



## **To the Student:**

After your registration is complete and your proctor has been approved, you may take the Credit by Examination for ECO-FE.

## **WHAT TO BRING**

- lined notebook paper

## **ABOUT THE EXAM**

The examination consists of 60 multiple choice questions worth one point each; you will also answer four essay questions. Each essay is worth 10 points each. The exam is based on the Texas Essential Knowledge and Skills (TEKS) for this subject. The full list of TEKS is included in this document (it is also available online at the Texas Education Agency website, <http://www.tea.state.tx.us/>). The TEKS outline specific topics covered in the exam, as well as more general areas of knowledge and levels of critical thinking. Use the TEKS to focus your study in preparation for the exam.

The examination will take place under supervision, and the recommended time limit is three hours. You may not use any notes or books. A percentage score from the examination will be reported to the official at your school.

In preparation for the examination, review the TEKS for this subject. All TEKS are assessed. A list of review topics is included in this document to focus your studies. It is important to prepare adequately. Since questions are not taken from any one source, you can prepare by reviewing any of the state-adopted textbooks that are used at your school. The textbook used with our ECO-FE course is *Economics Today and Tomorrow*, published by Glencoe Publishing Company.

The practice exam included in this document will give you a model of the types of questions that will be asked on your examination. It is **not** a duplicate of the actual examination. It is provided to illustrate the format of the exam, not to serve as a complete review sheet.

Good luck on your examination!

# ECO-FE Practice Exam

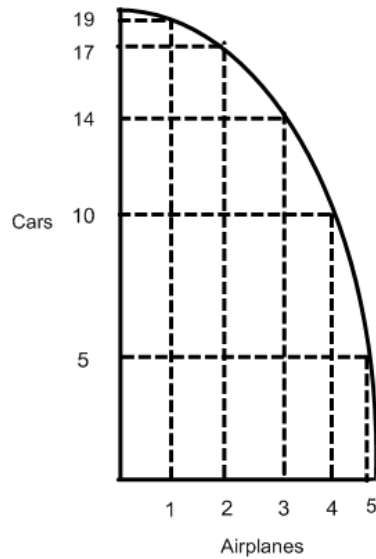
## Part A: Multiple Choice

Read each question or incomplete sentence. On the answer sheet provided, write the letter of the word or phrase that best completes the sentence.

1. When the price of a good decreases it will cause
  - A. demand to increase.
  - B. quantity demanded to increase.
  - C. supply to decrease.
  - D. quantity supplied to increase.
  
2. When the price of a product is above its equilibrium, the result is
  - A. a decrease in demand.
  - B. a surplus.
  - C. a shortage.
  - D. the creation of a black market.
  
3. If Japan can produce 3 tons of rice or 2 tons of wheat while the United States can produce either one ton of rice or one ton of wheat it can be said that
  - A. Japan has a comparative advantage in producing rice while the United States has a comparative advantage in producing wheat.
  - B. Japan has a comparative advantage in producing wheat while the United States has a comparative advantage in producing rice.
  - C. Both Japan and the United States have comparative advantages in producing rice.
  - D. Japan has the absolute advantage in the production of both crops and therefore would not benefit by trading with the United States.
  
4. Scarcity means that societies and individuals must
  - A. make choices.
  - B. make more money.
  - C. eliminate scarcity through advanced technologies.
  - D. limit the size of families in the near future.
  
5. A leftward shift in a supply curve means that supply has
  - A. decreased.
  - B. increased.
  - C. remained stable.
  - D. neither decreased nor increased.

*continued* →

Use the graph to answer the following question.



6. If 19 cars and 1 airplane are currently being produced what is the opportunity cost of producing the 2nd airplane?
  - A. 1 airplane
  - B. 14 cars
  - C. 2 cars
  - D. 3 airplanes
  
7. Which of the following would be true if the U.S. Dollar depreciates against the Euro?
  - A. It will make European goods cheaper for Americans.
  - B. It will make European goods more expensive for Americans.
  - C. It will make American goods more expensive for Europeans.
  - D. It will have no effect on the prices of either U.S. or European goods.
  
8. When a country can produce a product at less cost than another country with the same amount of resources, we say it has
  - A. an absolute advantage.
  - B. a comparative advantage.
  - C. a smarter labor force.
  - D. better technology.
  
9. If someone were to work as an engineer for General Electric we could say that
  - A. the engineer is supplying labor and General Electric is paying them wages.
  - B. the engineer is an entrepreneur and is earning profits from General Electric.
  - C. the engineer is supplying labor and General Electric is paying them rent.
  - D. the engineer is supply a service and General Electric is paying them interest.

