

Chapter 2--Economics: Eight Powerful Ideas

Student: _____

1. Scarcity is a problem faced by all but the wealthiest of citizens.

True False

2. Tractors, shovels, copy machines, and computer programming expertise are all examples of scarce resources.

True False

3. Human capital consists of computers, tools, and equipment owned by private individuals.

True False

4. An entrepreneur organizes the other factors of production and bears the business risk.

True False

5. Everyone faces scarcity.

True False

6. A permanent change to a much higher price of gasoline would lead us to expect fewer gas guzzlers on the road, ceteris paribus.

True False

7. Economists would predict that if salaries increased for engineers and decreased for MBAs that fewer people would go to graduate school in business and more would go in engineering, ceteris paribus.

True False

8. Marginal cost is the additional cost incurred as a result of an economic decision.

True False

9. When considering whether or not to consume a second slice of cake, an individual is following marginal thinking if she compares the total cost of consuming both the first and second slices with their total benefit before making a decision.

True False

10. If Xavier gives up a job in which he earns \$23,000 per year in order to go to college full time, his foregone income is part of the opportunity cost of going to college.

True False

11. The opportunity cost of attending college is likely higher for a high school graduate who leaves a job grilling hamburgers than it is for a high school dropout who leaves a job working as a computer network administrator.

True False

12. The opportunity cost of a decision is the value of the best foregone alternative.

True False

13. The opportunity cost of a decision is the value of all of the available alternatives that were not chosen.

True False

14. Since it is possible to grow coffee in the United States, we should clearly create a U.S. coffee industry and no longer import coffee from Brazil.

True False

15. A country has a comparative advantage in the production of DVD players if it can produce DVD players at a lower opportunity cost than others.

True False

16. Small, developing countries must first become self-sufficient before they can benefit from international trade.

True False

17. Market failure is a term used to describe what happens whenever governments intervene into markets (e.g., the imposition of a price control).

True False

18. Government price controls make communication of information between buyers and sellers more effective.

True False

19. Scarcity applies to our needs but does not apply to our wants.

True False

20. The market mechanism assures full employment and stable prices

True False

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True False

22. Inflation is an increase in the overall price level in the economy.

True False

23. Unemployment can be caused by downswings in the business cycle, people changing jobs, different skills needed by employers, or seasonal fluctuations in demand.

True False

24. An increase in population, ceteris paribus, will raise the standard of living.

True False

25. The only way that an economy can increase its rate of consumption in the long run is by increasing the amount that it produces.

True False

26. Economic choices or tradeoffs are the result of:

- A. basic human greed.
- B. scarcity.
- C. poverty.
- D. private ownership of resources.

27. Scarcity implies that:

- A. consumers are too poor to afford the goods and services available.
- B. at the current market price, consumers are willing to purchase more of a good than suppliers are willing to produce.
- C. it is impossible to completely fulfill the unlimited human desire for goods and services with the limited resources available.
- D. consumers would be willing to purchase the same quantity of a good at a higher price.

28. Scarcity means that:

- A. human desires are limited.
- B. resources are insufficient to satisfy all human desires.
- C. choices are unnecessary.
- D. all but the very wealthy must face choices.

29. Scarcity applies to:

- A. only the poor.
- B. the value of our time.
- C. both the rich and poor.
- D. both (b) and (c)

30. Because of scarcity:

- A. we must sacrifice valuable alternatives to obtain more goods and services we desire.
- B. the opportunity cost of consumption is zero.
- C. we can obtain more of a desirable good without sacrificing other goods and services.
- D. shortages of goods prevail at current market prices.

31. Scarcity:

- A. is only a problem in communist countries.
- B. is a problem in both communist and socialist countries, but not in market economies.
- C. does not exist in wealthy countries.
- D. will never be eradicated because humans develop new wants as productive capabilities improve.

32. Scarcity:

- A. exists in command economies.
- B. exists in market economies.
- C. exists only in economies in which there is poverty.
- D. (a) and (b) above are correct

33. An economy's resources:

- A. consist of land, labor, capital, and entrepreneurial skills.
- B. are unlimited in a country like the United States.
- C. are always efficiently utilized in wealthy nations.
- D. consist of land, labor, and entrepreneurial skills but not capital.

