

Economics, 4e (Hubbard)

Chapter 1 Economics: Foundations and Models

1.1 Three Key Economic Ideas

1) Recent changes occurring within the U.S. health care system, including lower insurance reimbursement rates, have resulted in

- A) a growing number of doctor's choosing to open private practices.
- B) more medical practices being owned by hospitals than by individual doctors.
- C) a majority of hospitals closing routine medical practices in order to focus only on emergency care facilities.
- D) a majority of doctors working directly for insurance companies.

Answer: B

Diff: 2 Page Ref: 3/3

Topic: Scarcity

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: Chapter Opener: Why Are Some Doctors Leaving Practices?

2) In economics, choices must be made because we live in a world of

- A) unemployment.
- B) scarcity.
- C) greed.
- D) unlimited resources.

Answer: B

Diff: 1 Page Ref: 4/4

Topic: Scarcity

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

3) Which of the following statements is true about scarcity?

- A) Scarcity refers to the situation in which unlimited wants exceed limited resources.
- B) Scarcity is not a problem for the wealthy.
- C) Scarcity is only a problem when a country has too large a population.
- D) Scarcity arises when there is a wide disparity in income distribution.

Answer: A

Diff: 1 Page Ref: 4/4

Topic: Scarcity

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

4) The basic economic problem of _____ has always existed and will continue to exist.

- A) scarcity
- B) efficiency
- C) inflation
- D) recession

Answer: A

Diff: 1 Page Ref: 4/4

Topic: Scarcity

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

5) By definition, economics is the study of

- A) how to make money in the stock market.
- B) how to make money in a market economy.
- C) the choices people make to attain their goals, given their scarce resources.
- D) supply and demand.

Answer: C

Diff: 1 Page Ref: 4/4

Topic: Scarcity

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking, Communication

Special Feature: None

6) An economic _____ is a simplified version of some aspect of economic life used to analyze an economic issue.

- A) market
- B) trade-off
- C) variable
- D) model

Answer: D

Diff: 1 Page Ref: 4/4

Topic: Economic Models

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

- 7) Where do economic agents such as individuals, firms and nations, interact with each other?
- A) in public locations monitored by the government
 - B) in any arena that brings together buyers and sellers
 - C) in any physical location where people can physically get together for selling goods, such as shopping malls
 - D) in any location where transactions can be monitored by consumer groups and taxed by the government

Answer: B

Diff: 1 Page Ref: 4/4

Topic: Markets

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

- 8) The term _____ in economics refers to a group of buyers and sellers of a product and the arrangement by which they come together to trade.

- A) collective
- B) cooperative
- C) market
- D) trade-off

Answer: C

Diff: 1 Page Ref: 4/4

Topic: Markets

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

- 9) Economists assume that individuals

- A) behave in unpredictable ways.
- B) will never take actions to help others.
- C) prefer to live in a society that values fairness above all else.
- D) are rational and respond to incentives.

Answer: D

Diff: 1 Page Ref: 5/5

Topic: People Are Rational

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

10) Economists assume that rational behavior is useful in explaining choices people make

- A) because irrational people do not make economic choices.
- B) even though people may not behave rationally all the time.
- C) because individuals act rationally all the time in all circumstances.
- D) even though people rarely, if ever, behave in a rational manner.

Answer: B

Diff: 2 Page Ref: 5/5

Topic: People Are Rational

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

11) Economists assume that rational people do all of the following *except*

- A) use all available information as they act to achieve their goals.
- B) undertake activities that benefit others and hurt themselves.
- C) weigh the benefits and costs of all possible alternative actions.
- D) respond to economic incentives.

Answer: B

Diff: 2 Page Ref: 5/5

Topic: People Are Rational

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

12) Economics does not study correct or incorrect behaviors but rather it assumes that economic agents behave _____, meaning they make the best decisions given their knowledge of the costs and benefits.

- A) equitably
- B) rationally
- C) emotionally
- D) selfishly

Answer: B

Diff: 2 Page Ref: 5/5

Topic: People Are Rational

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

13) Consider the following statements:

- a. Car owners purchase more gasoline from a gas station that sells gasoline at a lower price than other rival gas stations in the area.
- b. Banks do not take steps to increase security since they believe it is less costly to allow some bank robberies than to install expensive security monitoring equipment.
- c. Firms produce more of a particular DVD when its selling price rises.

Which of the above statements demonstrates that economic agents respond to incentives?

- A) a only.
- B) b only.
- C) c only.
- D) a and b.
- E) a, b, and c.

Answer: E

Diff: 3 Page Ref: 5/5

Topic: People Respond to Economic Incentives

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

14) Suppose that some teachers have decided that economic and financial uncertainty have made the prospect of retiring more risky, and therefore carry a higher cost than not retiring. By using all available information as they act to achieve their goals, these teachers are exemplifying the economic idea that

- A) people are rational.
- B) people respond to economic incentives.
- C) optimal decisions are made at the margin.
- D) equity is more important than efficiency.

Answer: A

Diff: 2 Page Ref: 5/5

Topic: People Are Rational

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

15) Suppose the U.S. government encouraged new medical school graduates to take over existing practices from doctors wishing to retire by paying both the new and retiring doctors \$100,000. These doctors would be exemplifying the economic idea that

- A) people are rational.
- B) people respond to economic incentives.
- C) optimal decisions are made at the margin.
- D) equity is more important than efficiency.

Answer: B

Diff: 2 Page Ref: 5/5

Topic: People Respond to Economic Incentives

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

16) Holding all other personal characteristics-such as age, gender, and income-constant, economists would expect that

- A) people with health insurance will be less likely to be overweight than people without health insurance.
- B) people with health insurance will be more likely to be overweight than people without health insurance.
- C) people with health insurance will be equally likely to be overweight as people without health insurance.
- D) there is no correlation between having health insurance and being overweight.

Answer: B

Diff: 2 Page Ref: 5-7/5-7

Topic: People Respond to Economic Incentives

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: Making the Connection: Does Health Insurance Give People an Incentive to Become Obese?

17) Since 1994, obesity rates in the United States

- A) have been on a slow and steady decline.
- B) have increased in all 50 states.
- C) have primarily increased in the Southeast and remained constant or slightly decreased in the remainder of the country.
- D) have remained fairly constant throughout the country.

Answer: B

Diff: 1 Page Ref: 5-7/5-7

Topic: People Respond to Economic Incentives

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

Special Feature: Making the Connection: Does Health Insurance Give People an Incentive to Become Obese?

18) In economics, the term _____ means "additional" or "extra."

- A) allocative
- B) marginal
- C) equity
- D) optimal

Answer: B

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

19) A grocery store sells a bag of potatoes at a fixed price of \$2.30. Which of the following is a term used by economists to describe the money received from the sale of an additional bag of potatoes?

- A) marginal revenue
- B) gross earnings
- C) pure profit
- D) marginal costs
- E) net benefit

Answer: A

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

20) Economists reason that the optimal decision is to continue any activity up to the point where the

- A) marginal benefit is zero.
- B) marginal benefit is greater than the marginal cost.
- C) marginal cost is zero.
- D) marginal benefit equals the marginal cost.

