WESTERN GOVERNORS UNIVERSITY (WGU) ECON2000 D089 PRINCIPLES OF ECONOMICS 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. What serves as a starting point from which changes in prices are measured?

A. Cost of Living Adjustments

B. Base Year

C. Quality and New Goods Bias

D. Purchasing Power

2. What does it mean when an economic transaction results in a negative externality?

A. A third party benefits without consent

B. A third party incurs costs that were not anticipated

C. All parties involved gain equally

D. The goods produced are sold at a loss

3. How does government borrowing impact private sector investment?

A. It encourages more investment by lowering interest rates

B. It diverts funds from the private sector as interest rates may rise

C. It has minimal effect on private investment

D. It leads to deregulation and facilitates growth

4. Which of the following best describes a central bank?

A. It is a private institution that offers loans to individuals

B. It regulates the supply of money and issues currency

C. It is responsible for collecting taxes for the government

D. It acts as a retail bank for the general public

5. What impacts the average costs of production in the long run?

A. Only variable costs

B. The size and structure of the firm

C. The price of raw materials

D. The number of competitors

6. What defines flat money?

A. It is a type of currency backed by physical commodities
B. It has intrinsic value as determined by market forces
C. It has no intrinsic value and is declared by the government as legal tender
D. It is a form of digital currency without any regulatory oversight

7. What is the goal of a subsidy provided by the government?

A. To increase competition among businesses
B. To provide financial support and promote certain sectors
C. To regulate the prices of essential goods
D. To lower income tax rates

8. What is the primary focus of economics as a field of study?

A. Distribution of wealth among nations
B. How humans make decisions in the face of scarcity
C. Investment strategies for individuals and businesses
D. Government regulations on market behavior

9. What best defines a 'price setter' in economic terms?

A. A firm with no power over price
B. A firm that must accept market prices
C. A firm that can influence price based on its output
D. A firm that follows competitors' pricing

10. How can a productive process be defined?

A. As the extraction of resources from the environment
B. As the combination of inputs that creates a product of greater value
C. As the sale of products at retail
D. As the financial management of goods

Answers

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

Explanations

1. What serves as a starting point from which changes in prices are measured?

A. Cost of Living Adjustments

B. Base Year

C. Quality and New Goods Bias

D. Purchasing Power

The correct answer is the base year, which serves as a foundational reference point for measuring changes in prices over time. When analyzing inflation or assessing economic performance, economists often select a specific year as the base year. This year is used as a benchmark against which the prices of goods and services are compared in subsequent years. Using a base year allows for the calculation of various economic indices, such as the Consumer Price Index (CPI) or the GDP deflator, which help to quantify inflation rates and assess how the cost of living changes over time. By keeping one year constant, it becomes easier to observe and discuss price changes and the real value of money in relation to that year, enhancing the accuracy of economic analysis and decision-making. Understanding the concept of a base year is essential for interpreting economic data properly. It provides clarity on how much prices have risen or fallen since that reference point, making it a crucial element in economic studies and discussions.

2. What does it mean when an economic transaction results in a negative externality?

A. A third party benefits without consent

B. A third party incurs costs that were not anticipated

C. All parties involved gain equally

D. The goods produced are sold at a loss

When an economic transaction results in a negative externality, it signifies that a third party incurs costs that were not anticipated or considered by the parties directly involved in the transaction. This often occurs in situations where the actions of one party impose unintended consequences—usually harmful—on others who did not agree to or benefit from those actions. For instance, if a factory produces goods but simultaneously pollutes a nearby river, the surrounding community may experience health problems or diminished quality of life without any compensation or acknowledgment from the factory. These unaccounted costs can result in social inefficiency and indicate a market failure because the price of the goods doesn't reflect all the costs associated with production. This concept highlights the importance of considering the broader impact of economic activities, as those who do not participate directly in the transaction may suffer negative consequences.

