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**Chapter 01: The Basics of Economics**

1. Economics is:

- a. an analysis of markets by individuals and businesses.
- b. a function of fiscal and monetary policies by governments.
- c. the decision-making process undertaken by governments in using their limited resources.
- d. the study of how individuals, businesses, and governments make decisions about using limited resources.

ANSWER: d

2. The study of economics:

- a. revolves around a central theme that human wants are limited in developing nations.
- b. considers scarcity to be a situation only for developing nations.
- c. looks at how individuals, businesses, and governments make decisions about how to use their limited resources.
- d. is limited to examining how governments interact with each other at the federal, state, and local levels.

ANSWER: c

3. Scarcity occurs when:

- a. people are selfish.
- b. human wants and needs exceed the resources that are available to meet those wants and needs.
- c. there is insufficient demand.
- d. economies are undeveloped.

ANSWER: b

4. The number of tickets available for a Super Bowl is limited to the number of seats in the stadium. This is an example of:

- a. equity.
- b. human wants.
- c. unlimited needs.
- d. scarcity.

ANSWER: d

5. A central theme of economic thought is that human wants are virtually \_\_\_\_\_ and resources are \_\_\_\_\_.

- a. scarce; unlimited
- b. insufficient; massive
- c. endless; plentiful
- d. unlimited; scarce

ANSWER: d

6. When human wants and needs exceed the resources that are available to meet those wants and needs, \_\_\_\_\_ occurs.

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- a. equity
- b. scarcity
- c. efficiency
- d. allocation

ANSWER:

b

7. Scarcity:

- a. does not exist in the real world.
- b. is experienced only by individuals.
- c. is unique to business.
- d. limits society's productive capacity.

ANSWER:

d

8. Economics assumes that most humans make \_\_\_\_\_ decisions from which they expect to benefit.

- a. motivated
- b. efficient
- c. intelligent
- d. rational

ANSWER:

d

9. Rational self-interest predicts that:

- a. people will alter their behavior in response to changing incentives and circumstances.
- b. incentives are unimportant in decision making.
- c. incentives do not alter behavior.
- d. the decision-making process is efficient.

ANSWER:

a

10. A basic assumption made by economists regarding human behavior is:

- a. ceteris paribus.
- b. rationality.
- c. scarcity.
- d. equity.

ANSWER:

b

11. Where does trade occur?

- a. primarily in foreign markets
- b. only among corporations
- c. in markets
- d. on Main Street

ANSWER:

c

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12. Economics is considered a social science primarily due to its:

- a. elements of psychology.
- b. consideration of how people behave in the broader society.
- c. lack of assumptions about human behavior.
- d. elements of sociology.

ANSWER:

b

13. Economics starts with the premise that most humans are \_\_\_\_\_ and make decisions from which they expect to:

- a. rational; benefit.
- b. rational; make money.
- c. irrational; benefit.
- d. irrational; lose money.

ANSWER:

a

14. Which of the following is an example of a microeconomic issue?

- a. a country's unemployment rate
- b. a country's inflation rate
- c. a country's trade deficit
- d. a decision by Boeing to open another plant

ANSWER:

d

15. \_\_\_\_\_ consists of all actual and potential buyers and sellers of a particular resource or product.

- a. An economy
- b. A society
- c. A country
- d. A market

ANSWER:

d

16. A market:

- a. does not include services.
- b. is absent from government intervention.
- c. transaction relies solely on an exchange for money.
- d. consists of all potential and actual buyers and sellers of resources and products.

ANSWER:

d

17. Amazon and eBay are examples of \_\_\_\_\_ markets.

- a. traditional
- b. retail
- c. online
- d. international

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**ANSWER:**

c

18. In economics, resources include:

- a. money and labor.
- b. money and land.
- c. money and physical capital.
- d. labor and physical capital.

**ANSWER:**

d

19. In economics, physical capital includes:

- a. stocks traded in a stock market.
- b. bonds.
- c. the equipment and machinery that are used to produce goods and services.
- d. goods and services.

**ANSWER:**

c

20. Which branch of economics focuses on economic issues that are faced primarily by individuals and businesses in a particular segment of the economy?