Answer: D

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

- 21) Marginal analysis involves undertaking an activity
- A) until its marginal costs start declining.
 - B) only when its marginal benefits are positive.
 - C) until its marginal benefits equal marginal costs.
 - D) only if its marginal costs are greater than its marginal benefits.

Answer: C

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

- 22) The revenue received from the sale of _____ of a product is a marginal benefit to the firm.

- A) an additional unit
- B) the total number of units
- C) no units
- D) only profitable units

Answer: A

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

- 23) Making optimal decisions "at the margin" requires

- A) making decisions according to one's whims and fancies.
- B) making consistently irrational decisions.
- C) weighing the costs and benefits of a decision before deciding if it should be pursued.
- D) making borderline decisions.

Answer: C

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

24) Making "how much" decisions involve

A) calculating the total benefits of the activity and determining if you are satisfied with that amount.

B) calculating the total costs of the activity and determining if you can afford to incur that expenditure.

C) calculating the average benefit and the average cost of an activity to determine if it is worthwhile undertaking that activity.

D) determining the additional benefits and the additional costs of that activity.

Answer: D

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

25) The extra cost associated with undertaking an activity is called

A) net loss.

B) marginal cost.

C) opportunity cost.

D) foregone cost.

Answer: B

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

26) DeShawn's Detailing is a service that details cars at the customers' homes or places of work.

DeShawn's cost for a basic detailing package is \$40, and he charges \$75 for this service. For a total price of \$90, DeShawn will also detail the car's engine, a service that adds an additional \$20 to the total cost of the package. What is DeShawn's marginal benefit if he sells a basic detailing package?

A) \$35

B) \$75

C) He makes a marginal loss of \$15, not a marginal benefit.

D) The marginal benefit cannot be determined.

Answer: B

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

27) DeShawn's Detailing is a service that details cars at the customers' homes or places of work. DeShawn's cost for a basic detailing package is \$40, and he charges \$75 for this service. For a total price of \$90, DeShawn will also detail the car's engine, a service that adds an additional \$20 to the total cost of the package. What is the marginal cost of adding the engine detailing to the basic detailing package?

- A) \$20
- B) \$30
- C) \$60
- D) \$60 plus the value of his time

Answer: A

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

28) DeShawn's Detailing is a service that details cars at the customers' homes or places of work. DeShawn's cost for a basic detailing package is \$40, and he charges \$75 for this service. For a total price of \$90, DeShawn will also detail the car's engine, a service that adds an additional \$20 to the total cost of the package. Should DeShawn continue to offer the engine detailing service?

- A) yes, he still makes a profit by selling the engine detailing service with the basic detailing package
- B) yes, but only if he raises the price of the basic detailing package
- C) no, his marginal benefit is less than his marginal cost
- D) More information is needed for DeShawn to make this decision.

Answer: C

Diff: 3 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

Scenario 1-1

Suppose a cell phone manufacturer currently sells 20,000 cell phones per week and makes a profit of \$5,000 per week. A manager at the plant observes, "Although the last 3,000 cell phones we produced and sold increased our revenue by \$6,000 and our costs by \$6,700, we are still making an overall profit of \$5,000 per week so I think we're on the right track. We are producing the optimal number of cell phones."

29) ***Refer to Scenario 1-1.*** Using marginal analysis terminology, what is another economic term for the incremental revenue received from the sale of the last 3,000 cell phones?

- A) gross earnings
- B) marginal revenue
- C) sales revenue
- D) gross profit

Answer: B

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

30) ***Refer to Scenario 1-1.*** Using marginal analysis terminology, what is another economic term for the incremental cost of producing the last 3,000 cell phones?

- A) marginal cost
- B) operating cost
- C) explicit cost
- D) Any of the above terms are correct.

Answer: A

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

31) **Refer to Scenario 1-1.** Had the firm not produced and sold the last 3,000 cell phones, would its profit be higher or lower, and if so by how much?

- A) Its profit will be \$6,700 higher.
- B) Its profit will be \$700 higher.
- C) Its profit will be \$700 lower.
- D) Its profit will be \$6,000 lower.

Answer: B

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

Table 1-1

Hours Open	Total Revenue (dollars)
1	\$50
2	75
3	95
4	110
5	120
6	125

Lydia runs a small nail salon in the town of New Hope. She is debating whether she should extend her hours of operation. Lydia figures that her sales revenue will depend on the number of hours the nail salon is open as shown in the table above. She would have to hire a worker for those hours at a wage rate of \$10 per hour.

32) **Refer to Table 1-1.** Using marginal analysis, determine how many hours should Lydia extend her nail salon's hours of operations?

- A) 2 hours
- B) 3 hours
- C) 4 hours
- D) 5 hours
- E) 6 hours

Answer: D

Diff: 3 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

33) **Refer to Table 1-1.** What is Lydia's marginal benefit if she decides to stay open for two hours instead of one hour?

- A) \$25
- B) \$50
- C) \$75
- D) \$125

Answer: A

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

34) **Refer to Table 1-1.** What is Lydia's marginal cost if she decides to stay open for two hours instead of one hour?

- A) \$10
- B) \$20
- C) \$25
- D) \$40

Answer: A

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

35) Soo Jin shares a one-bedroom apartment with her classmate. Her share of the rent is \$700 per month. She is considering moving to a studio apartment which she will not have to share with anyone. The studio apartment rents for \$950 per month. Recently, you ran into Soo Jin on campus and she tells you that she has moved into the studio apartment. Soo Jin is as rational as any other person. As an economics major, you rightly conclude that

A) Soo Jin did not have a choice; her roommate was a slob.

B) Soo Jin figures that the additional benefit of having her own place (as opposed to sharing) is at least \$250.

C) Soo Jin figures that the benefit of having her own place (as opposed to sharing) is at least \$950.

D) the cost of having one's own space outweighs the benefits.

Answer: B

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

36) If the marginal cost of keeping a doctor's office open one additional hour per day is \$200, then the doctor should keep the office open for one extra hour

A) only if the marginal benefit she receives is greater than \$200 plus an acceptable profit margin.

B) as long as the marginal benefit she receives is just equal to or greater than \$200.

C) as long as the marginal cost does not rise.

D) until the marginal benefit she receives reaches zero.

Answer: B

Diff: 2 Page Ref: 8/8

Topic: Optimal Decisions Are Made at the Margin

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: Solved Problem: A Doctor Makes a Decision at the Margin

37) Scarcity refers to a situation in which unlimited wants exceed the limited resources available to fulfill those wants.

Answer: TRUE

Diff: 1 Page Ref: 4/4

Topic: Scarcity

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

38) Scarcity is a problem that will eventually disappear as technology advances.

Answer: FALSE

Diff: 1 Page Ref: 4/4

Topic: Scarcity

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

39) An economic model is a simplified version of reality used to analyze real-world economic situations.

Answer: TRUE

Diff: 1 Page Ref: 4/4

Topic: Economic Models

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

40) The sales revenue a seller receives from the sale of an additional unit of goods is called the marginal benefit.

Answer: TRUE

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

41) Optimal decisions are made at the point where marginal cost equals zero.