3. How does government borrowing impact private sector investment?

A. It encourages more investment by lowering interest rates

B. It diverts funds from the private sector as interest rates may rise

C. It has minimal effect on private investment

D. It leads to deregulation and facilitates growth

Government borrowing impacts private sector investment significantly by influencing interest rates and the availability of capital. When a government borrows, it typically issues bonds to finance its activities. This increased demand for funds can lead to higher interest rates because the supply of available capital for private borrowers decreases. As interest rates rise, borrowing costs for businesses and consumers become more expensive. Consequently, private investment may decline as companies may find it less attractive to finance new projects or expansion due to these higher costs. Additionally, higher interest rates can discourage consumer spending on big-ticket items, further impacting businesses' investment plans. This phenomenon can be understood through the concept of "crowding out," where government borrowing competes with the private sector for financing. As the government borrows more, it tends to absorb a larger portion of the available financial resources, leaving less for private investment. This diverting of available funds can hinder economic growth if private sector investment is stifled due to higher costs associated with government borrowing. Thus, this choice accurately captures the dynamics at play in how government borrowing can adversely affect private investment by potentially raising interest rates.

4. Which of the following best describes a central bank?

A. It is a private institution that offers loans to individuals

B. It regulates the supply of money and issues currency

C. It is responsible for collecting taxes for the government

D. It acts as a retail bank for the general public

A central bank is fundamentally characterized by its role in regulating the supply of money and issuing currency. This institution is tasked with managing a nation's monetary policy, which includes controlling interest rates, overseeing inflation, and stabilizing the currency. By adjusting the money supply, a central bank can influence economic activity, aiming to promote sustainable growth and reduce economic volatility. The issuance of currency is another critical function; it ensures that there is a stable medium of exchange within the economy. Central banks typically operate independently from the government to preserve the integrity of monetary policy. This independence allows them to make decisions based on economic indicators rather than political pressures, which is vital for the health of the economy. In contrast, other options do not capture the primary functions of a central bank. For example, while private institutions may offer loans, a central bank focuses on broader economic stability rather than individual lending. Similarly, the responsibility for tax collection falls under the purview of government agencies, not central banks. Lastly, central banks do not act as retail banks for the general public; rather, they serve as banks for commercial banks and government entities, facilitating financial system stability rather than engaging in consumer banking services.

5. What impacts the average costs of production in the long run?

A. Only variable costs

B. The size and structure of the firm

C. The price of raw materials

D. The number of competitors

The average costs of production in the long run are significantly influenced by the size and structure of the firm. In the long run, firms can adjust all factors of production, which allows them to achieve economies of scale or face diseconomies of scale depending on how efficiently they manage their resources as they expand. As a firm grows and increases its production, it may benefit from reduced average costs per unit due to factors such as bulk purchasing of inputs, improved operational efficiencies, or better utilization of resources. The organizational structure of the firm also plays a crucial role, as it determines how effectively management can coordinate production, streamline processes, and implement cost-saving technologies or practices. While variable costs, raw material prices, and the number of competitors can influence costs in a period of production, these factors have less impact on average costs over the long term compared to the more systemic elements brought about by the firm's size and structure. A larger firm may also diversify its production and spread fixed costs over a larger output, further impacting average costs positively when scaling up. Therefore, understanding how firm size and organizational structure influence costs is essential for analyzing average costs in the long run.

6. What defines flat money?

A. It is a type of currency backed by physical commodities

B. It has intrinsic value as determined by market forces

C. It has no intrinsic value and is declared by the government as legal tender

D. It is a form of digital currency without any regulatory oversight

Flat money is correctly defined as currency that has no intrinsic value and is declared by the government as legal tender. This means that it is not backed by a physical commodity like gold or silver; instead, its value comes from the trust and confidence that people have in the government that issues it. The government establishes it as legal tender, which means it must be accepted as payment for debts and goods within the country. This characteristic of flat money allows it to function effectively in an economy, as it provides a stable medium of exchange. Because it is not tied to a commodity, the money supply can be managed more flexibly by the central bank, adjusting it in response to economic conditions. This ability to control the money supply is crucial for managing inflation, employment, and overall economic growth. Other options refer to different monetary concepts. For example, backing by physical commodities pertains to commodity money, while intrinsic value refers to the market perception of worth, which does not apply to flat money. The idea of a form of digital currency without regulation is not related to flat money and instead relates more to cryptocurrencies or other forms of digital finance.

