

I. Multiple Choice

1. By studying the history of economics, one can hope to gain
  - a. an idea of which ideas last
  - b. an understanding of the creative process
  - c. a better understanding of contemporary theory via the shortcomings of past theories
  - d. a and b
  - e. all of the above
  
2. The word “economics” comes from the Greeks and means:
  - a. business management
  - b. growth management
  - c. household management
  - d. financial management
  
3. The water-diamond paradox which Adam Smith explained was first alluded to by:
  - a. Jevons
  - b. Xenophon
  - c. Plato
  - d. Aristotle
  - e. Protagoras
  
4. Plato attributes the origin of a city to
  - a. an authoritarian society
  - b. self-sufficiency
  - c. specialization and the division of labor
  - d. a self-regulating market system
  - e. all of the above
  
5. David Friedman has argued that the Scholastic notion of just price was a substitute for \_\_\_\_\_ at a time when markets were not yet sufficiently developed to guarantee socially efficient results.
  - a. the regulated market price
  - b. fairness
  - c. unregulated, competitive market prices
  - d. monopoly pricing
  
6. Ekelund, Hébert, and Tollison’s analysis of the medieval Church’s policy on usury concludes that the Church selectively enforced the usury doctrine because
  - a. it was able to keep its own cost of funds low
  - b. it served as a barrier to entry
  - c. it aided in preserving the Church’s monopoly status
  - d. all of the above
  - f. none of the above

7. The policy approach to mercantilism:
  - a. sees mercantilism as a mixture of static ideas and a historical process.
  - b. sees mercantilism as a historical process comprised of competing interests and economic and political institutions.
  - c. sees mercantilism as a static set of ideas of the day.
  - d. contends that mercantilism was replaced by other ideas.
  
8. Which of the following is not a tenet of the doctrinal approach:
  - a. that a large, working population be encouraged.
  - b. that imports of foreign goods be discouraged.
  - c. that export of gold and silver be encouraged rather than circulating as domestic currency.
  - d. that the country utilize its soil for agriculture, mining, and manufacturing.
  
9. The "utility of poverty" maintained that:
  - a. keeping the working class poor increased the utility of the aristocrats.
  - b. the working class lived better in poverty and would be morally ruined with high wages.
  - c. suffering was therapeutic.
  - d. a and b
  - e. b and c
  
10. When rent-seeking occurs, the gains to the interest group are:
  - a. positively related to the size of the group.
  - b. transfers from the government to the group.
  - c. transfers from the consumers of the regulated product to the group.
  - d. transfers from the politician to the group.
  
11. The doctrinal view attributes the decline of mercantilism to:
  - a. the high cost of enforcing regulation.
  - b. technological innovation.
  - c. institutional change which resulted from rent-seeking
  - d. it loss of intellectual respectability.
  
12. The policy view attributes the decline of mercantilism to:
  - a. its loss of intellectual respectability.
  - b. institutional change which resulted from rent-seeking
  - c. the onset of liberalism.
  - d. the difficulty of enforcing regulation.
  
13. Petty's "political arithmetic" was meant to express the idea that:
  - a. the use of quantitative methods would produce a less rigorous analysis of social phenomena.
  - b. the use of analytical methods would produce a more rigorous analysis of social phenomena.
  - c. the use of analytical methods would not alter an analysis of social phenomena.
  - d. the use of quantitative methods would produce a more rigorous analysis of social phenomena.

14. Petty's major contribution to monetary theory was:
- the use of the idea of velocity of circulation of money to determine the optimum quantity of money
  - recognition of the relationship between the quantity of money and the level of prices.
  - an understanding that money constitutes an absolute measure of value.
  - identifying the accumulation of money as an end in itself.
15. The role of prices in Cantillon's analysis of the market system is to:
- regulate the market.
  - act as signals to economic actors.
  - minimize the risk borne by the entrepreneur.
  - none of the above.
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17. Physiocracy is defined as:
- the rule of the market.
  - the rule of logic.
  - the rule of nature.
  - the rule of physics.
18. While writing before Smith, Campomanes was an advocate for \_\_\_\_\_ and \_\_\_\_\_.
- self interest / free trade in input and product markets
  - wage differentials / division of labor
  - division of labor / self interest
  - free trade in input and product markets / wage differentials
19. According to the majority view, Smith's *Wealth of Nations* \_\_\_\_\_ the *Theory of Moral Sentiments*.
- is a logical extension of
  - is in conflict with
  - is completely unrelated to
  - none of the above
20. In Smith's *Theory of Moral Sentiments*, \_\_\_\_\_ holds self-interest in check, whereas in *The Wealth of Nations*, \_\_\_\_\_ serves this purpose.
- morality / division of labor
  - sympathy / division of labor
  - morality / competition
  - sympathy / competition
  - sympathy / production

21. The discrepancy between value-in-use and value-in-exchange was not solved by the classical economists because they
- overlooked marginal valuations
  - only focused on marginal valuations
  - didn't believe in value in use
  - believed value was derived from the demand for a good
22. Smith's concept of natural price is similar to the modern notion of the long-run supply curve as being
- vertical
  - positively sloped
  - negatively sloped
  - horizontal
23. According to Smith \_\_\_\_\_ produces a tangible good of market value whereas \_\_\_\_\_ results in the production of intangibles, such as services.
- the wages fund / natural price
  - productive labor / the wages fund
  - productive labor / unproductive labor
  - market price / unproductive labor
24. The division of labor arises directly from
- continued specialization.
  - a growing population.
  - a propensity of human nature to exchange.
  - unproductive labor.
25. In Smith's analysis, effectual demand is the demand of buyers who are willing to
- pay the natural price.
  - pay the nominal price.
  - pay the market price.
  - pay the real price.



3. True or false and WHY? What Adam Smith detested about mercantilism was its focus on the founding and defense of the nation state.

4. True or false and WHY? Adam Smith, between the 1759 publication of *The Theory of Moral Sentiments* and the 1776 publication of *An Inquiry Into the Nature and Causes of the Wealth of Nations*, changed his mind about how the commercial world works.