- a. managerial economics
- b. microeconomics
- c. nanoeconomics
- d. macroeconomics

**ANSWER:**

b

21. Which branch of economics focuses on economic issues that impact the overall economy, such as unemployment, inflation, recessions, and economic growth?

- a. managerial economics
- b. microeconomics
- c. behavior economics
- d. macroeconomics

**ANSWER:**

d

22. Maria is analyzing the inflation rates in Brazil and Peru. Which branch of economics is Maria studying?

- a. managerial economics
- b. microeconomics
- c. nanoeconomics
- d. macroeconomics

**ANSWER:**

d

23. Matthew is analyzing the production processes of the Boeing Company. Which branch of economics is Matthew studying?

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- a. managerial economics
- b. microeconomics
- c. nanoeconomics
- d. macroeconomics

**ANSWER:**

b

24. An example of a microeconomic issue is:

- a. the current inflation rate.
- b. the threat of recession.
- c. a local electric company's decision to raise its prices.
- d. a discussion of a tax bill's impact on the economy.

**ANSWER:**

c

25. An example of a macroeconomic issue is:

- a. Ford Motor Company's decision to discontinue a model.
- b. the threat of recession.
- c. an electric company's decision to raise its prices.
- d. a local planning commission's denial of an easement encroachment request from a homeowner.

**ANSWER:**

b

26. When individuals, firms, and policymakers make decisions, these decisions often have both costs and benefits. This is an example of:

- a. scarcity.
- b. trade-offs.
- c. equity.
- d. efficiency.

**ANSWER:**

b

27. What must be given up in order to acquire or do something else is known as:

- a. money.
- b. stocks and bonds.
- c. goals.
- d. opportunity cost.

**ANSWER:**

d

28. What opportunity cost does Sarah incur when she goes to a theater to see a movie?

- a. the cost of her ticket
- b. the price of movie-theater popcorn
- c. the babysitting job she gave up in order to attend the movie
- d. the cost of her ticket and the babysitting job she gave up in order to attend the movie

**ANSWER:**

d

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29. An example of opportunity cost is the:

- a. marginal revenue that a firm receives when producing one more product.
- b. time that a student spends studying for an economics test that results in less study time for a math test.
- c. price of a new car.
- d. decrease in disposable income as taxes increase.

ANSWER:

b

30. Marginal analysis is:

- a. a method that is used to determine income tax brackets.
- b. a method that is seldom used by economists.
- c. the process of comparing the additional benefits of an activity with the additional costs.
- d. another way of explaining disposal income.

ANSWER:

c

31. \_\_\_\_\_ is the extra revenue earned by a business from selling one additional item.

- a. Marginal revenue
- b. Marginal cost
- c. Total revenue
- d. Total cost

ANSWER:

a

32. \_\_\_\_\_ is the extra cost of selling one additional item.

- a. Marginal revenue
- b. Marginal cost
- c. Total revenue
- d. Total cost

ANSWER:

b

33. Prices not adjusted for inflation are:

- a. real.
- b. marginal.
- c. total.
- d. nominal.

ANSWER:

d

34. Suzanne just obtained a car loan at a 5% interest rate. This is a \_\_\_\_\_ interest rate.

- a. real
- b. marginal
- c. total

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- d. nominal

ANSWER:

d

35. A bank would like to make a 2% real return on its car loans. The expected inflation rate is 4%. What rate should the bank charge?

- a. 2%
- b. 4%
- c. 6%
- d. 8%

ANSWER:

c

36. Grace is considering the purchase of a dress with a price tag of \$45.00. This is a \_\_\_\_\_ price.

- a. real
- b. marginal
- c. artificial
- d. nominal

ANSWER:

d

37. Prices adjusted for inflation are:

- a. real.
- b. marginal.
- c. total.
- d. nominal.

ANSWER:

a

38. Maria was thrilled to receive a 3% raise. Inflation is 4%. Maria is experiencing:

- a. money illusion.
- b. opportunity cost.
- c. income inflation.
- d. tunnel vision.

ANSWER:

a

39. The time necessary to make all adjustments to new economic circumstances is known as:

- a. the long run.
- b. the short run.
- c. circumstantial.
- d. periodical.

ANSWER:

a

40. The time insufficient to make all adjustments to new economic circumstances is known as:

- a. the long run.