34. Which of the following is not a resource?

- A. capital
- B. entrepreneurship
- C. legal institutions
- D. labor

35. Which of the following is not a resource?

- A. cash
- B. entrepreneurship
- C. land
- D. labor

36. Which of the following is an example of a resource?

- A. land
- B. capital
- C. entrepreneurship
- D. All of the above

37. Additions to human capital can be made through:

- A. increases in pension benefits
- B. monthly deposits into a savings account.
- C. improved education and on-the-job training.
- D. the purchase of tools and equipment by workers.

38. Economic resources are also known as:

- A. elements.
- B. financial capital.
- C. factors of production.
- D. building blocks.

39. Which of the following will not directly add to improvements in human capital?

- A. increases in take home pay
- B. a low-level manager is sent back to college to acquire an MBA degree
- C. improved job training programs offered to employees
- D. an increase in the computer-proficiency requirements of all high school graduates

40. Which of the following is an example of a resource?

- A. a river
- B. a John Deere tractor
- C. the chef at the city's best café
- D. all of the above are resources

41. Which of the following is not an example of a resource?

- A. an office building
- B. a product's price
- C. the land plowed by a farmer in order to grow corn
- D. the chief executive officer of a large corporation

42. Land as a resource can include all of the following except:

- A. trees.
- B. a sawmill.
- C. a water body.
- D. a limestone deposit.

43. Which of the following would be categorized as capital resources for a college or university?

- A. water, trees, and the acreage a campus rests on
- B. chalkboards, overhead projectors, and the expertise of professors
- C. exams, fuel oil (which heats the buildings), and electricity
- D. the work effort of registrars, clerical assistants, and teaching assistants

44. An example of physical capital is:

- A. a \$100 bill.
- B. a stock certificate.
- C. a chainsaw.
- D. a cheeseburger.

45. Human capital is:

- A. the same as labor.
- B. a term describing the tools and equipment owned by households.
- C. a worker's physical effort when working with machines.
- D. the expertise or knowledge possessed by workers.

46. Human capital is:

- A. machinery owned by firms, but not by individuals.
- B. machinery owned by individuals, but not by firms.
- C. machinery owned by individuals or firms, but not by the government.
- D. the skill or knowledge of individuals.

47. An example of a capital resource is:

- A. stock in a computer software company.
- B. a bond issued by a company selling electric generators.
- C. a dump truck.
- D. an employee of a moving company.

48. Which of the following is an example of a capital resource?

- A. an unskilled worker
- B. a large coal deposit
- C. a fishing boat
- D. yellow-fin tuna

49. Which of the following is not an example of a capital resource?

- A. the expertise of a computer programmer
- B. a pitch fork
- C. a commercial sewing machine
- D. 100 acres of farmland in central California

50. Which of the following is an example of a capital resource?

- A. redwood trees
- B. unskilled labor
- C. stocks and bonds
- D. an oil rig

51. The function of an entrepreneur is to:

- A. bear the business risks.
- B. organize the other factors of production.
- C. innovate.
- D. do all of the above.

52. Entrepreneurship is:

- A. human capital.
- B. another word for the financial capital that can be used to start a business.
- C. the resource that organizes the other factors of production in order to produce goods and/or services.
- D. another word for physical capital that is used to produce goods and services.

53. Every time an individual decides to try out new equipment, or finds better ways to manage money, he or she is exhibiting traits of:

- A. money management.
- B. entrepreneurship.
- C. strategic management.
- D. capital management.

54. An example of an intangible good is:

- A. an automobile.
- B. a new house.
- C. a snowplow.
- D. friendship.

55. All of the following are intangible except:

- A. health.
- B. love.
- C. computer programming expertise.
- D. All of the above are intangible goods.

56. All of the following are tangible goods except:

- A. a skateboard.
- B. a desk.
- C. a train locomotive.
- D. fairness.

57. Economic goods are:

- A. only those commodities priced in monetary terms.
- B. scarce products that are created from scarce resources.
- C. the opposite of normative economic goods.
- D. not subject to scarcity.

