

Chapter 1: An Introduction to the Economic Way of Thinking

Learning Objective Guide

(LO-1) Define economics

(LO-2) Explain how scarce resources influence choices

(LO-3) Describe the influence of benefits and costs on deciding among alternatives

(LO-4) Identify the decision rules individuals and firms use to make choices

(LO-5) Explain why decisions are made “at the margin”

(LO-6) Assess the general conditions that generate maximum utility or profits

1. Economics is
 - a. the study of production
 - b. the study of unemployment and inflation
 - c. the study of choices
 - d. the study of Gross Domestic Product

Answer: C

LO-1

Level: Easy

2. Because of the concept of scarcity
 - a. choices need to be made
 - b. marginal benefits increases
 - c. marginal costs decrease
 - d. total returns of benefit remains unchanged

Answer: A

LO-2

Level: Easy

3. Which of the following statements is most correct?
 - a. Scarcity forces us to allocate our scarce resources among the many uses for them.
 - b. Marginal benefits require greater costs for decisions to be made.
 - c. Choices arise from trade-offs.
 - d. Scarcity is not common to all societies.

Answer: A

LO-2

Level: Easy

4. _____ is a synonym for satisfaction or happiness.
- a. Marginal cost
 - b. Opportunity cost
 - c. Utility
 - d. Scarcity

Answer: C

LO-3

Level: Easy

5. The difference between the earnings that a firm receives from selling its good or service and the costs of production for the good or service is the
- a. marginal benefit
 - b. opportunity cost
 - c. utility
 - d. profit

Answer: D

LO-4

Level: Easy

6. The value of the next-best alternative forgone is the
- a. opportunity cost
 - b. profit
 - c. utility
 - d. marginal benefit

Answer: A

LO-3

Level: Easy

7. The concept of _____ is used to isolate important relationships.
- a. opportunity cost
 - b. marginal benefit
 - c. ceteris paribus
 - d. diminishing marginal cost

Answer: C

LO-1

Level: Easy

8. The additional or incremental cost associated with a choice is known as
- a. the marginal cost
 - b. the marginal benefit
 - c. marginal utility
 - d. utility

Answer: A

LO-3

Level: Easy

9. The additional or incremental benefit associated with a choice is known as
- a. the marginal cost
 - b. the marginal benefit
 - c. opportunity cost
 - d. ceteris paribus

Answer: B

LO-3

Level: Easy

10. Which of the following would be a focus of macroeconomics?
- a. The study of how individuals make a decision.
 - b. The study of how businesses make a profit.
 - c. The study of how the price for a product is determined.
 - d. The study of changes of price levels in an economy

Answer: D

LO-1

Level: Easy

11. The study of how prices for a good is determined is an example of
- a. macroeconomics
 - b. microeconomics

- c. economic growth
- d. diminishing marginal returns

Answer: B

LO-1

Level: Easy

12. Each of the following is an economic resource except

- a. land
- b. labor
- c. capital
- d. rent

Answer: D

LO-1

Level: Easy

13. Your second glass of water on a hot summer day will

- a. increase total utility and decrease marginal utility
- b. decrease total utility and decrease marginal utility
- c. increase total utility and increase marginal utility
- d. decrease total utility and increase marginal utility

Answer: A

LO-5

Level: Easy

14. A _____ is a cost that, once incurred, cannot be recovered.

- a. marginal cost
- b. diminishing cost
- c. sunk cost
- d. incremental cost

Answer: C

LO-5

Level: Easy

15. This type of cost is irrelevant when making decisions at the margin.

- a. Marginal cost
- b. Diminishing cost
- c. Sunk cost
- d. Incremental cost

Answer: C

LO-5

Level: Easy

16. Engaging in an activity until marginal benefits equal marginal costs is known as

- a. the diminishing marginal returns
- b. the diminishing marginal utility
- c. the marginal decision rule
- d. the marginal utility rule

Answer: C

LO-6

Level: Easy

17. Which of the following is true?

- a. $\text{Net benefit} = \text{total benefit} - \text{total cost}$
- b. $\text{Net benefit} = \text{total cost} - \text{total benefit}$
- c. $\text{Net benefit} = \text{total cost} + \text{total benefit}$
- d. $\text{Net benefit} = \text{total benefit}/\text{total cost}$

Answer: A

LO-6

Level: Easy

18. The law of increasing marginal costs states that

- a. Ceteris paribus, as more and more of an activity are done; the additional costs of the activity tend to decrease.
- b. Ceteris paribus, as more and more of an activity are done; the additional costs of the activity tend to increase.
- c. Ceteris paribus, as more and more of an activity are done; the additional benefits of the activity tend to decrease.
- d. Ceteris paribus, as more and more of an activity are done; the additional benefits of the activity tend to increase.

