



Michigan

TEST FOR TEACHER CERTIFICATION
STUDY GUIDE

07 Economics



TABLE OF CONTENTS

PART 1: General Information About the MTTC Program and Test Preparation

| | |
|--|------------|
| OVERVIEW OF THE TESTING PROGRAM | 1-1 |
| Contact Information | |
| Test Development Process | |
| Characteristics of the Tests | |
| Test Administration | |
| Score Reporting | |
| HOW TO PREPARE FOR THE TESTS | 1-4 |
| Plan Your Course of Study | |
| THE DAY OF THE TEST: HELPFUL HINTS..... | 1-5 |
| Preparing for the Test Administration | |
| Test-Taking Tips | |
| Test Directions | |

PART 2: Test Objectives and Sample Test Questions

| | |
|---|-------------|
| INTRODUCTION | 2-1 |
| TEST OBJECTIVES | 2-3 |
| SAMPLE MULTIPLE-CHOICE TEST QUESTIONS..... | 2-7 |
| ANSWER KEY FOR THE SAMPLE MULTIPLE-CHOICE TEST QUESTIONS | 2-19 |
| ACKNOWLEDGMENTS..... | 2-20 |

Readers should be advised that this study guide, including many of the excerpts used herein, is protected by federal copyright law.

Copyright © 2007 Pearson Education, Inc. or its affiliate(s). All rights reserved.
National Evaluation Systems, P.O. Box 226, Amherst, MA 01004

PART 1: General Information About the MTTC Program and Test Preparation

The first section of the study guide is available in a separate PDF file. Click the link below to view or print this section.

[General Information About the MTTC Program and Test Preparation](#)

PART 2: Test Objectives and Sample Test Questions

INTRODUCTION

This section includes a list of the test objectives, immediately followed by sample test questions and an answer key for the field covered by this study guide.

Test Objectives

As noted, the test objectives are broad, conceptual statements that reflect the knowledge, skills, and understanding an entry-level teacher needs in order to teach effectively in a Michigan classroom. Each field's list of test objectives represents the **only** source of information about what a specific test will cover and, therefore, should be studied carefully.

The test objectives are organized into groups known as "subareas." These subareas define the major content areas of the test. You will find a list of subareas at the beginning of the test objective list. The percentages shown in the list of subareas indicate the approximate weighting of the subareas on the test.

Sample Multiple-Choice Test Questions

The sample multiple-choice test questions included in this section are designed to give the test-taker an introduction to the nature of the test questions included on the MTTC test for each field. The sample test questions represent the various types of test questions you may expect to see on an actual test; however, they are **not** designed to provide diagnostic information to help you identify specific areas of individual strengths and weaknesses or predict your performance on the test as a whole. Use the answer key that follows the sample test questions to check your answers.

To help you identify which test objective is being assessed, the objective statement to which the question corresponds is listed in the answer key. When you are finished with the sample test questions, you may wish to go back and review the entire list of test objectives and descriptive statements once again.

TEST OBJECTIVES

| Subarea | Approximate Percentage of Questions on Test |
|--|---|
| Individual and Household Economics | 20% |
| Business Economics | 20% |
| Macroeconomics and International Economics | 20% |
| History, Geography, and Political Science Perspectives | 20% |
| Inquiry, Information Processing, and Issue Analysis | 20% |

INDIVIDUAL AND HOUSEHOLD ECONOMICS

Understand basic principles and concepts relating to individual and household economics.

Includes defining fundamental economics terms (e.g., opportunity costs, disposable income), describing basic economic concepts (e.g., scarcity, demand), and analyzing fundamental principles of personal and household finance (e.g., saving, investing, risk management).

Understand how scarcity and choice affect personal financial decisions.

Includes analyzing the decision-making process, recognizing opportunity costs in a given situation, evaluating the reliability of financial information, developing personal financial plans and goals, analyzing career opportunities, and choosing among various personal financial options.

Understand how scarcity and choice affect consumer decisions regarding the purchase, use, and disposal of goods and services and affect the economic well-being of individuals and society.

Includes analyzing purchasing options, identifying consumer protection laws and agencies, analyzing consumer purchasing trends, describing types and techniques of consumer marketing and advertising, evaluating sources of consumer information, and analyzing the effects on individuals and society of various consumer choices (e.g., health care, housing, energy use, recycling).