Answer: FALSE

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

42) If it costs Sinclair \$300 to produce 3 suede jackets and \$420 to produce 4 suede jackets, then the difference of \$120 is the marginal cost of producing the 4th suede jacket.

Answer: TRUE

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

43) Suppose the extra cost for a doctor to keep his office open for one extra hour is \$200. Then, the doctor should stay open for the extra hour even if he can generate additional revenue of \$200 for that hour.

Answer: TRUE

Diff: 2 Page Ref: 8/8

Topic: Optimal Decisions Are Made at the Margin

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: Solved Problem: A Doctor Makes a Decision at the Margin

44) Explain the economic assumption that "people are rational."

Answer: "People are rational" means that economists assume consumers and firms will use all available information as they act to achieve their goals. Rational individuals weigh the benefits and costs of each action, and they choose an action only if the benefits exceed the costs.

Diff: 2 Page Ref: 5/5

Topic: People Are Rational

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

45) Explain the economic idea that "people respond to incentives."

Answer: Human beings act from a variety of motives, including religious belief, envy, and compassion. "People respond to incentives" means that people will act if they feel it is in their best economic interest to do so.

Diff: 2 Page Ref: 5/5

Topic: People Respond to Economic Incentives

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

46) What is meant by the statement that "optimal decisions are made at the margin"?

Answer: In economics, the word "marginal" means "extra" or "additional." Economists reason that the optimal decision is to continue any activity up to the point where the marginal benefit equals the marginal cost, so optimal decisions are made at the point where the extra benefit received from an activity is equal to the extra cost associated with that activity.

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

47) Assume that a doctor can earn an additional \$20,000 of revenue each year from keeping his office open for one additional hour per week. What must the additional cost of keeping the office open this additional hour per week be to make staying open for the extra hour economically rational?

Answer: The additional cost of staying open for one additional hour per week must be no more than \$20,000 for the year to make staying open for the extra hour economically rational.

Diff: 2 Page Ref: 7/7

Topic: People Are Rational

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: Solved Problem: A Doctor Makes a Decision at the Margin

1.2 The Economic Problem That Every Society Must Solve

1) The three fundamental questions that any economy must address are:

A) What will be the prices of goods and services; how will these goods and services be produced; and who will receive them?

B) What goods and services to produce; how will these goods and services be produced; and who receives them?

C) Who gets jobs; what wages do workers earn; and who owns what property?

D) How much will be saved; what will be produced; and how can these goods and services be fairly distributed?

Answer: B

Diff: 1 Page Ref: 8/8

Topic: Trade-offs

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

2) The idea that because of scarcity, producing more of one good or service means producing less of another good or service refers to the economic concept of

- A) optimization.
- B) efficiency.
- C) trade-off.
- D) equity.

Answer: C

Diff: 1 Page Ref: 8/8

Topic: Trade-offs

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

3) Society faces a trade-off in all of the following situations *except*

- A) when deciding who will receive the goods and services produced.
- B) when deciding what goods and services will be produced.
- C) when deciding how goods and services will be produced.
- D) when some previously unemployed workers find jobs.

Answer: D

Diff: 2 Page Ref: 8/8

Topic: Trade-offs

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

4) Which of the following statements is true?

- A) Anytime you have to decide which action to take you are experiencing economic equity.
- B) Trade-offs do not apply when the consumers purchase a product for which there is excess supply, such as a stock clearance sale.
- C) Every individual, no matter how rich or poor, is faced with making trade-offs.
- D) Economics is a social science that studies the trade-offs we are forced to make because resources are unlimited.

Answer: C

Diff: 2 Page Ref: 8/8

Topic: Trade-offs

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

5) Which of the following is *not* an example of an economic trade-off that a firm has to make?

- A) whether it is cheaper to produce with more machines or with more workers
- B) whether it is to outsource the production of a good or service
- C) whether or not consumers will buy its products
- D) whether it should produce more of its product

Answer: C

Diff: 1 Page Ref: 8/8

Topic: Trade-offs

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

6) The highest valued alternative that must be given up to engage in an activity is the definition of

- A) economic equity.
- B) marginal benefit.
- C) opportunity cost.
- D) marginal cost.

Answer: C

Diff: 1 Page Ref: 9/9

Topic: Opportunity Cost

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

7) The Coffee Nook, a small cafe near campus, sells cappuccinos for \$2.50 and Russian tea cakes for \$1.00 each. What is the opportunity cost of buying a cappuccino?

- A) 2 1/2 Russian tea cakes
- B) 2/5 of a Russian tea cake
- C) \$2.50
- D) \$1.00

Answer: A

Diff: 1 Page Ref: 9/9

Topic: Opportunity Cost

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

8) Arlene quits her \$125,000-a-year job to take care of her ailing parents. What is the opportunity cost of her decision?

- A) zero, since she will no longer be earning a salary
- B) It depends on the "going rate" for home-care providers.
- C) at least \$125,000
- D) the value she attributes to the satisfaction she receives from taking care of her parents

Answer: C

Diff: 1 Page Ref: 9/9

Topic: Opportunity Cost

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

9) The distribution of income primarily determines which of the fundamental economic questions?

- A) What goods and services are to be produced?
- B) How the goods and services are to be produced?
- C) Who will receive the goods and services produced?
- D) How to plan the economy?

Answer: C

Diff: 2 Page Ref: 9/9

Topic: Who Will Receive the Goods and Services Produced?

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

10) Automobile manufacturers produce a range of automobiles such as sports utility vehicles, luxury sedans, pickup trucks and compact cars. What fundamental economic question are they addressing by making this range of products?

- A) How to produce goods that consumers want?
- B) Why produce a variety of automobiles?
- C) What to produce?
- D) Who to produce automobiles for?

Answer: C

Diff: 1 Page Ref: 9/9

Topic: What Goods and Services Will Be Produced?

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

11) Consider the following economic agents:

- a. the government
- b. consumers
- c. producers

Who, in a centrally planned economy, decides what goods and services will be produced with the scarce resources available in that economy?

- A) the government
- B) producers
- C) consumers
- D) consumers and producers
- E) the government, consumers and producers

Answer: A

Diff: 1 Page Ref: 9/9

Topic: What Goods and Services Will Be Produced?

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

12) The decision about what goods and services will be produced made in a market economy is made by

- A) lawmakers in the government voting on what will be produced.
- B) workers deciding to produce only what the boss says must be produced.
- C) producers deciding what society wants most.
- D) consumers and firms choosing which goods and services to buy or produce.
- E) consumers dictating to firms what they need most.

Answer: D

Diff: 1 Page Ref: 9/9

Topic: What Goods and Services Will Be Produced?

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

13) Which of the following statements about the economic decisions consumers, firms, and the government have to make is *false*?

- A) Governments face the problem of scarcity in making economic decisions.
- B) Only individuals face scarcity; firms and the government do not.
- C) Both firms and individuals face scarcity.
- D) Each faces the problem of scarcity which necessitates trade-offs in making economic decisions.

Answer: B

Diff: 1 Page Ref: 9/9

Topic: What Goods and Services Will Be Produced?