Answer: B

LO-5

Level: Easy

19. Ceteris paribus, as more and more of an activity is done, the additional benefits derived from the activity decreases represents
- a. the law of increasing marginal costs
 - b. the law of diminishing marginal costs
 - c. the law of increasing marginal benefits
 - d. the law of diminishing marginal benefits

Answer: D

LO-5

Level: Easy

20. Decisions made “at the margin” require
- a. comparing the benefits and costs of the next, or incremental, of consuming a good or service
 - b. comparing the total benefits and costs of a consuming a good
 - c. comparing the total benefits and the net costs of consuming a good
 - d. comparing the net benefits and total costs of consuming a good

Answer: A

LO-3

Level: Easy

21. You are considering buying a new laptop. The economic way of thinking suggests that you will buy the laptop if
- a. total benefits is greater than total costs
 - b. your income is above average
 - c. the marginal cost of is less than the marginal benefit for the laptop.
 - d. the marginal benefit is greater than the marginal cost of the laptop.

Answer: C

LO-3

Level: Medium

22. Which of the following would represent a microeconomic question?
- a. How will a decrease in government spending affect the output gap?
 - b. How will a merger of two local banks affect competition and prices for banking services?

- c. What type of unemployment is on the rise?
- d. How have the changes in types of unemployment affect the efficiency of the labor force?

Answer: B

LO- 1

Level: Medium

23. Diminishing marginal benefits is reflected in

- a. a consumer's ability to pay
- b. a consumer's willingness to pay
- c. a producer's ability to produce
- d. a producer's willingness to produce

Answer: B

LO-3

Level: Medium

24. In the following table, the marginal benefits for the 3rd malt is

Table 1: Marginal and Total Benefit for Chocolate Malts

# of Chocolate Malts	Marginal Benefits	Total Benefits
1	\$6.00	
2	\$5.00	\$11.00
3		\$15.00
4	\$3.00	
5		\$20.00

- a. \$1.00
- b. \$4.00
- c. \$5.00
- d. \$15.00

Answer: B

LO-3

Level: Medium

25. The opportunity cost of consuming more today is

- a. less production of goods in the future
- b. less consumption of goods in the future
- c. more production of goods in the future
- d. more consumption of goods in the future

Answer: B

LO-1

Level: Difficult

26. This forces us to allocate resources

- a. marginal benefits
- b. marginal costs
- c. economic resources
- d. scarcity

Answer: D

LO-2

Level: Medium

27. Utility is all of the following except

- a. a measurement of satisfaction
- b. benefits received from a choice
- c. decreases with consumption of additional units
- d. remains constant for all units consumed

Answer: D

LO-2

Level: Difficult

28. Consider the data in Table 2. What is the net benefit for the third app purchased?

Table 2: Total Benefits and Total Costs for Apps

Number of Apps	Total Benefit (\$)	Total Costs (\$)
1	20	15
2	50	30
3	70	45
4	85	60

- a. \$25
- b. \$20
- c. \$15
- d. \$10

Answer: A

LO-3

Level: Difficult

29. Consider the data in Table 2. How many apps would satisfy the marginal decision rule?

- a. 1
- b. 2
- c. 3
- d. 4

Answer: D

LO-6

Level: Difficult

30. You and a friend decide to go to a concert and you purchase a ticket for \$50. Your manager calls and asks you to work that evening for four hours. You earn \$9.50 per hour. What is the value of the opportunity cost of going to the concert?

Answer: \$38.

Solution: $\$9.50 \times 4$ hours of work

LO-1

Level: Difficult

31. You and a friend decide to go to a concert and you purchase a ticket for \$50. Your manager calls and asks you to work that evening for four hours. You earn \$9.50 per hour. What is the value of the opportunity cost of working?

Answer: \$50

Hint: The foregone concert

LO-1

Level: Difficult

32. Explain why money would not be considered an economic resource.

Answer: Money is not considered an economic resource because it is not directly used to produce a good or service. It is considered not productive. Economic resources are inputs or sources directly used to produce a good or service.

LO-1

Level: Medium

33. Explain how microeconomics affects macroeconomics.

Answer: While macroeconomics focuses on the total, or aggregate, economy the issues faced by the total economy is founded on the decisions of individual consumers and producers.

LO-1

Level: Difficult

34. Explain how the concepts of scarcity and opportunity cost are related.

Answer: The inputs of production, or resources, are limited in quantity and have alternative uses. Because of this scarcity choices need to be made as to how they should be used. Economics is the study of how these scarce resources are allocated to provide society their unlimited wants. However, because a choice needs to be made as to how the resources are to be used, something is given up. This alternative use is the opportunity cost.

LO-1

Level: Difficult