BUSINESS ECONOMICS

Understand basic principles and concepts relating to business economics.

Includes identifying characteristics of various types of business organization (e.g., partnership, corporation), defining fundamental business economics terms (e.g., scarcity, supply, diminishing returns, marginal costs), analyzing the business cycle, describing business functions (e.g., marketing, distribution), and recognizing the role of business in the U.S. and Michigan economies.

Understand how businesses confront scarcity and choice when organizing, producing, and using resources.

Includes analyzing factors and decisions relating to how businesses choose what to produce, how to produce, and for whom to produce goods and services; analyzing organizational structures; recognizing quantitative decision-making methods used by business (e.g., cost-benefit analysis); analyzing factors of production; analyzing costs and revenue; and recognizing how businesses make optimizing decisions (e.g., profit maximization).

Understand issues and principles relating to how businesses interact with the marketplace.

Includes describing types and characteristics of market structure (e.g., monopolistic, oligopolistic), analyzing supply and demand, recognizing the function of prices in resource and product markets, describing ways businesses gather and analyze market data, and identifying factors that affect markets.

MACROECONOMICS AND INTERNATIONAL ECONOMICS

Understand basic principles and concepts relating to fiscal policy and how government decisions on taxation, spending, and regulation affect what is produced, how it is produced, and who receives the benefits of production.

Includes identifying different forms of taxation and their effects, analyzing major areas of government revenues and expenditures, recognizing the effects of surpluses and deficits, evaluating the economic consequences of government decisions and policies, analyzing ways in which fiscal policy can be applied to solve given problems (e.g., inflation, unemployment, national debt, GDP), and comparing governmental and free-market approaches to solving economic problems.

Understand basic principles and concepts of money and banking.

Includes recognizing the components of monetary policy, describing the role of central banks, explaining the functions of money, and analyzing ways in which monetary policy can be applied to solve given problems (e.g., inflation, unemployment, GDP).

Understand how free-market and other economic systems facilitate the exchange, production, distribution, and consumption of goods and services.

Includes recognizing the major characteristics of different economic systems (e.g., market, command), analyzing the ways in which they influence societies, and evaluating their abilities to achieve particular goals (e.g., efficiency, equity, growth); and recognizing and comparing the relationships among government, labor, businesses, and households in the U.S. and other economies.

Understand principles and components of international economics and trade.

Includes recognizing economic relationships among various countries; analyzing the factors of production (e.g., labor) in the global economy; describing basic principles of free trade and protectionism among countries (e.g., comparative advantage, trade barriers); analyzing the historical development of trade; recognizing the roles of governments, businesses, and individuals in international trade; and describing how trade generates economic benefits and challenges.

HISTORY, GEOGRAPHY, AND POLITICAL SCIENCE PERSPECTIVES

Understand major eras and events in U.S. history in order to examine relationships and explain cause and effect.

Includes identifying major figures and events in U.S. history; recognizing the chronological sequence of major eras in U.S. history; examining relationships and causes and effects of key events in U.S. history; and describing how women, diverse populations, and people with disabilities have contributed to and been affected by the U.S. economic system.

Understand the five themes of geography and how they apply to economics.

Includes relating economics principles and contexts to the five fundamental themes of geography: location (e.g., identifying major land masses on a map), place (e.g., describing the natural and cultural features of an area), human-environment interaction (e.g., analyzing the influence of the environment on human settlement patterns), movement (e.g., analyzing the migration of people or diffusion of ideas from one place to another), and region (e.g., identifying unifying characteristics and boundaries of a region).

Understand the structure and function of the U.S. government, core democratic values, and the rights and responsibilities of U.S. citizens.

Includes describing the structure and function of the different branches of the U.S. government; explaining the origin and meaning of core democratic values expressed in the Declaration of Independence and U.S. Constitution; and recognizing the political, social, and economic rights and responsibilities of citizens.

INQUIRY, INFORMATION PROCESSING, AND ISSUE ANALYSIS**Apply methods for acquiring, interpreting, organizing, and presenting social science information from print and nonprint sources.**

Includes recognizing the characteristics and uses of various electronic, print, and other sources of information; applying strategies and techniques for locating, interpreting, and citing information from various sources (e.g., journals, reference materials, the Internet); evaluating the validity of information from various sources; and applying strategies for organizing and presenting information using a variety of formats (e.g., outlines, graphic displays, electronic media).