58. Which of the following observations regarding economic goods is incorrect?

- A. They are limited in supply.
- B. They are desirable.
- C. They are solely low-priced essential goods.
- D. They are scarce goods created from scarce resources

59. The expression, "There's no such thing as a free lunch" implies that:

- A. everyone has to pay for his/her own lunch.
- B. the person consuming a good must always pay for it.
- C. costs are incurred when resources are used to produce goods and services.
- D. no one has time for a good lunch anymore.

60. The similarity between all goods and services, whether tangible or intangible, is that they:

- A. are not subject to economic analysis.
- B. require technical expertise.
- C. have no price tags.
- D. are made from scarce resources and are subject to economic analysis.

61. Trent decides to spend an hour playing basketball rather than studying. His opportunity cost is:

- A. nothing because he enjoys playing basketball more than studying.
- B. the benefit to his grades from studying for an hour.
- C. the increase in skill he obtains from playing basketball for that hour.
- D. nothing because he had a free pass into the sports complex to play basketball.

62. The opportunity cost of an action is equal to:

- A. only the monetary payment the action required.
- B. the total time spent by all parties in carrying out the action.
- C. the highest valued opportunity that must be sacrificed in order to take the action.
- D. the value of all of the alternative actions that could have been taken.

63. The opportunity cost of going to college includes:

- A. both tuition and the value of the student's time.
- B. tuition, but not the value of the student's time, which is a monetary cost.
- C. neither tuition nor the value of the student's time, since obtaining a college degree makes one's income higher in the future.
- D. neither tuition nor the value of the student's time, at least at state-supported universities and colleges.

64. Opportunity cost includes

- A. monetary costs only.
- B. non-monetary costs only.
- C. both monetary and non-monetary costs.
- D. neither monetary nor non-monetary costs.

65. A student has a chance to see Taylor Swift in concert. The student also has a major economics exam in the morning. If the student goes to the concert:

- A. she may receive a lower grade on the economics exam.
- B. the opportunity cost of the concert is the value of the time spent studying.
- C. the decision involves a tradeoff.
- D. all of the above are correct.

66. The opportunity cost of an item is:

- A. greater during periods of inflation and lower during periods of deflation.
- B. the highest valued alternative you give up to get that item.
- C. the value of all available alternatives you sacrifice to get that item.
- D. always equal to the dollar value of the item.

67. "If I didn't have class tonight, I would save the \$4 campus parking fee and spend four hours at work where I earn \$10 per hour." The opportunity cost of attending class this evening is:

- A. \$4.
- B. \$40.
- C. \$44.
- D. \$0.

68. Which of the following statements is true?

- A. The opportunity cost of a decision is equal to the explicit cost in monetary terms.
- B. The opportunity cost of a decision is the value of the best foregone alternative.
- C. Some economic decisions have zero opportunity cost.
- D. The opportunity cost of attending college is the same for all students at the same university but may differ among students at different universities.

69. The opportunity cost of attending college is likely to include all except which of the following?

- A. the cost of required textbooks
- B. tuition fees
- C. the income you forego in order to attend classes
- D. the cost of haircuts received during the school term

70. The opportunity cost of attending a university for a year is measured by:

- A. the tuition fees incurred.
- B. the size of the student loans the student becomes responsible for.
- C. the sum of all expenditures on rent, food, books, and tuition incurred during the school year.
- D. the value of the best opportunity or opportunities foregone in order to enroll for the year.

71. Jamie and Danny both attend the same college and incur the same expenses for tuition, books, and school supplies. Jamie gave up a lucrative modeling job in Paris to attend school full-time and Danny gave up a part-time job as a sales clerk in a department store. It follows that:

- A. the opportunity cost of attending college is the same for both since they are enrolled at the same academic institution.
- B. the opportunity cost of attending college is likely greater for Jamie than for Danny.
- C. the opportunity cost of attending college is likely greater for Danny than for Jamie.
- D. the opportunity cost is minimal for both since college graduates are paid much higher than high school graduates on average.

72. The opportunity cost of an airplane flight:

- A. differs across passengers only to the extent that each traveler pays a different airfare.
- B. is identical for all passengers and equal to the number of hours a particular flight takes.
- C. differs across passengers to the extent that both the airfare paid and the highest valued use of travel time vary.
- D. is equal to the cost of a bus ticket, the next best form of alternative transportation to flying.