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- b. the short run.
- c. circumstantial.
- d. periodical.

ANSWER:

b

41. The price of a gallon of gas increases unexpectedly by \$4 per gallon. Because Tracey's gas warning light is on, in the \_\_\_\_\_ run, she has to pay the higher gas price. However, in the \_\_\_\_\_ run, she will be able to make car-pooling arrangements with a friend.

- a. long; short
- b. long; long.
- c. short; long
- d. short; short

ANSWER:

c

42. A firm is submitting a bid to build a bridge that will take five years to build. In their bid, the firm's estimators have included forecasted price increases on supplies over the five-year period. This firm is taking a \_\_\_\_\_ view of the project.

- a. long-run.
- b. short-run.
- c. circumstantial.
- d. periodical.

ANSWER:

a

43. The market that consists of buyers and sellers of assets like stocks, bonds, and foreign currencies is known as the:

- a. labor market.
- b. financial market.
- c. resource market.
- d. commodity market.

ANSWER:

b

44. The market that connects employees and employers is known as the:

- a. labor market.
- b. financial market.
- c. product market.
- d. commodity market.

ANSWER:

a

45. The efficiency of the labor market is directly connected to:

- a. production output.
- b. inflation.



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- c. scarcity.
- d. scarce resources.

ANSWER:

a

46. Soybeans are traded in the \_\_\_\_\_ market.

- a. labor
- b. financial
- c. resource
- d. commodity

ANSWER:

d

47. The question of whether student loans should or should not be forgiven is an example of:

- a. marginal benefit.
- b. positive analysis.
- c. normative analysis.
- d. marginal cost.

ANSWER:

c

48. \_\_\_\_\_ analysis is subjective and value-based.

- a. Cost-benefit
- b. Positive
- c. Normative
- d. Marginal cost

ANSWER:

c

49. \_\_\_\_\_ analysis considers questions involving cause and effect.

- a. Cost-benefit
- b. Positive
- c. Normative
- d. Marginal cost

ANSWER:

b

50. A firm deciding the best way to support its sustainability initiatives is an example of:

- a. marginal benefit.
- b. positive analysis.
- c. normative analysis.
- d. marginal cost.

ANSWER:

b

51. Efficiency is:

- a. utilizing all resources equally.

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- b. utilizing available resources to maximize output.
- c. allocating resources.
- d. distributing resources.

ANSWER:

b

52. Producing as much as possible with available resources results is known as:

- a. scarcity.
- b. equity.
- c. efficiency.
- d. effectiveness.

ANSWER:

c

53. Fairness of output and income distribution is known as:

- a. equity.
- b. efficiency.
- c. effectiveness.
- d. scarcity.

ANSWER:

a

54. Inherited wealth is an example of:

- a. inequity.
- b. inefficiency.
- c. ineffectiveness.
- d. scarcity.

ANSWER:

a

55. A manufacturing firm that is producing at less than maximum output due to a government restriction on hours of operation is operating:

- a. with less competition.
- b. at a loss.
- c. with fewer resources.
- d. inefficiently.

ANSWER:

d

56. The factors of production are known as:

- a. natural resources, labor, physical capital, and entrepreneurship.
- b. natural resources, labor, physical capital, and output.
- c. labor, output, physical capital, and unions.
- d. output, labor, transportation, and entrepreneurship.

ANSWER:

a

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57. The inputs used in the production of goods and services are factors of:

- a. efficiency.
- b. equity.
- c. scarcity.
- d. production.

ANSWER:

d

58. Labor is defined:

- a. solely as physical work for which payment is received.
- b. as human effort used in the production of goods and services.
- c. as physical capital used in human effort.
- d. as the entrepreneurship ability used to produce goods.

ANSWER:

b

59. The payment for labor is:

- a. wages and salaries.
- b. rent.
- c. dividends.
- d. interest.

ANSWER:

a

60. Inputs that are found in nature and that can be used in the production process are known as:

- a. physical capital.
- b. human capital.
- c. natural resources.
- d. money.

ANSWER:

c

61. Oil drilled from the ground in Saudi Arabia is considered which factor of production?

- a. land
- b. human capital
- c. a natural resource
- d. physical capital

ANSWER:

c

62. The equipment and machinery that are used to produce goods and services are known as:

- a. physical capital.
- b. human capital.
- c. natural resources.
- d. financial capital.