Apply methods for conducting social science inquiries.

Includes designing experiments, formulating hypotheses, posing questions, gathering and analyzing information to test a hypothesis, recognizing variables, performing targeted research, drawing appropriate conclusions based upon evidence and results, designing and conducting surveys and focus groups, and applying methods for organizing and reporting results.

Apply methods for analyzing issues of public policy and concern.

Includes analyzing the positive and normative components of public policy issues, recognizing various economic perspectives on a given issue, evaluating potential courses of action, identifying reasonable arguments related to an issue, identifying responsible conduct for citizens, and recognizing the effects of individual or group actions on other people.

SAMPLE MULTIPLE-CHOICE TEST QUESTIONS

1. Use the chart below to answer the question that follows.

| Disposable Income | Consumption |
|----------------------|-------------|
| \$100 | \$160 |
| \$200 | \$240 |
| \$300 | \$320 |
| \$400 | \$400 |
| \$500 | \$480 |
| \$600 | \$560 |
| \$700 | \$640 |

What is the marginal propensity to consume of the consumption function data shown in the chart above?

- A. .20
- B. .40
- C. .60
- D. .80

2. Which of the following best illustrates the role of opportunity costs in financial planning?

- A. Helen decides to prioritize her financial goals after realizing that she cannot achieve all of them immediately.
- B. Salvador carefully analyzes a financial option to determine whether it is likely to provide a high return on his investment.
- C. Allen reduces his investment assets and increases his monetary assets to meet an unexpected financial emergency.
- D. Koo sets a target date for attaining her financial goals after determining how much money will be needed to achieve them.

3. Once considered a luxury good, personal computers became a regular fixture in a broad variety of households during the 1990s. Which of the following was the most important reason for this development?
- A. Manufacturers produced personal computers that were increasingly easy to use.
 - B. The price of personal computers dropped steadily throughout the decade.
 - C. Manufacturers added numerous features to the personal computers they were producing.
 - D. Increasing numbers of people began to use personal computers at their place of work.

4. Use the chart below to answer the question that follows.

- Employers cut back on overtime.
- Store inventories build up.
- Producers begin to lower prices.
- Consumers reduce spending.

The economic developments listed on the chart above are most characteristic of which of the following phases of the business cycle?

- A. trough
 - B. contraction
 - C. peak
 - D. expansion
5. In which of the following circumstances is a firm's demand for labor most likely to increase?
- A. when the wage rate exceeds the marginal revenue product
 - B. when the prices of other inputs decrease
 - C. when technological change reduces the marginal product of labor
 - D. when the firm's output price increases

6. Use the chart below to answer the question that follows.

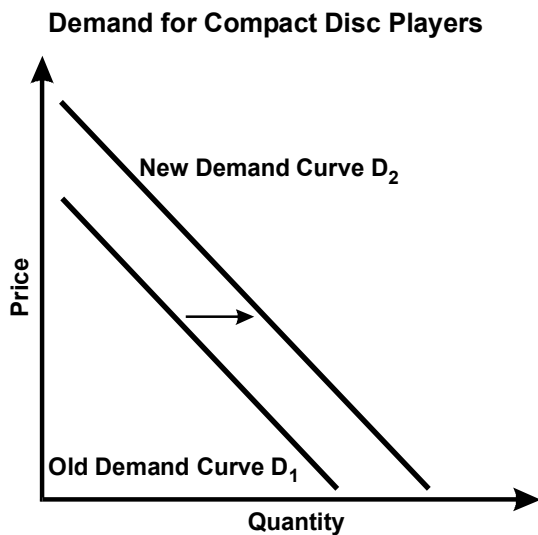
| | Project A | Project B |
|---------------------------|----------------------|----------------------|
| Present Value | \$4,000 | \$7,500 |
| Initial Investment | \$1,000 | \$2,500 |
| Net Present Value | \$3,000 | \$5,000 |
| Cost-Benefit Ratio | 4.0 | 3.0 |

Company managers are attempting to decide whether to pursue Project A or Project B. In making their decision, they would be best advised to attach the greatest significance to which of the categories listed on the chart?