Read this excerpt from the U.S. Constitution to answer the question that follows.

*The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States, but all Duties, Imposts, and Excises shall be uniform throughout the United States;*

10. The above language from Article I of the Constitution granted the power to
- A. create a welfare system.
  - B. tax in order to pay for government's debts and expenses.
  - C. regulate all imports and exports.
  - D. All of the above.
11. A sales tax is
- A. progressive.
  - B. regressive.
  - C. proportional.
  - D. flat.

- \* Acting as an intermediary between savers and borrowers
- \* Providing a safe place for people to store money
- \* Providing funds for businesses to use for capital investment
- \* Providing personal loans and mortgages

12. The above list describes the primary functions of
- A. a central bank.
  - B. the Federal Reserve.
  - C. commercial banks.
  - D. the U.S. Treasury.
13. Which of the following strategies would improve one's credit score?
- A. Pay bills on time, close unused credit accounts, keep credit balances low
  - B. Pay bills on time, apply for credit frequently, keep credit balances low
  - C. Pay bills on time, apply for credit frequently, keep credit balances high
  - D. Make only the minimum payment, close unused credit accounts, keep credit balances high
14. A person who thinks they will change jobs or cities in one or two years should
- A. live with relatives.
  - B. buy a home.
  - C. consider renting a home.
  - D. live in an extended stay hotel.

*continued* →

15. When someone buys something they are using money as
- A. a medium of exchange.
  - B. a store of value.
  - C. a measure of value.
  - D. a fiat instrument.
16. The largest expenditure for the federal government is
- A. income security, Social Security, and Medicare.
  - B. national defense.
  - C. transportation.
  - D. education.
17. Which of the following forms of student aid must be repaid by the student?
- A. Stafford loans
  - B. Work Study
  - C. Pell Grants
  - D. Texas Public Education Grant
18. A benefit of buying insurance is that it
- A. is tax deductible.
  - B. guarantees full replacement of any loss.
  - C. will help to cover losses.
  - D. has been shown to make people behave more responsibly.
19. When the U.S. imports more from China it means that
- A. the Chinese Yuan should weaken versus the U.S. Dollar.
  - B. it should be easier for the U.S. to export to China.
  - C. exchange rates between the dollar and the Yuan are unaffected.
  - D. Chinese will be able to import fewer U.S. goods.
20. The concept that people have the right to make their own economic decisions is called
- A. competition.
  - B. incentives.
  - C. property rights.
  - D. economic freedom.

**Part B: Essay**

Here are two sample essay questions.

21. Explain how the Federal Reserve regulates the money supply. Describe the methods available to them. Explain the difference between expansionary and contractionary policies and when each might be used.
22. Who were Adam Smith and Karl Marx? Explain their ideas about economics.

# ECO-FE Practice Exam Answer Key

## Part A: Multiple Choice

- |      |       |       |
|------|-------|-------|
| 1. B | 8. A  | 15. A |
| 2. B | 9. A  | 16. A |
| 3. A | 10. B | 17. A |
| 4. A | 11. B | 18. C |
| 5. A | 12. C | 19. B |
| 6. C | 13. A | 20. D |
| 7. B | 14. C |       |

## Part B: Essay

Answers should contain at least the following information:

20. The Fed can regulate the money supply by adjusting the reserve requirement, buying and selling securities on the open market, and changing the discount rate. Expansionary policy is taking action to increase the supply of money and might be used if unemployment is rising or economic growth is slowed. Contractionary policy is reducing the supply of money and might be used if rapid growth is causing excessive inflation.
21. Adam Smith was a Scottish economist who wrote *The Wealth of Nations* in 1776 and is considered the father of capitalism. He first wrote about the idea of an “invisible hand” and is considered the founder of free enterprise economics. Karl Marx (1800s) was a German whose theories on labor, industrial revolution, and capitalism concluded that everything would boil down to a class struggle between workers and owners leading to communism. His ideas are considered failures with the Soviet Union as the prime evidence.