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

14) Why is it necessary for all economic systems to not only provide people with goods and services, but also restrict them from getting as much of these goods and services as they wish?

- A) Failure to do this could reduce the efficiency of the system by producing some goods and services that are not as highly valued as others.
- B) Failure to do this could lead to an inequitable allocation of goods and services produced.
- C) Failure to do this could lead to drastic shortages of good and services.
- D) Failure to do this could reduces efficiency and leads to an inequitable allocation of output.

Answer: A

Diff: 3 Page Ref: 9/9

Topic: Who Will Receive the Goods and Services Produced?

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

15) Who receives the most of what is produced in a market economy?

- A) lawmakers and other politically favored groups
- B) those who are willing and able to buy them
- C) everyone receives an equal amount
- D) people who earn the highest incomes

Answer: B

Diff: 1 Page Ref: 9/9

Topic: Who Will Receive the Goods and Services Produced?

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

16) How are the fundamental economic decisions determined in North Korea?

- A) Individuals, firms, and the government interact in a market to make these economic decisions.
- B) These decisions are made by the country's elders who have had much experience in answering these questions.
- C) The government decides because North Korea is a centrally planned economy.
- D) The United Nations decides because North Korea is a developing economy.

Answer: C

Diff: 1 Page Ref: 10/10

Topic: Centrally Planned Economies

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

17) How are the fundamental economic questions answered in a market economy?

- A) The government alone decides the answers.
- B) Individuals, firms, and the government interact in markets to decide the answers to these questions.
- C) Households and firms interact in markets to decide the answers to these questions.
- D) Large corporations alone decide the answers.

Answer: C

Diff: 2 Page Ref: 10/10

Topic: Market Economies

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

18) Which of the following is a problem inherent in centrally planned economies?

- A) Households and firms make poor decisions in choosing how resources are allocated.
- B) There is too little production of low-cost, high-quality goods and services.
- C) Production managers are more concerned with satisfying consumer wants than with satisfying government's orders.
- D) Exports tend to exceed imports.

Answer: B

Diff: 2 Page Ref: 10/10

Topic: Centrally Planned Economies

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

19) All of the following contributed to the downfall of the Soviet Union in 1991 *except*

- A) public dissatisfaction with low living standards and political repression.
- B) an inability to produce low-cost consumer goods that households wanted.
- C) lack of high-quality goods and services.
- D) lack of a strong dictator who can coordinate economic activities.

Answer: D

Diff: 2 Page Ref: 10/10

Topic: Centrally Planned Economies

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

20) _____ is a situation in which a good or service is produced at the lowest possible cost.

- A) Allocative efficiency
- B) Productive efficiency
- C) Equity
- D) Optimal marginalism

Answer: B

Diff: 1 Page Ref: 11/11

Topic: Efficiency

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

21) Productive efficiency is achieved when

- A) firms add a low profit margin to the goods and services they produce.
- B) firms produce the goods and services that consumers value most.
- C) firms produce goods and services at the lowest cost.
- D) there are no shortages or surpluses in the market.

Answer: C

Diff: 1 Page Ref: 11/11

Topic: Efficiency

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

22) When production reflects consumer preferences, _____ occurs.

- A) allocative efficiency
- B) productive efficiency
- C) equity
- D) efficient central planning

Answer: A

Diff: 1 Page Ref: 11/11

Topic: Efficiency

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

23) Allocative efficiency is achieved when firms produce goods and services

- A) at the lowest possible cost.
- B) that consumers value most.
- C) at the lowest opportunity cost.
- D) at a marginal cost of zero.

Answer: B

Diff: 1 Page Ref: 11/11

Topic: Efficiency

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

24) Markets promote

- A) equity and competition.
- B) voluntary exchange and equality.
- C) equity and equality.
- D) competition and voluntary exchange.

Answer: D

Diff: 2 Page Ref: 10/10

Topic: Market Economies

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

25) Which of the following statements is true about competition in a market?

- A) Competition forces firms to outsource the production of their labor-intensive products.
- B) Competition forces firms to undercut their selling price, thus benefiting consumers who will be able to purchase products at the lowest price possible.
- C) Competition forces firms to produce and sell products as long as the marginal benefit to consumers exceeds the marginal cost of production.
- D) Competition forces firms to add only low profit margins to their costs of production.

Answer: C

Diff: 2 Page Ref: 10/10

Topic: Market Economies

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

26) _____ increases economic efficiency because it forces firms to produce and sell goods and services as long as the additional benefit to consumers is greater than the additional cost of production.

- A) Competition
- B) Voluntary exchange
- C) Equity
- D) A centrally planned economy

Answer: A

Diff: 1 Page Ref: 10/10

Topic: Market Economies

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

27) Which of the following generates productive efficiency?

- A) competition among sellers
- B) competition among buyers
- C) government inspectors
- D) government production rules and regulations

Answer: A

Diff: 1 Page Ref: 11/11

Topic: Efficiency

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

28) Voluntary exchange between buyers and sellers generates _____ in a market economy.

- A) scarcity
- B) allocative efficiency
- C) productive efficiency
- D) equity

Answer: B

Diff: 1 Page Ref: 11/11

Topic: Efficiency

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

29) Which of the following is a result of a market economy?

- A) environmental protection
- B) an equal income distribution
- C) agreement on equity
- D) voluntary exchange

Answer: D

Diff: 1 Page Ref: 10/10

Topic: Market Economies

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

30) Political candidates often hold fund raisers by charging "per plate" for dinner. Wendy purchased four tickets to a \$1,000 per plate dinner for a local city council candidate. Is this transaction economically efficient?

- A) No, political candidates should never be allowed to overcharge for a fund raising dinner.
- B) Yes, it was a voluntary exchange that benefited both parties.
- C) No, Wendy paid too much for four dinners.
- D) Yes, it is efficient only from the perspective of the candidate but not from the perspective of Wendy.

Answer: B

Diff: 2 Page Ref: 10/10

Topic: Market Economies

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

- 31) In economics, the term "equity" means
- A) everyone has an equal standard of living.
 - B) the hardest working individuals consume all they want.
 - C) only elected officials have high standards of living.
 - D) economic benefits are distributed fairly.

Answer: D

Diff: 1 Page Ref: 11/11

Topic: Equity

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

- 32) Which of the following is motivated by an equity concern?
- A) Some states have transferred funds to food bank programs in order to increase benefits to lower-income families.
 - B) Following the implementation of subsidies for energy conservation, household demand for rooftop solar panels increased quite significantly in California.
 - C) The United Network for Organ Sharing advocates a system of rationing scarce kidneys that would favor young patients over old in an effort to wring more life out of donated organs.
 - D) The United States offers patent protection to pharmaceutical manufacturers to prevent others from duplicating their products.

Answer: A

Diff: 3 Page Ref: 11/11

Topic: Equity

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking, Ethical Reasoning

Special Feature: None

33) Which of the following is motivated by an efficiency concern?

A) In December 2006, the Bush administration restarted a short-term housing assistance program for victims of Hurricane Katrina.

B) Each year, the University of Notre Dame conducts a lottery to parcel out the 30,000 seats available to contributors, former athletes and parents in the 80,000-seat stadium.