- A. present value
- B. initial investment
- C. net present value
- D. cost-benefit ratio

7. A marketing analyst for an appliance manufacturer is developing a sales forecast for washers in the coming year. The analyst believes that the number of new houses being built, the interest rate, and the number of births are the main determinants of washer sales. In addition to compiling a history of washer sales and corresponding changes in the above variables, the analyst has obtained government projections for the above variables for the next two years. Which of the following techniques would best enable the marketing analyst to complete the forecast?
- A. regression analysis
 - B. exponential smoothing
 - C. moving average
 - D. linear programming

8. Use the demand curve below for compact disc players to answer the question that follows.

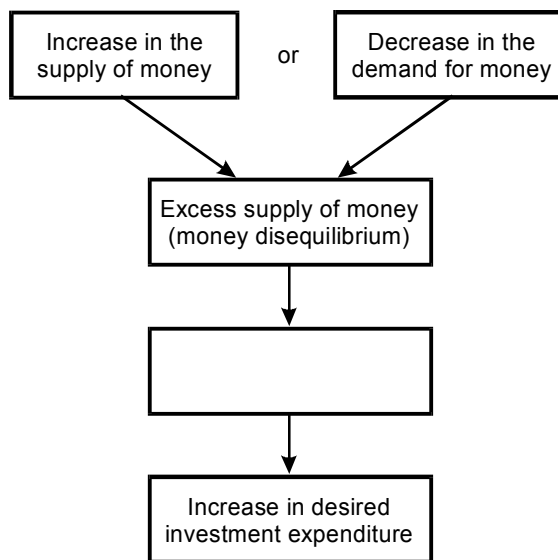


Which of the following would be most likely to cause the shift in the demand curve above from D_1 to D_2 ?

- A. a decrease in the price of substitutes for compact disc players
- B. a decrease in the price of compact discs
- C. a decrease in the number of retailers that sell compact disc players
- D. a decrease in the discretionary income of consumers

9. Between 1945 and 1970, many economists advocated a policy called "fine tuning" that was designed to maintain national income at its potential level through frequent alterations in fiscal policy. This approach rarely worked as well as desired primarily because of:
- A. the frequent ineffectiveness of built-in stabilizers and other automatic fiscal policy tools.
 - B. disagreements among policymakers about the optimum level of national income.
 - C. time lags between perception of a problem and actual impact of a policy on the problem.
 - D. an inability to develop an effective means of calculating the cyclically adjusted deficit.

10. Use the diagram below to answer the question that follows.



Which of the following should be inserted in the blank box in the diagram above?

- A. decline in the federal debt
- B. increase in consumer purchasing power
- C. fall in interest rates
- D. increase in federal taxation

11. Which of the following are the main policy variables that monetary policy seeks to influence?
- A. profit margins and income distribution
 - B. federal debt and the balance of trade
 - C. business investment and labor productivity
 - D. real gross domestic product and the price level
12. A comparative analysis of the contemporary U.S. and Japanese economies could best be used to illustrate:
- A. differing levels of government intervention in mixed economies.
 - B. differences between market and mixed economies.
 - C. differing levels of business concentration in market economies.
 - D. differences between market and command economies.
13. In the transition from a command economy to a market economy, which of the following features of the command economy is likely to undergo the greatest degree of change?
- A. the organization of the work process in its factories
 - B. its system for determining the prices of goods and services
 - C. the supervisory methods used in its workplaces
 - D. its system for accumulating individual savings
14. Which of the following groups is likely to bear the greatest costs and receive the least benefit from a protective tariff?
- A. producers of goods that are complements of the product that is being protected
 - B. wage earners in firms that make the product that is being protected
 - C. companies that produce inputs for firms that make the product that is being protected
 - D. domestic firms that are reliant on the product that is being protected

15. Which of the following can best be described as both a cause and an effect of the U.S. economic boom during the quarter-century after World War II?

- A. a low inflation rate
- B. improvements in transportation
- C. a high birth rate
- D. increased military spending

16. Which of the following excerpts from the U.S. Constitution best defines the economic rights of U.S. citizens?

- A. "In suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved . . ."
- B. "No person shall be . . . deprived of life, liberty, or property, without due process of law."
- C. "The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated . . ."
- D. "No state shall . . . pass any bill of attainder; *ex post facto* law, or law impairing the obligation of contracts . . ."