73. Exhibit 2-1

<u>Possibility A</u>	<u>Economics</u>	<u>History</u>
I	94	76
II	87	84
III	77	91

Refer to **Exhibit 2-1**. A student has only a few hours to prepare for two different exams this afternoon. The above table shows alternative possible exam scores with three alternative uses of the student's time. The opportunity cost of scoring a 94 on the economics exam rather than a 77 is:

- A. 8 points on the history exam.
- B. 15 points on the history exam.
- C. 76 points on the history exam.
- D. 91 points on the history exam.

74. Exhibit 2-1

<u>Possibility A</u>	<u>Economics</u>	<u>History</u>
I	94	76
II	87	84
III	77	91

Refer to **Exhibit 2-1**. A student has only a few hours to prepare for two different exams tomorrow morning. The above table shows alternative possible exam outcomes with three alternative uses of the student's time. The opportunity cost of scoring an 84 on the history exam rather than 76 is:

- A. 10 points on the economics exam.
- B. 7 points on the economics exam.
- C. 8 points on the history exam.
- D. 12 points on the economics exam.

75. Opportunity costs:

- A. only include explicit costs paid out-of-pocket.
- B. never involve costs paid out-of-pocket.
- C. may or may not involve costs paid out-of-pocket.
- D. are always measured in time units.

76. The opportunity cost of an action includes:

- A. the monetary expenses incurred as a result of the action.
- B. the highest valued alternative use of the time spent on the action.
- C. the benefits received as a result of the action.
- D. only a. and b.

77. The opportunity cost of an action is equal to:

- A. the monetary expense incurred as a result of the action.
- B. the value of any alternative use of the time expended on the action.
- C. the highest valued alternative sacrificed as a result of the action.
- D. the sum of the benefits received as a result of the action.

78. The opportunity cost of an action:

- A. can be objectively determined only by economists.
- B. is a subjective valuation that can only be determined by the individual who chooses the action.
- C. can be determined by adding up the bills incurred as a result of the action.
- D. can be determined by considering both the benefits that flow from as well as the monetary costs incurred as a result of the action.

79. The opportunity cost of attending a college basketball game is:

- A. price of the admission to the game.
- B. the sum of the value of all the alternative uses of your time while at the game.
- C. the value of the highest alternative use of your time and money sacrificed as a result of attending the game.
- D. less if your favorite team wins.

80. "Opportunity cost" refers to:

- A. the dollar price paid for a good.
- B. the value of the best foregone alternative.
- C. the finder's fee paid to a job placement agency for locating employment for workers.
- D. the membership fee paid to join a health club.

81. The opportunity cost of an action is:

- A. the value of the best foregone alternative.
- B. the difference between the benefits that result and the expenses incurred as a result of the action.
- C. the same as the expected benefit of the action.
- D. the same for everyone who undertakes the action.

82. Lance's boss offers him twice his usual wage rate to work tonight instead of taking his girlfriend on a romantic date. This offer will likely:

- A. not affect the opportunity cost of going on the date.
- B. reduce the opportunity cost of going on the date because giving up the additional work dollars will make his girlfriend feel even more appreciated.
- C. increase the opportunity cost of going on the date.
- D. reduce the opportunity cost of working.

83. The opportunity cost of a two-week vacation in Hawaii for an Arizona resident includes:

- A. the cost of the beach resort hotel accommodations.
- B. the airfare to and from Honolulu International Airport.
- C. two weeks of wages that could have been earned.
- D. all of the above.

84. A university offers a free shuttle service around campus. The opportunity cost of the shuttle service is equal to:

- A. zero, since it is free to students who want to ride.
- B. the wages paid to the shuttle drivers.
- C. the wages paid to the shuttle drivers, plus the gasoline expenses.
- D. the highest valued alternative use of the resources devoted to the shuttle program.

85. In order to acquire more of a good we must sacrifice production of another good (because resources are in limited supply). This illustrates the concept of:

- A. the division of labor.
- B. *ceteris paribus*.
- C. opportunity cost.
- D. specialization.