C) The United Network for Organ Sharing advocates a system of rationing scarce kidneys that would favor young patients over old in an effort to wring more life out of donated organs.

D) The federal government's housing choice voucher program assists very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market.

Answer: C

Diff: 3 Page Ref: 11/11

Topic: Efficiency

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking, Ethical Reasoning

Special Feature: None

34) Which of the following is an example of an efficiency-equity trade-off faced by economic agents?

A) According to an article by in the American Journal of Public Health by Edward Kaplan and Michael Merson of Yale University School of Medicine, the federal government's current method of allocating HIV-prevention resources is not cost-effective. Instead of allocating resources to states in proportion to reported AIDS cases, resources should flow first to those activities that prevent more infections per dollar and then to less and less effective combinations of programs and populations until funds are exhausted, even if it means that some populations would be left without any prevention services.

B) Concerned about the falling birth rate, the French government has pledged more money for families with three children, in an effort to encourage working women to have more babies.

C) Some U.S. colleges are actively recruiting foreign students for their technology-based programs.

D) All New York City art museums are considering adopting a free-admission policy for local residents one weekend per month.

Answer: A

Diff: 3 Page Ref: 11/11

Topic: Efficiency

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills, Ethical Reasoning

Special Feature: None

35) Which of the following correctly describes the relationship between economic efficiency and economic equity?

- A) They are both automatically achieved in a free market economy.
- B) They always call for opposite outcomes.
- C) There is no conflict between the two goals.
- D) There is often a trade-off between the two.

Answer: D

Diff: 2 Page Ref: 11/11

Topic: Efficiency

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

36) Allocative efficiency best explains _____, and productive efficiency best explains _____.

- A) how something will be produced; when something will be produced
- B) when something will be produced; why something will be produced
- C) why something will be produced; what will be produced
- D) what will be produced; how something will be produced

Answer: D

Diff: 2 Page Ref: 11/11

Topic: Efficiency

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

37) The government makes all economic decisions in a mixed economy.

Answer: FALSE

Diff: 1 Page Ref: 10/10

Topic: Mixed Economies

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

38) When voluntary exchange takes place, both parties gain from the exchange.

Answer: TRUE

Diff: 1 Page Ref: 10/10

Topic: Market Economies

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

39) A college must decide if it wants to offer more Internet-based classes. This decision involves answering the economic question of "what to produce."

Answer: TRUE

Diff: 1 Page Ref: 9/9

Topic: What Goods and Services Will Be Produced?

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

40) One desirable outcome of a market economy is that it leads to a more equitable distribution of income.

Answer: FALSE

Diff: 1 Page Ref: 10/10

Topic: Market Economies

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

41) What is equity, and how does it differ from efficiency?

Answer: Equity refers to the fair distribution of economic benefits. In economics, efficiency refers to least cost production (productive efficiency) and producing according to human preferences (allocative efficiency).

Diff: 2 Page Ref: 11/11

Topic: Equity

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

42) What is opportunity cost?

Answer: Opportunity cost refers to the highest-valued alternative that must be given up to engage in an activity. For example, the opportunity cost of taking this economics class is what you are giving up to take the class, which may be taking another class such as accounting or psychology, working extra hours at your job, or extra sleep (whichever is your highest-valued alternative).

Diff: 2 Page Ref: 9/9

Topic: Opportunity Cost

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

43) Define productive efficiency. Does productive efficiency imply allocative efficiency?

Explain.

Answer: Productive efficiency is an efficiency criterion that describes a situation in which goods and services are produced at the lowest possible cost. It does not imply allocative efficiency which is a criterion associated with producing goods and services that consumers value most. For example, a manufacturer may be able to produce typewriters at the lowest possible cost of say, \$200 but this does not necessarily mean that consumers are willing to pay \$200 for a typewriter.

Diff: 3 Page Ref: 11/11

Topic: Efficiency

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

44) What is a centrally planned economy?

Answer: A centrally planned economy is an economy in which the government decides how economic resources will be allocated.

Diff: 3 Page Ref: 10/10

Topic: Centrally Planned Economies

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

1.3 Economic Models

1) Economic models do all of the following *except*

- A) answer economic questions.
- B) portray reality in all its minute details.
- C) make economic ideas explicit and concrete for use by decision makers.
- D) simplify some aspect of economic life.

Answer: B

Diff: 1 Page Ref: 12/12

Topic: Economic Models

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

2) All of the following are part of an economic model *except*

- A) assumptions.
- B) hypotheses.
- C) data.
- D) opinions.

Answer: D

Diff: 1 Page Ref: 12/12

Topic: Economic Models

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

3) Which of the following statements about positive economic analysis is *false*?

- A) Positive analysis uses an economic model to estimate the costs and benefits of different course of actions.
- B) There is much more disagreement among economists over normative economic analysis than over positive economic analysis.
- C) There is much more disagreement among economists over positive economic analysis than over normative economic analysis.
- D) Unlike normative economic analysis, positive economic analysis can be tested.

Answer: C

Diff: 2 Page Ref: 14/14

Topic: Normative and Positive Analysis

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

- 4) Which of the following is a positive economic statement?
- A) The standard of living in the United States should be higher.
 - B) If the price of iPhones falls, a larger quantity of iPhones will be purchased.
 - C) The government should revamp the health care system.
 - D) The U.S. government should not have bailed out U.S. auto manufacturers.

Answer: B

Diff: 2 Page Ref: 14/14

Topic: Normative and Positive Analysis

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

- 5) Which of the following is a positive economic statement?
- A) People should not buy SUVs.
 - B) The government should mandate electric automobiles.
 - C) Scarcity necessitates that people make trade-offs.
 - D) Foreign workers should not be allowed to work for lower wages than the citizens of a country.

Answer: C

Diff: 2 Page Ref: 14/14

Topic: Normative and Positive Analysis

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

- 6) Which of the following is a normative economic statement?
- A) Rising global demand for coal has led to increases in the price of coal.
 - B) With rising mortgage rates and rising unemployment rates, the number of unsold homes has increased.
 - C) The state of Texas is considering increasing funds for light-rail development to promote the use of public transportation.
 - D) Pharmaceutical manufacturers should not be allowed to patent their products so prescription drugs would be more affordable.

Answer: D

Diff: 2 Page Ref: 14/14

Topic: Normative and Positive Analysis

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

7) Which of the following is a normative economic statement?

- A) The price of gasoline is too high.
- B) The current high price of gasoline is the result of strong worldwide demand.
- C) When the price of gasoline rises, the quantity of gasoline purchased falls.
- D) When the price of gasoline rises, transportation costs rise.

Answer: A

Diff: 2 Page Ref: 14/14

Topic: Normative and Positive Analysis

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

8) Which of the following questions or statements regarding medical school is normative?

- A) How do changes in expected future incomes affect the decisions of medical students about which specialty to choose?
- B) Medical students who enter specialized fields make a larger contribution to society than do student who enter primary care.
- C) What role does tuition play in a student's decision about whether to attend medical school?
- D) Have tuition increases had a large effect or a small effect on the number of applications to medical school?