Read the passage below; then answer the two questions that follow.

Although 25 percent of its land receives sufficient rainfall for crop cultivation, only one-third of this area can be classified as actual arable land. Another 42 percent of its land is dry steppe, which is suitable for livestock raising but little else. A final 33 percent of its land receives so little precipitation that no crops can be grown on it without irrigation.

17. Information contained in the passage above best describes which of the following places?

- A. Australia
- B. India
- C. Saudi Arabia
- D. Japan

18. Which of the following provides the most appropriate and effective means of presenting the information above in graphic form?

- A. flowchart
- B. pictograph
- C. pie chart
- D. line graph

19. Use the excerpt below from the writings of Adam Smith to answer the question that follows.

Each animal is still obliged to support and defend itself, separately and independently, and derives no sort of advantage from that variety of talents with which nature has distinguished its fellows. Among men, on the contrary, the most dissimilar geniuses are of use to one another; the different produce of their respective talents, by the general disposition to truck, barter, and exchange, being brought, as it were, into a common stock, where every man may purchase whatever part of the produce of other men's talents he has occasion for.

As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market.

The author's observations in the excerpt above best support which of the following conclusions?

- A. The greater the variety of goods produced, the greater consumer demand is likely to be.
- B. The division of labor permits producers to take advantage of economies of scale.
- C. Economic incentives are a necessary precondition for increased specialization of labor.
- D. As economies develop, they require increasingly sophisticated methods of exchange.

-
20. Citizens can best increase their understanding of various public policy initiatives by asking which of the following questions?
- A. Which arguments in support of the initiative should be taken most seriously?
 - B. Who is most strongly opposed to the initiative?
 - C. Who is likely to bear the social, political, and economic costs of the initiative?
 - D. What will be the main advantage of passing the initiative?

ANSWER KEY FOR THE SAMPLE MULTIPLE-CHOICE TEST QUESTIONS

| Item Number | Correct Response | Objective |
|-------------|------------------|---|
| 1. | D | Understand basic principles and concepts relating to individual and household economics. |
| 2. | A | Understand how scarcity and choice affect personal financial decisions. |
| 3. | B | Understand how scarcity and choice affect consumer decisions regarding the purchase, use, and disposal of goods and services and affect the economic well-being of individuals and society. |
| 4. | B | Understand basic principles and concepts relating to business economics. |
| 5. | D | Understand how businesses confront scarcity and choice when organizing, producing, and using resources. |
| 6. | C | Understand how businesses confront scarcity and choice when organizing, producing, and using resources. |
| 7. | A | Understand issues and principles relating to how businesses interact with the marketplace. |
| 8. | B | Understand issues and principles relating to how businesses interact with the marketplace. |
| 9. | C | Understand basic principles and concepts relating to fiscal policy and how government decisions on taxation, spending, and regulation affect what is produced, how it is produced, and who receives the benefits of production. |
| 10. | C | Understand basic principles and concepts of money and banking. |
| 11. | D | Understand basic principles and concepts of money and banking. |
| 12. | A | Understand how free-market and other economic systems facilitate the exchange, production, distribution, and consumption of goods and services. |
| 13. | B | Understand how free-market and other economic systems facilitate the exchange, production, distribution, and consumption of goods and services. |
| 14. | D | Understand principles and components of international economics and trade. |
| 15. | C | Understand major eras and events in U.S. history in order to examine relationships and explain cause and effect. |
| 16. | B | Understand the structure and function of the U.S. government, core democratic values, and the rights and responsibilities of U.S. citizens. |
| 17. | A | Understand the five themes of geography and how they apply to economics. |
| 18. | C | Apply methods for acquiring, interpreting, organizing, and presenting social science information from print and nonprint sources. |
| 19. | C | Apply methods for conducting social science inquiries. |
| 20. | C | Apply methods for analyzing issues of public policy and concern. |

ACKNOWLEDGMENTS

Sample Question

16. U.S. Constitution. As appears in Turner, M. J., et al. (1987). *American government: Principles and practices* (Teacher Annotated ed.). Columbus, OH: Merrill Publishing Company. pp. 790, 795–796.
19. Smith, A. (1776). *The Wealth of Nations*. As appears in Lipsey, R. G., et al. (1990). *Economics* (9th ed.). New York: Harper & Row Publishers. p. 43.