

TEXAS A&M UNIVERSITY (TAMU) ECON 203 PRINCIPLES OF ECONOMICS EXAM 1 PRACTICE (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

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1. Which term describes a shortage?

- A. Surplus
- B. Shortage
- C. Equilibrium
- D. Disequilibrium

2. If CPI in Year X is 50%, which interpretation is correct?

- A. Prices in Year X were 50% higher than the base year
- B. Prices in Year X were 50% lower than the base year
- C. Prices in Year X were the same as the base year
- D. Prices in Year X increased by 50% from the previous year

3. Which of the following are the three approaches used to calculate GDP?

- A. Income Approach; Value-added Approach; Expenditure Approach
- B. Real GDP; Nominal GDP; GDP Deflator
- C. CPI; PPI; Unemployment
- D. Imports; Exports; Net Exports

4. Purchasing Power Parity is most closely associated with comparing what across countries?

- A. Unemployment rates
- B. Interest rates
- C. Trade balances
- D. Prices of identical baskets of goods in a common currency

5. Which of the following is a limitation of GDP per Capita?

- A. It shows the underground economy
- B. Does not show how equally income was distributed amongst people of country
- C. It shows the cost-of-living
- D. It accounts for non-market activities

- 6. In Year X, inflation is equal to 50%. It means that**
- A. Prices in Year X were higher than prices of the previous year by 50%
 - B. Prices in Year X were 50% higher than the base year
 - C. Prices in Year X were 50% lower than the previous year
 - D. Prices in Year X remained the same as the previous year
- 7. If a domestic company produces a new batch of goods but does not sell them within the year, this production is counted as:**
- A. Government purchases
 - B. Investment
 - C. Net exports
 - D. Consumption
- 8. In the income approach to GDP, which of the following is included as part of wages?**
- A. Employer contributions to social security
 - B. Wages and salaries only
 - C. Interest and rents
 - D. Government transfers to households
- 9. Which is not a component of the expenditure approach?**
- A. Consumption
 - B. Government purchases
 - C. Investments
 - D. Wages
- 10. Which expression represents GDP per Capita?**
- A. $GDP / Population$
 - B. $Population / GDP$
 - C. $GDP * Population$
 - D. $GDP - Population$

Answers

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

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Explanations

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1. Which term describes a shortage?

- A. Surplus
- B. Shortage**
- C. Equilibrium
- D. Disequilibrium

Shortages occur when buyers want more of a good than sellers are willing to offer at the current price, so quantity demanded exceeds quantity supplied. This happens when the price is below the level that clears the market, putting upward pressure on both price and quantity supplied until the market reaches equilibrium. For example, if at a given price buyers want 120 units but sellers supply only 90, there's a shortage of 30 units. The other terms describe different situations: a surplus is when there's more supply than demand, equilibrium is when they match, and disequilibrium is any mismatch where the market isn't at balance.

2. If CPI in Year X is 50%, which interpretation is correct?

- A. Prices in Year X were 50% higher than the base year
- B. Prices in Year X were 50% lower than the base year**
- C. Prices in Year X were the same as the base year
- D. Prices in Year X increased by 50% from the previous year

CPI is an index that shows the overall price level relative to a base year, with the base year set so that the index equals 100. When CPI in a year is 50, that means the price level that year is 50% of the base year's level—i.e., prices are 50% lower than in the base year. The other interpretations would require different index values: a 50% higher price level would correspond to an index of 150, staying the same would be an index of 100, and a 50% increase from the previous year refers to the inflation rate, not the overall level relative to the base year. So the correct interpretation is that Year X's prices are 50% lower than the base year.

3. Which of the following are the three approaches used to calculate GDP?

- A. Income Approach; Value-added Approach; Expenditure Approach**
- B. Real GDP; Nominal GDP; GDP Deflator
- C. CPI; PPI; Unemployment
- D. Imports; Exports; Net Exports

The main idea here is that GDP can be measured from three different angles: expenditure, income, and value-added production. Each method looks at the economy from a different perspective but arrives at the same overall number. Expenditure approach sums what buyers spend on final goods and services. It categorizes GDP as consumption, investment, government purchases, and net exports (exports minus imports). This view is about demand within the economy—how much is being spent on the goods and services produced. Income approach totals the incomes earned by those who produce the goods and services: wages and salaries, rents, interest, and profits, plus taxes minus subsidies. It reflects the idea that the value of output is distributed as income to resource owners. Value-added, or production, approach adds up the value that each firm adds at the production stage. By counting value added (output minus intermediate inputs) across all firms, this method avoids double counting and aligns with the notion that GDP equals the market value created in production. These three methods are the standard ways to calculate GDP because they are different ways of measuring the same economic activity. The other options mix related concepts (like measuring real versus nominal GDP or price indices) or focus on components that are parts of the calculation rather than complete methods, so they aren't the three approaches used to compute GDP as a whole.