Answer: B

Diff: 2 Page Ref: 15-16/15-16

Topic: Normative and Positive Analysis

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: Making the Connection: Should Medical School Be Free?

- 9) The economic analysis of minimum wage involves both normative and positive analysis. Consider the following consequences of a minimum wage:
- a. The minimum wage law causes unemployment.
 - b. A minimum wage law benefits some groups and hurts others.
 - c. In some cities such as San Francisco and New York, it would be impossible for low-skilled workers to live in the city without minimum wage laws.
 - d. The gains to winners of a minimum wage law should be valued more highly than the losses to losers because the latter primarily comprises businesses.

Which of the consequences above are positive statements and which are normative statements?

- A) a, b, and c are positive statements and d is a normative statement.
- B) a and b are positive statements, c and d are normative statement.
- C) Only a is a positive statement, b, c and d are normative statements.
- D) a and c are positive statements, b and d are normative statements.

Answer: B

Diff: 2 Page Ref: 15/15

Topic: Normative and Positive Analysis

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: Don't Let This Happen to YOU!: Don't Confuse Positive Analysis with Normative Analysis

- 10) "An increase in the price of gasoline will increase the demand for hybrid vehicles." This statement is an example of a positive economic statement.

Answer: TRUE

Diff: 1 Page Ref: 14/14

Topic: Normative and Positive Analysis

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

- 11) "The distribution of income should be left to the market" is an example of a positive economic statement.

Answer: FALSE

Diff: 1 Page Ref: 14/14

Topic: Normative and Positive Analysis

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

12) Positive analysis is concerned with "what ought to be", while normative analysis is concerned with "what is."

Answer: FALSE

Diff: 2 Page Ref: 14/14

Topic: Normative and Positive Analysis

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

13) What is the difference between positive economic analysis and normative economic analysis? Give one example each of a positive and normative economic issue or question or statement.

Answer: Positive economic analysis is concerned with what is. Positive economic analysis reaches conclusions based on verifiable statements. Normative economic analysis, on the other hand, is concerned with what ought to be. Normative analysis reaches conclusions based on opinions. (Students will give many different examples.)

Diff: 2 Page Ref: 14/14

Topic: Normative and Positive Analysis

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

14) Explain why economics is considered a social science.

Answer: Economics is a social science because it studies the actions of individuals. As a social science, economics considers human behavior, particularly decision-making behavior, in every context.

Diff: 2 Page Ref: 14/14

Topic: Economics as a Social Science

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

1.4 Microeconomics and Macroeconomics

1) Which of the following is a microeconomics question?

- A) How much will be saved and how much will be produced in the entire economy?
- B) What will the level of economic growth be in the entire economy?
- C) What factors determine the price of carrots?
- D) What determines the average price level and inflation?

Answer: C

Diff: 2 Page Ref: 17/17

Topic: Microeconomics

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

2) Microeconomics is the study of

- A) how households and firms make choices.
- B) the economy as a whole.
- C) the global economy.
- D) topics such as unemployment, inflation, and economic growth.

Answer: A

Diff: 1 Page Ref: 17/17

Topic: Microeconomics

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

3) Which of the following is a macroeconomics question?

- A) What determines the inflation rate?
- B) What determines the production of DVDs?
- C) What factors determine the price of carrots?
- D) What determines the wage of auto workers?

Answer: A

Diff: 2 Page Ref: 17/17

Topic: Macroeconomics

*: Recurring

Learning Outcome: Macro 1: Define macroeconomics and identify its basic concerns

AACSB: Reflective Thinking

Special Feature: None

- 4) Macroeconomics is the study of
A) how households make choices.
B) how firms make choices.
C) how households and firms make choices.
D) the economy as a whole.

Answer: D

Diff: 1 Page Ref: 17/17

Topic: Macroeconomics

*: Recurring

Learning Outcome: Macro 1: Define macroeconomics and identify its basic concerns

AACSB: Reflective Thinking

Special Feature: None

- 5) Examining the conditions that could lead to a recession in an economy is an example of macroeconomics topic.

Answer: TRUE

Diff: 1 Page Ref: 17/17

Topic: Macroeconomics

*: Recurring

Learning Outcome: Macro 1: Define macroeconomics and identify its basic concerns

AACSB: Reflective Thinking

Special Feature: None

- 6) The decisions Apple makes in determining production levels for its iPhone is an example of a microeconomics topic.

Answer: TRUE

Diff: 1 Page Ref: 17/17

Topic: Microeconomics

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

7) Which of the following are primarily macroeconomic topics and which are primarily microeconomic topics?

- a. gasoline prices
- b. unemployment
- c. inflation
- d. health care costs
- e. air pollution
- f. economic growth

Answer: b, c, and f are primarily macroeconomic topics.

a, d, and e are primarily microeconomic topics.

Diff: 2 Page Ref: 17/17

Topic: Microeconomics

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

1.5 A Preview of Important Economic Terms

1) Which of the following statements is true about profit?

- A) Profit refers to the revenue received from the sale of a quantity of goods.
- B) Profit is calculated by multiplying price and quantity sold.
- C) The terms "accounting profit" and "economic profit" can be used interchangeably.
- D) Profit is the difference between revenue and cost.

Answer: D

Diff: 2 Page Ref: 18/18

Topic: Profit

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

2) In economics, the accumulated skills and training that workers have is known as

- A) human capital.
- B) entrepreneurship.
- C) physical capital.
- D) innovation.

Answer: A

Diff: 1 Page Ref: 18/18

Topic: Human Capital

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

3) Which of the following is an example of an activity undertaken by an entrepreneur?

- A) designing your landscaping for your new home
- B) holding a position as the president of a liberal arts college
- C) running for the president of the United States
- D) starting your own pet sitting business

Answer: D

Diff: 1 Page Ref: 17/17

Topic: Entrepreneur

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

4) The machines workers have to work with are considered

- A) human capital.
- B) physical capital.
- C) entrepreneurship.
- D) financial capital.

Answer: B

Diff: 2 Page Ref: 18/18

Topic: Capital

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

5) Technology is defined as

- A) the process of developing and revising models.
- B) new innovations and creations.
- C) the processes used to produce goods and services.
- D) the process of recycling products.

Answer: C

Diff: 1 Page Ref: 17/17

Topic: Technology

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

6) Which of the following statements about economic resources is true?

- A) Economic resources include financial capital and money.
- B) Economic resources are also called factors of production.
- C) Economic resources are used only by businesses.
- D) All economic resources are man-made.

Answer: B

Diff: 1 Page Ref: 18/18

Topic: Resources

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

7) The U.S. Health Resources and Services Administration (HRSA) forecasts that in 2020

- A) there will be a shortage of doctors in the United States.
- B) the number of doctors in the United States will decrease and the number of doctors needed will increase.
- C) the number of doctors in the United States will increase and the number of doctors needed will decrease.
- D) there will be a surplus of doctors in the United States.

Answer: A

Diff: 1 Page Ref: 18/18

Topic: Human Capital

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

Special Feature: Economics in Your Life: Will There Be Plenty of Jobs Available in the Health Care Industry?

