

Test bank questions for Nguyen and Wait, Essentials of Microeconomics

Chapter 1

1. As an economist you observe that as inflation (the rate of increase in the price level) falls unemployment rises. What can you say in regards to this observation?

- a. The decrease in inflation caused unemployment to rise.
- b. The increase in unemployment caused inflation to decrease.
- c. Both a and b.
- *d. Without an economic theory, it is not possible to imply causality from this observation.
- e. None of the above.

2. Opportunity cost is:

- a. The sum of the value of all the forgone activities.
- b. The value of the second and third actions forgone.
- *c. The next best forgone opportunity.
- d. The value of the action chosen, net of the value of the next best action.
- e. None of the above.

3. A sunk cost:

- a. Is the opportunity cost of an action.
- b. Is a cost that cannot be recovered.
- c. Is the marginal cost of an action being considered by a person or firm.
- d. Has no opportunity cost.
- *e. b and d.

4. Ceteris paribus means:

- a. Only two variables are moving at the one time.
- b. Everything is variable.
- c. Everything is constant.
- *d. Other things equal.
- e. None of the above.

5. Ceteris paribus is used in economics:

- *a. To help highlight the impact from the change in one economic variable.
- b. Because in the real world only one variable changes at a time.
- c. Because more than one variable changing at a time is extremely rare.
- d. All of the above.
- e. None of the above.

6. Opportunity costs:

- *a. Include both explicit and implicit costs.
- b. Include explicit and sunk costs.
- c. Include implicit, explicit and sunk costs.
- d. Include explicit costs only.
- e. Only include implicit costs.

7. Elina is contemplating doing a degree. If she does she will incur university fees of \$20,000 in her first year and have to spend \$5,000 on textbooks and university supplies, expenses that she would not have otherwise incurred. To help pay for these fees Elina will have to cash out a term deposit of \$20,000 from which she earned interest of 10 per cent per annum. What is the opportunity cost of Elina attending university for a year?

- a. \$20,000
- *b. \$27,000
- c. \$25,000

d. \$22,000

e. \$7,000

8. Elina is contemplating doing a degree. If she does she will incur university fees of \$20,000 in her first year and have to spend \$5,000 on textbooks and university supplies, expenses that she would not have otherwise incurred. To come to university Elina will also have to give up her job in a local brewery from which she earns \$35,000 a year. What is the opportunity cost of Elina attending university for a year?

a. \$40,000

b. \$35,000

c. \$5,000

d. \$25,000

*e. \$60,000

9. Suzie spends her Thursday afternoon sleeping. If she had not slept she would have read a book. Her third preferred choice would have been to chat with her housemate. Which statement is true?

a. The opportunity cost of sleeping is not reading the book and not chatting to her housemate.

b. The opportunity cost of sleeping is not reading the book, minus the benefit of chatting to her housemate.

c. The opportunity cost of sleeping is not chatting to her housemate.

*d. The opportunity cost of sleeping is not reading the book.

e. None of the above.

10. Which statement is true?

a. The marginal benefit of an activity is the extra cost incurred.

*b. The marginal benefit of an activity is the extra benefit enjoyed.

c. The marginal benefit of an activity is the total benefit a person receives from consuming all of the items of that good.

d. All of the above.

e. None of the above.