**Texas Essential Knowledge and Skills  
ECO-FE: Economics: Fundamentals  
of the Free Enterprise System**

<b>TTU: ECO-FE CBE, v.3.0</b>	
<b>TEKS: §118.4. Economics with Emphasis on the Free Enterprise System and Its Benefits, High School (One-Half Credit), Beginning with School Year 2011-2012.</b>	
<b>TEKS Covered</b>	<b>TEKS Requirement (Secondary)</b>
	(a) General requirements. This course will be taught in the social studies department and is recommended to be taught in Grade 12.
	(b) Introduction.
	(1) Economics with Emphasis on the Free Enterprise System and Its Benefits is the culmination of the economic content and concepts studied from Kindergarten through required secondary courses. The focus is on the basic principles concerning production, consumption, and distribution of goods and services (the problem of scarcity) in the United States and a comparison with those in other countries around the world. Students analyze the interaction of supply, demand, and price. Students will investigate the concepts of specialization and international trade, economic growth, key economic measurements, and monetary and fiscal policy. Students will study the roles of the Federal Reserve System and other financial institutions, government, and businesses in a free enterprise system. Types of business ownership and market structures are discussed. The course also incorporates instruction in personal financial literacy. Students apply critical-thinking skills using economic concepts to evaluate the costs and benefits of economic issues.
	(2) Students identify the role of the U.S. free enterprise system within the parameters of this course and understand that this system may also be referenced as capitalism or the free market system.
	(3) Economics with Emphasis on the Free Enterprise System and Its Benefits builds upon the foundation in economics and social studies laid by the social studies essential knowledge and skills in Kindergarten-Grade 12. The course will apply these skills to current economic situations. The content enables students to understand the importance of patriotism, function in a free enterprise society, and appreciate the basic democratic values of our state and nation as referenced in the Texas Education Code (TEC), §28.002(h).
	(4) Students understand that a constitutional republic is a representative form of government whose representatives derive their authority from the consent of the governed, serve for an established tenure, and are sworn to uphold the constitution.
	(5) As referenced in House Bill 492, an act of the Texas Legislature signed into law in 2005, the concepts of personal financial literacy are to be mastered by students in order that they may become self-supporting adults who can make informed decisions relating to personal financial matters. These concepts are incorporated into the student expectations of Economics with Emphasis on the Free Enterprise System and Its Benefits: understanding interest, avoiding and eliminating credit card debt; understanding the rights and responsibilities of renting or buying a home; managing money to make the transition from renting a home to home ownership; starting a small business; being a prudent investor in the stock market and using other investment options; beginning a savings program and planning for retirement; bankruptcy; types of bank accounts available to consumers and benefits of maintaining a bank account; balancing a checkbook; types of loans available to consumers and becoming a low-risk borrower; understanding insurance; and charitable giving.
	(6) State and federal laws mandate a variety of celebrations and observances, including Celebrate Freedom Week.
	(A) Each social studies class shall include, during Celebrate Freedom Week as provided under the TEC, §29.907, or during another full school week as determined by the board of trustees of a school district, appropriate instruction concerning the intent, meaning, and importance of the Declaration of Independence and the U.S. Constitution, including the Bill of Rights, in their historical contexts. The study of the Declaration of Independence must include the study of the relationship of the ideas expressed in that document to subsequent American history, including the relationship of its ideas to the rich diversity of our people as a nation of immigrants, the American Revolution, the formulation of the U.S. Constitution, and the abolitionist movement, which led to the Emancipation Proclamation and the women's suffrage movement.
	(B) Each school district shall require that, during Celebrate Freedom Week or other week of instruction prescribed under subparagraph (A) of this paragraph, students in Grades 3-12 study and recite the following text: "We hold these Truths to be self-evident, that all Men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the Pursuit of Happiness--That to secure these Rights, Governments are instituted among Men, deriving their just Powers from the Consent of the Governed."
	(7) Students identify and discuss how the actions of U.S. citizens and the local, state, and federal governments have either met or failed to meet the ideals espoused in the founding documents.
	(c) Knowledge and skills.
	(1) Economics. The student understands the concepts of scarcity and opportunity costs. The student is expected to:

✓	(A) explain why scarcity and choice are basic economic problems faced by every society;
✓	(B) describe how societies answer the basic economic questions;
✓	(C) describe the economic factors of production; and
✓	(D) interpret a production-possibilities curve and explain the concepts of opportunity costs and scarcity.
	(2) Economics. The student understands the interaction of supply, demand, and price. The student is expected to:
✓	(A) understand the effect of changes in price on the quantity demanded and quantity supplied;
✓	(B) identify the non-price determinants that create changes in supply and demand, which result in a new equilibrium price; and
✓	(C) interpret a supply-and-demand graph using supply-and-demand schedules.
	(3) Economics. The student understands the reasons for international trade and its importance to the United States and the global economy. The student is expected to:
✓	(A) explain the concepts of absolute and comparative advantages;
✓	(B) apply the concept of comparative advantage to explain why and how countries trade; and
✓	(C) analyze the impact of U.S. imports and exports on the United States and its trading partners.
	(4) Economics. The student understands the issues of free trade and the effects of trade barriers. The student is expected to:
✓	(A) compare the effects of free trade and trade barriers on economic activities;
✓	(B) evaluate the benefits and costs of participation in international free-trade agreements; and
✓	(C) analyze the effects of changes in exchange rates on imports and exports.
	(5) Economics. The student understands free enterprise, socialist, and communist economic systems. The student is expected to:
✓	(A) describe the basic characteristics of economic systems, including property rights, incentives, economic freedom, competition, and the role of government;
✓	(B) compare the free enterprise system, socialism, and communism using the basic characteristics of economic systems;
✓	(C) examine current examples of free enterprise, socialist, and communist economic systems;
✓	(D) understand that the terms free enterprise, free market, and capitalism are synonymous terms to describe the U.S. economic system; and
✓	(E) analyze the importance of various economic philosophers, including Friedrich Hayek, Milton Friedman, John Maynard Keynes, and Adam Smith, and their impact on the U.S. free enterprise system.
	(6) Economics. The student understands the basic characteristics and benefits of a free enterprise system. The student is expected to:
✓	(A) explain the basic characteristics of the U.S. free enterprise system, including private property, incentives, economic freedom, competition, and the limited role of government;
✓	(B) explain the benefits of the U.S. free enterprise system, including individual freedom of consumers and producers, variety of goods, responsive prices, investment opportunities, and the creation of wealth;
✓	(C) analyze recent changes in the basic characteristics of the U.S. economy; and
✓	(D) analyze the costs and benefits of U.S. economic policies related to the economic goals of economic growth, stability, full employment, freedom, security, equity (equal opportunity versus equal outcome), and efficiency.
	(7) Economics. The student understands the right to own, use, and dispose of private property. The student is expected to:
✓	(A) analyze the costs and benefits of the purchase, use, or disposal of personal and business property; and
✓	(B) identify and evaluate examples of restrictions that the government places on the use of business and individual property.
	(8) Economics. The student understands the circular-flow model of the economy. The student is expected to:
✓	(A) interpret the roles of resource owners and firms in a circular-flow model of the economy and provide real-world examples to illustrate elements of the model;



✓	(B) explain how government actions affect the circular-flow model; and
✓	(C) explain how the circular-flow model is affected by the rest of the world.
	(9) Economics. The student understands types of market structures. The student is expected to:
✓	(A) describe characteristics and give examples of pure competition, monopolistic competition, oligopoly, and monopoly; and
✓	(B) identify and evaluate ordinances and regulations that apply to the establishment and operation of various types of businesses.
	(10) Economics. The student understands key economic measurements. The student is expected to:
✓	(A) interpret economic data, including unemployment rate, gross domestic product, gross domestic product per capita as a measure of national wealth, and rate of inflation; and
✓	(B) analyze business cycles using key economic indicators.
	(11) Economics. The student understands key components of economic growth. The student is expected to:
✓	(A) analyze how productivity relates to growth;
✓	(B) analyze how technology relates to growth; and
✓	(C) analyze how trade relates to growth.
	(12) Economics. The student understands the role of money in an economy. The student is expected to:
✓	(A) describe the functions of money;
✓	(B) describe the characteristics of money, including commodity money, fiat money, and representative money; and
✓	(C) examine the positive and negative aspects of barter, currency, credit cards, and debit cards.
	(13) Economics. The student understands the role of the Federal Reserve System in establishing monetary policy. The student is expected to:
✓	(A) explain the structure of the Federal Reserve System;
✓	(B) analyze the three basic tools used to implement U.S. monetary policy, including reserve requirements, the discount rate and the federal funds rate target, and open-market operations;
✓	(C) explain how the actions of the Federal Reserve System affect the nation's money supply; and
✓	(D) analyze the decline in value of the U.S. dollar, including the abandonment of the gold standard.
	(14) Economics. The student understands the role that the government plays in the U.S. free enterprise system. The student is expected to:
✓	(A) identify economic concepts in the U.S. Constitution, including property rights and taxation;
✓	(B) describe the role of government in the U.S. free enterprise system and the changes in that role over time; and
✓	(C) evaluate government rules and regulations in the U.S. free enterprise system.
	(15) Economics. The student understands the economic impact of fiscal policy decisions at the local, state, and national levels. The student is expected to:
✓	(A) identify types of taxes at the local, state, and national levels and the economic importance of each;
✓	(B) analyze the categories of revenues and expenditures in the U.S. federal budget; and
✓	(C) analyze the impact of fiscal policy decisions on the economy.
	(16) Personal financial literacy. The student understands types of business ownership. The student is expected to:
✓	(A) explain the characteristics of sole proprietorships, partnerships, and corporations;
✓	(B) analyze the advantages and disadvantages of sole proprietorships, partnerships, and corporations;
✓	(C) analyze the economic rights and responsibilities of businesses, including those involved in starting a small business; and
✓	(D) explain how corporations raise money through stocks and bonds.