8) According to census figures, between 1970 and 2007 the number of doctors who described themselves as self-employed

- A) fell by more than 50 percent.
- B) more than doubled.
- C) has remained fairly constant.
- D) fell to almost zero before rising back to its original level.

Answer: A

Diff: 2 Page Ref: 20-21/20-21

Topic: Human Capital

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

Special Feature: An Inside LOOK: Fewer Doctors Choosing Private Practice

9) In the market for factors of production, firms earn income by selling goods and services to households.

Answer: FALSE

Diff: 1 Page Ref: 18/18

Topic: Resources

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

10) One example of human capital is the amount of skills that you have.

Answer: TRUE

Diff: 1 Page Ref: 18/18

Topic: Human Capital

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

11) List the five main factors of production.

Answer: The five main factors of production are labor, capital, human capital, natural resources, and entrepreneurial ability.

Diff: 1 Page Ref: 18/18

Topic: Resources

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

12) What is the difference between an invention and an innovation?

Answer: An invention is the development of a new good or a new process for making a good.

An innovation is the practical application of an invention. Innovation could also refer to any significant improvement in a good or in the means of producing a good.

Diff: 1 Page Ref: 17/17

Topic: Innovation

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

13) Explain the difference between a firm's revenue and its profit.

Answer: A firm's revenue is the total amount received for selling a good or service. It is calculated by multiplying the price per unit by the number of units sold. A firm's profit is the difference between its revenue and its costs.

Diff: 1 Page Ref: 18/18

Topic: Revenue

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

14) What are some of the reasons given for the decline in the number of physicians choosing to enter private practices?

Answer: The reasons include lower insurance reimbursement rates, inflexible schedules, lower incomes, high medical school debt loads, longer work hours, and provisions of the new health care law.

Diff: 2 Page Ref: 20-21/20-21

Topic: Human Capital

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: An Inside LOOK: Fewer Doctors Choosing Private Practice

1.6 Appendix: Using Graphs and Formulas

1) If a graph has a line that shows the amount of outsourcing in the last ten years, it is known as
A) a pie chart.

B) a time-series graph.

C) a demand curve for outsourcing.

D) a supply curve of outsourcing.

Answer: B

Diff: 1 Page Ref: 27/27

Topic: Graphs

*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None

2) _____ have a horizontal and a vertical axis and are used in economics to illustrate relationships between two economic variables.

A) Two-dimensional graphs

B) One-dimensional graphs

C) Pie Charts

D) Bar graphs

Answer: A

Diff: 1 Page Ref: 28/28

Topic: Graphs

*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None

3) If a straight line passes through the point $x = 14$ and $y = 3$ and also through the point $x = 4$ and $y = 10$, the slope of this line is

A) negative 11 divided by 6.

B) seven tenths.

C) negative seven tenths.

D) 6 divided by 11.

Answer: C

Diff: 2 Page Ref: 29/29

Topic: Slope

*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: None

4) On a two-dimensional graph, _____ allows for the effects of additional variables.

- A) moving along a curve
- B) shifting curves
- C) eliminating a curve
- D) adding an additional curve

Answer: B

Diff: 3 Page Ref: 30/30

Topic: Graphs

*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: None

5) Which of the following statements is *false*?

- A) An inverse relationship has a negative slope value.
- B) A direct relationship has a positive slope value.
- C) A curved line has slope values that change at every point.
- D) A straight line has a slope of zero.

Answer: D

Diff: 2 Page Ref: 30/30

Topic: Slope

*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None

6) The relationship between consumer spending and disposable personal income is

- A) an inverse relationship.
- B) a direct relationship.
- C) a negative relationship.
- D) independent.

Answer: B

Diff: 1 Page Ref: 30/30

Topic: Positive and Negative Relationships

*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None

7) Suppose when the price of laptops fall, college students buy more laptops. This implies that
A) there is a positive relationship between laptop prices and quantities purchased by college students.

B) there is a negative relationship between laptop prices and quantities purchased by college students.

C) there is a direct relationship between laptop prices and quantities purchased by college students.

D) there is a one-to-one relationship between laptop prices and quantities purchased by college students.

Answer: B

Diff: 1 Page Ref: 30/30

Topic: Positive and Negative Relationships

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

8) If the price of milk was \$2.50 a gallon and it is now \$3.25 a gallon, what is the percentage change in price?

A) 13 percent

B) 30 percent

C) 75 percent

D) 77 percent

Answer: B

Diff: 2 Page Ref: 32/32

Topic: Formulas

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

9) In 2010, Hooverville consumed 205,000 tons of sugar. In 2011, sugar consumption rose to 245,000 tons. Calculate the percentage change in sugar consumption.

A) 8.37%

B) 11.95%

C) 19.51%

D) 26.33%

Answer: C

Diff: 2 Page Ref: 34/34

Topic: Formulas

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

10) At a recent faculty meeting, Lorraine Waverly, president of Skywalker College, announced that enrollment is up by 12 percent over the previous semester. If enrollment the previous semester was 3,250 students, what is the student enrollment this semester?

- A) 390
- B) 2,860
- C) 3,640
- D) 4,030

Answer: C

Diff: 2 Page Ref: 34/34

Topic: Formulas

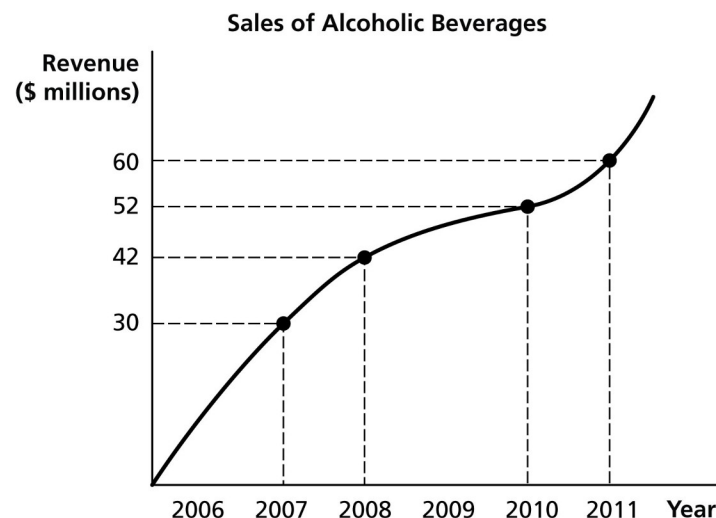
*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

Figure 1-1



11) **Refer to Figure 1-1.** Using the information in the figure above, calculate the percentage change in sales of alcoholic beverages between 2008 and 2011.