ANSWER:

a

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63. A farmer uses soil, seeds, a highly skilled foreman, tractors, and a barn to produce his harvest. Which factor of production is the soil?

- a. natural resources
- b. human capital
- c. entrepreneurship
- d. physical capital

ANSWER: a

64. A farmer uses soil, seeds, a highly skilled foreman, tractors, and a barn to produce his harvest. Which factor of production is the foreman?

- a. labor
- b. human capital
- c. natural resources
- d. physical capital

ANSWER: b

65. A farmer uses soil, seeds, a highly skilled foreman, tractors, and a barn to produce his harvest. Which factor of production are the tractors?

- a. labor
- b. human capital
- c. natural resources
- d. physical capital

ANSWER: d

66. A farmer uses soil, seeds, a highly skilled foreman, tractors, and a barn to produce his harvest. Which factor of production is the barn?

- a. entrepreneurship
- b. human capital
- c. natural resources
- d. physical capital

ANSWER: d

67. A farmer uses soil, seeds, a highly skilled foreman, tractors, and a barn to produce his harvest. Which factor of production is the farmer?

- a. entrepreneurship
- b. human capital
- c. natural resources
- d. physical capital

ANSWER: a

68. The eBay website uses technology and the Internet for its virtual marketplace, employs personnel to

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maintain the technology, provides office space for employees, and has a founder who quit a lucrative career in another industry. Which factor of production is the founder?

- a. entrepreneurship
- b. human capital
- c. natural resources
- d. physical capital

**ANSWER:**

a

69. The eBay website uses technology and the Internet for its virtual marketplace, employs personnel to maintain the technology, provides office space for employees, and has a founder who quit a lucrative career in another industry. Which factor of production are computers used to access the Internet?

- a. entrepreneurship
- b. human capital
- c. natural resources
- d. physical capital

**ANSWER:**

d

70. Exxon Mobil is an oil and gas company that operates in the energy sector. Which factor of production do oil and gas employ?

- a. entrepreneur
- b. human capital
- c. natural resources
- d. physical capital

**ANSWER:**

c

71. The eBay website uses technology and the Internet for its virtual marketplace, employs personnel to maintain the technology, provides office space for employees, and has a founder who quit a lucrative career in another industry. Which factor of production are employees?

- a. entrepreneurship
- b. human capital
- c. natural resources
- d. physical capital

**ANSWER:**

b

72. The eBay website uses technology and the Internet for its virtual marketplace, employs personnel to maintain the technology, provides office space for employees, and has a founder who quit a lucrative career in another industry. Which factor of production is the office space?

- a. entrepreneurship
- b. human capital
- c. natural resources
- d. physical capital

**ANSWER:**

d

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73. Skills that are acquired through education, experience, and training and that allow labor to be more productive are known as:

- a. physical capital.
- b. human capital.
- c. natural resources.
- d. financial capital.

ANSWER: b

74. Individuals who combine various resources into a business in pursuit of profit are known as:

- a. members of a union.
- b. farmers.
- c. employees.
- d. entrepreneurs.

ANSWER: d

75. Which factor of production has limited availability and thus constrains what society is capable of producing?

- a. natural resources
- b. labor
- c. capital
- d. natural resources, labor, and capital

ANSWER: d

76. The ceteris paribus assumption:

- a. means that other economic and business conditions are held constant.
- b. is not a critical component of economic thinking.
- c. was used by ancient Greeks in trade.
- d. is Latin for "go forth and conquer."

ANSWER: a

77. The practice of holding other factors constant in order to understand the effect of a specific variable is known as the:

- a. scientific method.
- b. ceteris paribus assumption.
- c. invisible hand.
- d. law of averages.

ANSWER: b

78. In economics, when a business invests in capital, it is:

- a. raising money.
- b. purchasing equipment and machinery.

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- c. selling stocks and bonds.
- d. raising prices.

ANSWER:

b

79. In economics, when a business increases investment, it is:

- a. raising money.
- b. purchasing equipment and machinery.
- c. selling stocks and bonds.
- d. purchasing stocks and bonds.