4. Purchasing Power Parity is most closely associated with comparing what across countries?

- A. Unemployment rates
- B. Interest rates
- C. Trade balances

D. Prices of identical baskets of goods in a common currency

Purchasing Power Parity focuses on price levels across countries and how they relate when expressed in a common currency. The core idea is that a identical basket of goods should cost the same everywhere once you convert prices using the exchange rate. If prices diverge, arbitrage would push exchange rates until the baskets align, tying exchange rates to relative price levels over the long run. This concept is about price comparisons across countries, not about unemployment, interest rates, or trade balances. So the item points to comparing the prices of identical baskets of goods in a common currency.

5. Which of the following is a limitation of GDP per Capita?

- A. It shows the underground economy
- B. Does not show how equally income was distributed amongst people of country**
- C. It shows the cost-of-living
- D. It accounts for non-market activities

GDP per capita numbers come from dividing a country's total output by its population, giving an average income per person. The key limitation is that this average hides how income is spread among people. Two countries can have the same GDP per capita but very different realities for most people if one has a more equal distribution and the other concentrates wealth in a few. That's why GDP per capita is not a reliable measure of living standards on its own; it doesn't tell you about inequality. (Other caveats include that GDP per capita misses non-market activities and the underground economy, and cross-country comparisons often use price-adjusted measures to reflect cost of living.)

6. In Year X, inflation is equal to 50%. It means that

- A. Prices in Year X were higher than prices of the previous year by 50%**
- B. Prices in Year X were 50% higher than the base year
- C. Prices in Year X were 50% lower than the previous year
- D. Prices in Year X remained the same as the previous year

Inflation is the percentage change in the overall price level from one year to the next. If inflation is 50%, the price level in Year X is 50% higher than in the previous year. In other words, Year X prices are 1.5 times Year X-1 prices. This describes a rise relative to the immediately preceding year, not relative to a base year, and not a decrease or no change. So the statement that prices in Year X were higher than the previous year by 50% is the correct interpretation.

7. If a domestic company produces a new batch of goods but does not sell them within the year, this production is counted as:

- A. Government purchases
- B. Investment**
- C. Net exports
- D. Consumption

In GDP accounting, production that isn't sold adds to business inventories. Changes in inventories are included in gross private domestic investment. So when a domestic company produces a new batch but doesn't sell it within the year, the value of that unsold output increases its inventory and is counted as investment. This reflects the idea that the resources used to produce those goods are being held as an asset rather than being consumed or sold. This isn't a government purchase, which would involve government spending on goods and services. It isn't net exports, which deals with exports minus imports. It isn't consumption, which covers goods and services purchased by households for use; unsold inventory isn't yet used by households, so it's classified as investment.

8. In the income approach to GDP, which of the following is included as part of wages?

- A. Employer contributions to social security**
- B. Wages and salaries only
- C. Interest and rents
- D. Government transfers to households

In the income approach to GDP, total income from producing goods and services is counted as compensation of employees plus rents, interest, and profits. Compensation of employees includes not only wages and salaries but also employer contributions to social security and other payroll taxes, since these payments are part of the overall compensation workers receive through their employers. That's why employer contributions to social security are included as part of wages. Interest and rents are separate income components, and government transfers are not payments for goods or services and thus aren't counted in GDP. Wages and salaries alone would miss the employer contributions that are part of total employee compensation.

9. Which is not a component of the expenditure approach?

- A. Consumption
- B. Government purchases
- C. Investments
- D. Wages**

In the expenditure approach, GDP is the total spending on final goods and services in the economy. It adds up four categories: household consumption, business investment, government purchases, and net exports. Wages are payments to workers and represent income, not a spending category. They don't appear as a separate line item in the expenditure formula; instead, they show up in the income approach as compensation of employees. When wages are spent, that spending shows up as part of consumption, but wages themselves aren't a distinct component in the expenditure calculation. That's why wages aren't a component of the expenditure approach.

10. Which expression represents GDP per Capita?

A. GDP / Population

B. Population / GDP

C. GDP * Population

D. GDP - Population

GDP per capita represents the average amount of goods and services produced or income earned per person, so you spread the total GDP across everyone. That means dividing GDP by the population. The result is dollars per person and lets you compare living standards across countries or over time. Other expressions mix different ideas: multiplying GDP by the number of people multiplies total output; subtracting population from GDP isn't a meaningful per-person measure; and dividing population by GDP yields people per dollar, not output per person. For example, if GDP is 1000 and population is 10, GDP per capita is 100.

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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://tamu-econ203exam1.examzify.com>

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

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