86. Who of the following would economists considered most likely to commit a crime?

- A. An individual with a high paying job because he faces a lower opportunity cost if caught
- B. An individual with a high paying job because he faces a higher opportunity cost if caught
- C. An individual without a job because he faces a lower opportunity cost if caught
- D. An individual without a job because he faces a higher opportunity cost if caught

87. Airlines that restrict the use of frequent flyer miles during holiday periods likely do so because:

- A. the opportunity cost to airlines of filling seats with frequent flyers is lower at these times.
- B. the opportunity cost to airlines of filling seats with frequent flyers is higher at these times.
- C. passengers have more transportation alternatives available to them at these times.
- D. airlines want to protect their most loyal customers from the discomfort of overcrowded airplanes.

88. Marginal thinking is best demonstrated by:

- A. choosing to spend one more hour studying economics because you think the improvement in your score on the next quiz will be worth the sacrifice of time.
- B. deciding to never purchase a coat made with animal skins or furs.
- C. acquiring all the information relevant to a choice before making that choice.
- D. measuring all of the costs of a meal against all of the benefits when deciding whether to order a second milkshake.

89. According to the rule of rational choice, an individual will undertake an activity as long as:

- A. the expected marginal benefits are less than the expected marginal costs.
- B. the expected marginal benefits are greater than the expected marginal costs.
- C. total costs exceed total benefits.
- D. total benefits exceed total costs.

90. Which of the following best defines rational behavior?

- A. analyzing the total costs of a decision
- B. analyzing the total benefits of a decision
- C. undertaking an activity as long as the total benefit of all activities exceeds the total cost of all activities
- D. undertaking activities whenever the marginal benefit exceeds the marginal cost

91. The additional benefit received as a result of undertaking an action is:

- A. the opportunity cost.
- B. the marginal cost.
- C. the marginal benefit.
- D. the total benefit.

92. The additional cost incurred as a result of undertaking an action is:

- A. the opportunity benefit.
- B. the marginal benefit.
- C. the total cost.
- D. the marginal cost.

93. The marginal (dollar) cost of an additional plate of food to a patron at an "All-You-Can-Eat" restaurant is:

- A. equal to the price paid for the meal divided by the number of plates of food consumed.
- B. equal for all plates of food consumed during the meal.
- C. equal to zero.
- D. equal to the price paid for the meal (since there is no such thing as a free lunch).

94. Marginal analysis involves:

- A. comparing the total benefits of all actions to the total costs incurred as a result of those actions.
- B. abstract thinking, which is never actually utilized by consumers when making purchasing decisions.
- C. holding all other variables constant when isolating the relationship between two variables.
- D. comparing the additional benefit from an action to the additional cost.

95. An airline decides to sell 5 unoccupied seats on a flight from California to Chicago at \$300 each, which is less than its average cost per ticket of \$450 each. Which of the following might have prompted this decision to sell tickets below cost?

- A. total costs
- B. average costs
- C. marginal costs
- D. traceable costs

96. The rule of rational choice suggests that you will engage in more of an activity if:

- A. the total benefit from that activity exceeds the total cost of the activity.
- B. the total cost from that activity exceeds the total benefit of the activity.
- C. the additional cost incurred as a result of the activity exceeds the additional benefit received.
- D. the additional benefit received as a result of the activity exceeds the additional cost incurred.

97. If a student enrolls in an additional course at the university, an economist would conclude that:

- A. the total benefit that the student expects to receive as a result of completing her college degree exceeds the total cost of her college education.
- B. the student is not following the rule of rational choice.
- C. the student must not be involved in extracurricular campus activities.
- D. the expected marginal benefit of an additional course must exceed the expected marginal cost of the course.

98. The price of a ticket to the latest Broadway musical is \$80. You will purchase a ticket if:

- A. you are acting irrationally.
- B. you place a lower valuation on seeing the musical than \$80 but are extremely bored.
- C. your expected marginal benefit from viewing the musical exceeds \$80.
- D. your expected marginal cost from viewing the musical exceeds \$80.

99. The expected marginal benefit to you from purchasing a new sport utility vehicle is \$20,000. The price of the new sport utility vehicle is \$22,000.