	(17) Personal financial literacy. The student understands the role of financial markets/institutions in saving, borrowing, and capital formation. The student is expected to:
✓	(A) explain the functions of financial institutions and how they affect households and businesses;
✓	(B) explain how the amount of savings in an economy is the basis of capital formation;
✓	(C) analyze the role of interest and risk in allocating savings to its most productive use; and
✓	(D) examine the types of accounts available to consumers from financial institutions and the risks, monetary costs, and benefits of maintaining these accounts.
	(18) Personal financial literacy. The student understands the role of individuals in financial markets. The student is expected to:
✓	(A) assess ways to be a wise investor in the stock market and in other personal investment options;
✓	(B) explain how to begin a savings program;
✓	(C) examine investment options available in a personal retirement plan;
✓	(D) demonstrate how to maintain a checking account, including reconciling a bank statement;
✓	(E) identify the types of loans available to consumers;
✓	(F) explain the responsibilities and obligations of borrowing money; and
✓	(G) develop strategies to become a low-risk borrower by improving one's personal credit score.
	(19) Personal financial literacy. The student applies critical-thinking skills to analyze the costs and benefits of personal financial decisions. The student is expected to:
✓	(A) examine ways to avoid and eliminate credit card debt;
✓	(B) evaluate the costs and benefits of declaring personal bankruptcy;
✓	(C) evaluate the costs and benefits of buying insurance; and
✓	(D) evaluate the costs and benefits of charitable giving.
	(20) Personal financial literacy. The student understands how to provide for basic needs while living within a budget. The student is expected to:
✓	(A) evaluate the costs and benefits of renting a home;
	(B) evaluate the costs and benefits of buying a home; and
✓	(C) assess the financial aspects of making the transition from renting to home ownership.
	(21) Personal financial literacy. The student understands the various methods available to pay for college and other postsecondary education and training. The student is expected to:
✓	(A) understand how to complete the Free Application for Federal Student Aid (FAFSA) provided by the United States Department of Education;
✓	(B) research and evaluate various scholarship opportunities such as those from state governments, schools, employers, individuals, private companies, nonprofits, and professional organizations;
✓	(C) analyze and compare student grant options;
✓	(D) analyze and compare student loan options, including private and federal loans;
✓	(E) research and evaluate various work-study program opportunities; and
✓	(F) investigate nontraditional methods of paying for college or postsecondary education and training.
	(22) Social studies skills. The student applies critical-thinking skills to organize and use information acquired from a variety of valid sources, including electronic technology. The student is expected to:
	(A) analyze economic information by sequencing, categorizing, identifying cause-and-effect relationships, comparing, contrasting, finding the main idea, summarizing, making generalizations and predictions, and drawing inferences and conclusions;
	(B) create economic models, including production-possibilities curves, circular-flow charts, and supply-and-demand graphs, to analyze economic concepts or issues;

	(C) explain a point of view on an economic issue;
	(D) analyze and evaluate the validity of economic information from primary and secondary sources for bias, propaganda, point of view, and frame of reference;
	(E) evaluate economic data using charts, tables, graphs, and maps; and
	(F) use appropriate mathematical skills to interpret economic information.
	(23) Social studies skills. The student communicates in written, oral, and visual forms. The student is expected to:
	(A) use economic-related terminology correctly;
	(B) use standard grammar, spelling, sentence structure, and punctuation;
	(C) transfer information from one medium to another, including written to visual and statistical to written or visual, using computer software as appropriate;
	(D) create written, oral, and visual presentations of economic information; and
	(E) attribute ideas and information to source materials and authors.
	(24) Social studies skills. The student uses problem-solving and decision-making skills, working independently and with others, in a variety of settings. The student is expected to:
	(A) use a problem-solving process to identify a problem, gather information, list and consider options, consider advantages and disadvantages, choose and implement a solution, and evaluate the effectiveness of the solution; and
	(B) use a decision-making process to identify a situation that requires a decision, gather information, identify options, predict consequences, and take action to implement a decision.
	<i>Source: The provisions of this §118.4 adopted to be effective August 23, 2010, 35 TexReg 7406; amended to be effective March 7, 2012, 37 TexReg 1512.</i>