- A) 23.1%
- B) 23.8%
- C) 30%
- D) 42.9%

Answer: D

Diff: 1 Page Ref: 34/34

Topic: Formulas

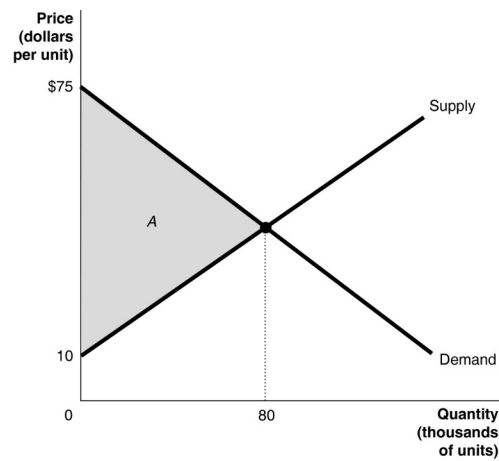
*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: None

Figure 1-2



12) **Refer to Figure 1-2.** Calculate the area of the triangle *A*.

- A) \$1.3 million
- B) \$2.6 million
- C) \$3.4 million
- D) \$5.2 million

Answer: B

Diff: 1 Page Ref: 35/35

Topic: Formulas

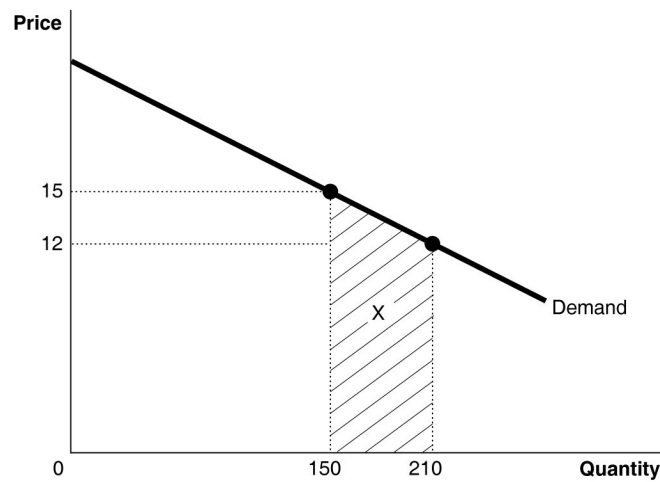
*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: None

Figure 1-3



13) **Refer to Figure 1-3.** Calculate the area of the trapezoid *X*.

- A) \$270
- B) \$720
- C) \$810
- D) \$2,520

Answer: C

Diff: 2 Page Ref: 35/35

Topic: Formulas

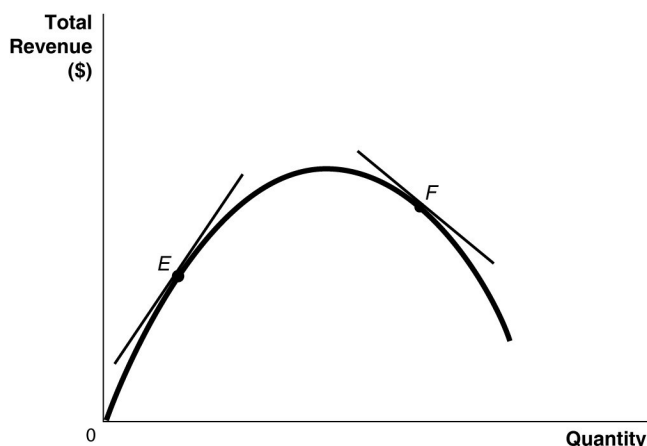
*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: None

Figure 1-4



14) **Refer to Figure 1-4.** Which of the following statements is *false*?

- A) The slope of the tangent at *E* is positive.
- B) The slope of the tangent at *F* is negative.
- C) The slope of the tangent at *E* and the slope of the tangent at *F* are equal.
- D) Neither the slope of the tangent at *E* nor the slope of the tangent at *F* are equal to zero.

Answer: C

Diff: 1 Page Ref: 34/34

Topic: Slope

*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: None

15) What is the "omitted variable" problem in determining cause and effect?

- A) It is a problem that arises when an insignificant variable is given too much weight in an economic analysis leading to skewed conclusions about cause and effect.
- B) It is a problem that arises when a significant variable is not given enough weight in an economic experiment leading to skewed conclusions about cause and effect.
- C) It is a problem that arises when an insignificant economic variable that should have been omitted is included in an economic experiment leading to false conclusions about cause and effect.
- D) It is a problem that arises when an economic variable that affects other variables is omitted from an analysis and its omission leads to false conclusions about cause and effect.

Answer: D

Diff: 1 Page Ref: 31/31

Topic: Cause and Effect

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

16) _____ is a problem that occurs when one concludes that a change in variable X caused a change in variable Y when in actual fact, it is a change in variable Y that caused a change in variable X .

- A) The omitted variable
- B) The positive-to-negative relationship
- C) Reverse causality
- D) Nonlinear slope

Answer: C

Diff: 1 Page Ref: 31/31

Topic: Cause and Effect

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

17) The prevalence of Alzheimer's dementia is very high among residents living in nursing homes. A student concludes that it is likely that living in nursing home causes Alzheimer's dementia. What is the flaw in the student's reasoning?

- A) The student has failed to take into account other causes of Alzheimer's disease.
- B) The student is drawing a false conclusion; he is confusing cause and effect.
- C) The student is using an inadequate sample size.
- D) The student is drawing a false conclusion by making the mistake of omitting critical variables such as the age and gender of the residents.

Answer: B

Diff: 2 Page Ref: 31/31

Topic: Cause and Effect

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: None

18) You explain to your roommate Surya, who makes beaded headbands, about an economic theory which asserts that consumers will purchase more of a product at lower prices than they will at higher prices. She contends that the theory is incorrect because over the past two years she has lowered the price of her headbands and yet has seen a decrease in sales. How would you respond to Surya?

A) Surya is right; she has evidence to back her claim. The theory must be erroneous.

B) Surya is making the mistake of assuming that correlation implies causation.

C) I will explain to her that she is making the error of reverse causality: it is the decrease in demand that has caused her to lower her prices.

D) I will explain to her that there are some omitted variables that have contributed to a decrease in her sales such as changes in income.

Answer: D

Diff: 2 Page Ref: 31/31

Topic: Cause and Effect

*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

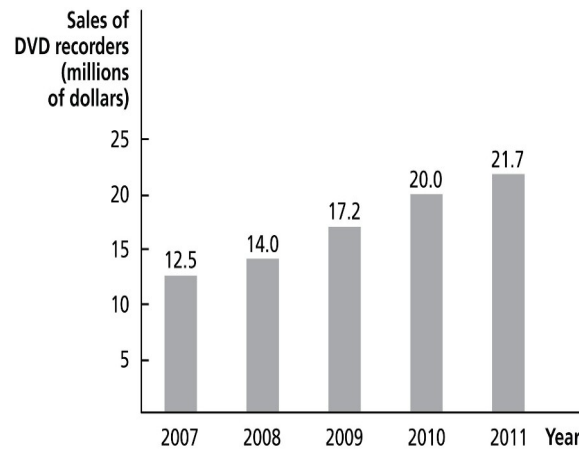
Special Feature: None

Table 1-2

Year	DVD Recorders (millions)
2007	12.5
2008	14.0
2009	17.2
2010	20.0
2011	21.7

19) *Refer to Table 1-2.* The table above shows the sales of DVD recorders in North America. Present the information using a bar graph.

Answer:



Diff: 1 Page Ref: 27/27

Topic: Graphs

*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: None