- A. If you are acting rationally, you will borrow \$2,000 and purchase a new sport utility vehicle.
- B. You will not purchase the new sport utility vehicle at this time if you are acting rationally.
- C. If you do not purchase the new sport utility vehicle, your net loss will be \$2,000.
- D. If you are acting rationally, you will purchase sport utility vehicles until the marginal cost of doing so falls to \$20,000.

100. The marginal benefit to you of drinking bottled iced tea is \$1.50. The price of a bottle of iced tea is \$1.25.

- A. If you purchase iced tea you will suffer a net loss of 25 cents per bottle.
- B. If you purchase a bottle of iced tea, the net gain to you from doing so is 25 cents.
- C. You will not purchase iced tea if you are acting rationally.
- D. If you are acting rationally, you will purchase iced tea until the marginal benefit falls to 25 cents.

101. Individuals will only pursue an activity if:

- A. $E(MB) \neq E(MC)$.
- B. $E(MB) = E(MC)$.
- C. $E(MB) > E(MC)$.
- D. $E(MB) < E(MC)$.

102. Jared declines to purchase a new bicycle priced at \$200. An economist would conclude that:

- A. Jared does not enjoy riding a bicycle.
- B. the expected marginal benefit of the bicycle to Jared exceeds \$200.
- C. the expected marginal benefit of the bicycle to Jared is less than \$200.
- D. the expected marginal benefit of the bicycle to Jared is less than \$100.

103. Rational choices:

- A. are based on a comparison of total benefits and total costs.
- B. can only be made by those who are economists.
- C. are made based on expectations of the additional benefits and additional costs involved.
- D. measure benefits based on the past.

104. Henry must choose between going to his psychology class this evening or going on a double date. If he chooses to go on the date, the expected value of the psychology lecture:

- A. is impossible to compare to the expected enjoyment from going on a date.
- B. is likely greater than the expected marginal benefit from going on the date.
- C. is likely less than the expected marginal benefit from going on the date.
- D. is likely equal to the expected marginal benefit from going on the date.

105. The rule of rational choice:

- A. requires the availability of complete information before decisions can be made.
- B. can only be applied in business decisions.
- C. involves "marginal thinking."
- D. is the basis on which only greedy people make decisions.

106. Gallons of milk at a local grocery store are priced at one for \$4.00, or two for \$6.00. The marginal cost of buying a second gallon of milk:

- A. equals \$6.00.
- B. equals \$4.00.
- C. equals \$3.00.
- D. equals \$2.00.

107. The marginal benefit to Lasca of weekend vacations during the year at a local resort are given by the following schedule:

<u>Number of Weekend Vacations</u>	<u>Marginal Benefit</u>
1	\$600
2	\$550
3	\$475
4	\$325
5	\$250
6	\$180

If the marginal cost of a weekend vacation at the local resort is constant and equal to \$350, how many weekends at the local resort is Lasca likely to enjoy?

- A. 2
- B. 3
- C. 4
- D. 5

108. Economists believe that people respond to incentives in predictable ways. Therefore, if the government imposed a tax on each child born, you would expect that:

- A. families would have the same number of children, but wait longer to begin having them.
- B. more children would be born, but spaced further apart.
- C. more children would be adopted.
- D. fewer children would be born.

109. Economists believe that in regards to criminal behavior:

- A. people engage in criminal activity because they are genetically predisposed to do so.
- B. those choosing to commit criminal acts weigh the expected marginal benefits versus the expected marginal costs.
- C. individuals are irrational and don't respond to incentives.
- D. economics can shed very little light on the subject.

110. The following table shows the marginal benefit to a consumer of DVD rentals.

<u>DVD Rentals per Month</u>	<u>Marginal Benefit (in dollars)</u>
1	\$8.50
2	\$7.50
3	\$6.50
4	\$5.50
5	\$4.50
6	\$3.50
7	\$2.50
8	\$1.50

If the price of a DVD rental is \$4, a consumer following the rule of rational choice will rent:

- A. 2 DVDs per month.
- B. 3 DVDs per month.
- C. 4 DVDs per month.
- D. 5 DVDs per month.