ANSWER:

b

80. When a business increases investment, what is the effect on the economy?

- a. There is no effect on the economy.
- b. Prices on goods and services increase.
- c. The amount of physical capital increases.
- d. The firm's financial capital increases.

ANSWER:

c

81. When the band Alabama Shakes purchases a new tour bus, what is the effect on the economy?

- a. There is no effect on the economy.
- b. Prices on goods and services increase.
- c. The amount of physical capital increases.
- d. The firm's financial capital increases.

ANSWER:

c

82. When Amazon builds its second headquarters, what is the effect on the economy?

- a. The amount of physical capital increases.
- b. Prices on goods and services increase.
- c. There is no effect on the economy.
- d. The firm's financial capital increases.

ANSWER:

a

83. The value of a business or property minus the value of any debt obligations is known as:

- a. profit.
- b. owner's equity.
- c. income.
- d. mortgage.

ANSWER:

b

84. Resources include labor, natural resources, physical capital, human capital, and:

- a. equity.

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- b. stocks and bonds.
- c. entrepreneurship.
- d. money.

ANSWER:

c

85. In the finance field, the word *capital* refers to \_\_\_\_\_. In the economics field, the word *capital* refers to:

- a. stocks and bonds; inventory.
- b. money; equity.
- c. owner's equity; equity.
- d. money; equipment and structures.

ANSWER:

d

86. Scarcity of resources:

- a. limits productive capacity.
- b. does not apply to advanced economies.
- c. is theory, not fact.
- d. applies only to natural resources.

ANSWER:

a

87. Business performance can be analyzed through:

- a. science.
- b. technology.
- c. mathematics.
- d. economics.

ANSWER:

d

88. \_\_\_\_\_ enables us to quantify choices and to understand the relationships between resources and behavior.

- a. Science
- b. Technology
- c. Mathematics
- d. Economics

ANSWER:

d

89. Factors of production are also known as:

- a. science and technology.
- b. resources.
- c. goods and services.
- d. economics.

ANSWER:

b

90. \_\_\_\_\_ allow(s) \_\_\_\_\_ to be more productive.



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- a. Labor; physical capital
- b. Natural resources; labor
- c. Physical capital; labor
- d. Natural resources; entrepreneurs

**ANSWER:**

c

91. Spending on new capital goods and investment is which factor of production?

- a. natural resources
- b. labor
- c. physical capital
- d. entrepreneurship

**ANSWER:**

c

92. What is the difference between microeconomics and macroeconomics? Give examples.

**ANSWER:** Microeconomics focuses on economic issues that are faced primarily by individuals and businesses in a particular segment of the overall economy. Macroeconomics focuses on economic issues that impact the overall economy. Examples will vary.

93. What is Adam Smith to the field of economics?

**ANSWER:** Adam Smith is widely viewed as the founder of modern economics. In his groundbreaking work *The Wealth of Nations* (1776), he examines the concept of rational self-interest, the benefits of trade, and the importance of markets.

94. What is trade, and where does it occur? Give examples.

**ANSWER:** Trade is a means for buyers and sellers to engage in the exchange of a good or service. It occurs in markets. Examples will vary.

95. Explain the ceteris paribus assumption relative to the following scenario. Lakshmi is considering buying a new car. She asks the salesperson, "What are the monthly payments?"

**ANSWER:** The ceteris paribus assumption analyzes the relationship between an economic variable and the quantity of a good that is demanded. In this situation, the economic variable is income. Lakshmi is trying to determine whether she has enough income to afford the monthly payments for the car.

96. Why does economic thinking require taking both the long-run view and the short-run view?

**ANSWER:** The long run is the length of time that it takes for people to make adjustments to change. The short run is a time period that is too short for adjustments to be made. Economic thinking requires consideration of both because circumstances change and policies and decisions need to be adaptable. Many government policies that are good for the economy in the long run have adverse consequences in the short run, and vice versa.

97. Give an example of entrepreneurship as a factor of production, and describe the role that is played by an entrepreneur.

**ANSWER:** Answers will vary. The owner of an auto repair shop is an entrepreneur who supervises labor

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(mechanics), manages equipment and machinery (physical capital), and rents or owns a building to house his auto repair service. He ensures that all factors of production are working together.