example, engage directly with consumers rather than with other businesses, while importing goods pertains to a different function within trade. Additionally, government officials involved in regulation do not operate within the buying and selling functions that characterize wholesaling. Therefore, the definition provided in the correct answer encompasses the essential functions and characteristics of what a wholesaler is.

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://wgu-econ2000-d089.examzify.com>

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

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