111. The following table shows the marginal benefit to a consumer from viewing theatrical-release films each month.

<u>Movie Tickets per Month</u>	<u>Marginal Benefit (in dollars)</u>
1	\$10.50
2	\$ 9.50
3	\$ 8.50
4	\$ 7.50
5	\$ 6.50
6	\$ 5.50
7	\$ 4.50
8	\$ 3.50

If the price of a movie ticket is \$8, a consumer following the rule of rational choice will purchase:

- A. 2 movie tickets per month.
- B. 3 movie tickets per month.
- C. 4 movie tickets per month.
- D. 5 movie tickets per month.

112. The marginal cost of a vacation in the south of France is \$4,500. The marginal benefit to Druscilla of a vacation in the south of France is \$4,800.

- A. Druscilla will lose \$300 if she vacations in the south of France.
- B. Druscilla will experience a net gain of \$300 if she vacations in the south of France.
- C. Druscilla will be worse off if she vacations in the south of France.
- D. Druscilla will enjoy a net gain of \$4,800 if she vacations in the south of France.

113. The marginal cost of a vacation in Jamaica is \$3,500. The marginal benefit to Colby of a vacation in Jamaica is \$3,000.

- A. According to the rule of rational choice, Colby should choose not to vacation in Jamaica at this time.
- B. According to the rule of rational choice, Colby will experience a net gain of \$500 if he vacations in Jamaica.
- C. According to the rule of rational choice, Colby should borrow \$500 and vacation in Jamaica.
- D. According to the rule of rational choice, Colby will experience a net gain of \$3,000 if he vacations in Jamaica.

114. If people follow the rule of rational choice they will choose options that they think will:

- A. create more average benefits than average costs
- B. create more additional costs than additional benefits
- C. create equivalent additional benefits and additional costs
- D. create more additional benefits than additional costs

115. You lose \$20 from your wallet and decide to miss an hour from work in order to search for it. To an economist, this means that:

- A. you estimate the expected cost of searching for one hour to be greater than \$20.
- B. you must earn more than \$20 per hour.
- C. in your estimation the expected value of searching for the lost \$20 for an hour exceeds your hourly wage.
- D. you are irrational, since it is always a waste of time to search for lost money.

116. Despite the warning on a package of cigarettes about the potential health hazards of smoking, a man lights up a cigarette. An economist would conclude that:

- A. in the man's judgment, the expected marginal cost of smoking the cigarette outweighs the expected marginal benefit.
- B. the man is behaving irrationally.
- C. the smoker is unconcerned about his future health.
- D. in the man's judgment, the expected marginal benefit of smoking the cigarette outweighs the expected marginal cost.

117. Several political leaders have proposed that parents be granted a substantially larger reduction in their annual personal income taxes for each child that they parent. The economic way of thinking indicates that legislation of this type would:

- A. make it more expensive for parents to provide for their children.
- B. reduce the value of children to their parents and therefore lead to a reduction in the birth rate.
- C. reduce the after-tax cost of raising children and therefore increase the birth rate.
- D. exert no impact on either the cost of raising children or the birth rate since parenting children is a non-economic activity.

118. Pollution damages the environment we live in. An economist would advise that we reduce air pollution:

- A. as long as the marginal benefit from air pollution reduction outweighs the marginal cost of achieving the reduction.
- B. until the total benefit from air pollution reduction just equals the total cost of pollution reduction.
- C. until air pollution levels reach near-zero levels.
- D. to the levels experienced in the 1950s when air was much cleaner near big cities.

119. Positive incentives:

- A. increase benefits or reduce costs.
- B. decrease behaviors.
- C. decrease benefits or increase costs.
- D. create additional taxes on behaviors.

120. Positive incentives do not:

- A. increase benefits.
- B. result in an increased level of the related activity.
- C. reduce costs.
- D. discourage consumption.

121. Negative incentives:

- A. increase benefits or reduce costs.
- B. increase behaviors.
- C. decrease benefits or increase costs.
- D. include both cash subsidies and taxes.

122. Which of the following is an example of a positive incentive?

- A. You expect to be grounded if your grades slip below a B average.
- B. You expect to receive a scholarship if your grades remain high.
- C. Desserts will be unavailable at the cafeteria if you arrive after 7:00 p.m.
- D. Campus police institute a policy of impounding cars parked in delivery zone spaces.