7. What is the goal of a subsidy provided by the government?

A. To increase competition among businesses

B. To provide financial support and promote certain sectors

C. To regulate the prices of essential goods

D. To lower income tax rates

The goal of a subsidy provided by the government is primarily to provide financial support and promote certain sectors. Subsidies are financial aids supplied by the government to encourage the production or consumption of goods and services in specific industries deemed important for economic and social reasons. For instance, agricultural subsidies help farmers maintain their livelihoods and ensure food security, while renewable energy subsidies promote the development of sustainable energy sources. By offering these financial supports, the government can influence economic activity and direct resources toward desired areas, effectively shaping market conditions and encouraging growth in sectors that may be pivotal for national interests, employment, or innovation. This approach not only helps the targeted sectors but can also contribute to overall economic stability and development by enhancing public welfare through accessibility of essential services and products.

8. What is the primary focus of economics as a field of study?

A. Distribution of wealth among nations

B. How humans make decisions in the face of scarcity

C. Investment strategies for individuals and businesses

D. Government regulations on market behavior

The primary focus of economics is on how humans make decisions in the face of scarcity. Scarcity, which arises because resources are limited while human wants are infinite, is a fundamental concept in economics. This discipline examines how individuals, businesses, and governments allocate their limited resources to meet their needs and desires. The essence of economic study lies in understanding the trade-offs and opportunities involved in decision-making processes. Individuals must evaluate what to consume, how much to save, and which jobs to take based on their circumstances and the constraints they face. Similarly, businesses assess how best to utilize their resources to maximize profits in a competitive environment. This core focus on decision-making under scarcity allows economists to analyze a wide range of phenomena, from consumer behavior and market trends to the effects of policy changes. The other options are more specific aspects of economics. Distribution of wealth among nations addresses a particular outcome of economic interactions, investment strategies concern personal finance within the larger context of economic decision-making, and government regulations relate to how rules are established to manage economic activities rather than the foundational principles of how decisions are made.

9. What best defines a 'price setter' in economic terms?

A. A firm with no power over price

B. A firm that must accept market prices

C. A firm that can influence price based on its output

D. A firm that follows competitors' pricing

A price setter is best defined as a firm that can influence price based on its output. This ability arises in markets that are not purely competitive, primarily in monopolistic and oligopolistic environments, where companies have some degree of market power. Unlike price takers, which must accept the market price as given, price setters can adjust their production levels to affect the overall supply and, consequently, the price in the market. For example, if a firm with price-setting power decides to reduce its output, it may lead to a rise in prices due to the decreased supply. Conversely, if it increases output, it could lower prices by putting more of the good on the market. This interaction highlights how strategic decisions about output can shape market prices, making the firm a price setter rather than a mere price taker, which cannot influence prices in such a manner.

10. How can a productive process be defined?

A. As the extraction of resources from the environment

B. As the combination of inputs that creates a product of greater value

C. As the sale of products at retail

D. As the financial management of goods

A productive process can be defined as the combination of inputs that creates a product of greater value because it emphasizes the fundamental concept of production in economics. In this context, "inputs" refer to the resources used in the production process, which can include labor, raw materials, machinery, and technology. The goal of combining these inputs is to produce a final product that is more valuable than the sum of its individual parts or resources. This idea aligns with the principles of value creation in economics, where the transformation of raw materials and resources into finished goods or services enables businesses to generate profit and meet consumer demand. The emphasis on value creation illustrates how effective production processes enhance efficiency, innovation, and economic growth. In contrast, other options focus on concepts that do not encapsulate the essence of a productive process. For instance, extracting resources from the environment pertains more to the initial stage of production rather than the combination of inputs. Selling products at retail represents a different aspect of the supply chain and does not directly address how value is generated during production. Similarly, financial management of goods deals with the allocation and handling of resources but does not directly define the productive process itself.

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!