123. Which of the following is likely to provide teenagers with the greatest incentive not to smoke?

- A. public service television advertisement featuring Jennifer Lopez urging kids to refrain from smoking
- B. a \$2.00 per-pack tax on cigarettes
- C. citing moral grounds, Leonardo DiCaprio refuses to play any part in which he will be seen smoking
- D. a law prohibits anyone from smoking in public buildings

124. Which of the following statements is most consistent with the rule of rational choice?

- A. "The Environmental Protection Agency should strive to eliminate virtually all air and water pollution."
- B. "When evaluating new prescription drugs, the Food and Drug Administration should weigh each drug's potential health benefits against the potential health risks posed by known side effects."
- C. "Police forces should be enlarged until virtually all crime is eliminated."
- D. "Manufacturers of automobiles should seek to make cars safer, no matter the costs involved."

125. The following table shows the marginal benefit to an individual of consuming pints of ice cream.

<u>Pints of ice cream</u>	<u>Marginal Benefit</u>
1	\$7.00
2	\$5.00
3	\$3.00
4	\$2.00
5	\$1.00
6	\$0.50
7	-\$1.00

If the price of each pint is \$4.00 at this establishment, a rational consumer would purchase

- A. 1 pint of ice cream
- B. 2 pints of ice cream
- C. 3 pints of ice cream
- D. 5 pints of ice cream

126. Individuals:

- A. respond to incentives in predictable ways.
- B. decrease the level of an activity in response to negative incentives.
- C. respond to positive incentives by increasing the level of activity.
- D. do all of the above.

127. If airfares to Europe were to increase, an economist would predict that:

- A. most people will not change their travel and vacation plans.
- B. more individuals will choose to fly to Europe because now it is a more valuable experience.
- C. some individuals will substitute toward other travel destinations.
- D. airlines will make significantly greater profits.

128. Specialization is a way for:

- A. individuals to make the best use of resources by devoting themselves to one primary productive activity.
- B. society to become wealthier while not using their resources.
- C. people to avoid having to trade.
- D. increasing one's opportunity cost for an activity.

129. Which of the following explains why people tend to dedicate their resources to one primary activity?

- A. Opportunity costs
- B. Negative incentives
- C. Positive thinking
- D. Fallacy of composition

130. Resources are used more efficiently if people, regions, and countries specialize in goods for which they have a(n):

- A. disincentive to trade with others.
- B. higher opportunity cost.
- C. absolute advantage in production.
- D. comparative advantage in production.

131. Kelly is an attorney and also an excellent typist. She can type 120 words per minute, but she is pressed for time because she has all the legal work she can handle at \$75 per hour. Kelly's friend Todd works as a waiter and would like some typing work (provided that he can make at least his wage as a waiter, which is \$25 per hour). Todd can only type 60 words per minute.

- A. Kelly should do all the typing because she is faster.
- B. Todd should do the typing as long as his earnings are more than \$25 and less than \$37.50 per hour.
- C. Unless Todd can match Kelly's typing speed, he should remain a waiter.
- D. Todd should do the typing, and Kelly should pay him \$20 per hour.

132. Sergei makes millions of dollars a year playing hockey. Sergei is also the best tailor in his hometown in Russia. Why doesn't Sergei make his own clothes?

- A. He has already made all the clothes he will need for a few years.
- B. The opportunity cost to him of making his own clothes is very high because it takes away from his lucrative hockey career.
- C. Sergei just can't find the material he likes in the United States.
- D. Sergei has a comparative advantage in tailoring clothes.

133. An individual has a comparative advantage in production if that individual:

- A. can produce at the highest opportunity cost.
- B. is more self-sufficient than others.
- C. can produce at the lowest opportunity cost.
- D. all of the above

134. When a person possesses a comparative advantage in the production of one good or service, it:

- A. means that the person's opportunity cost is higher than for that of other goods.
- B. discourages specialization.
- C. promotes greater self-sufficiency.
- D. permits gains from trade to be realized due to a more efficient use of resources.

135. A nation has a comparative advantage in the production of cars over another nation if:

- A. it can produce cars with fewer resources than the other country.
- B. it can produce cars at a lower opportunity cost than the other country.
- C. it can produce cars at a higher opportunity cost than the other country.
- D. it can produce cars at the same opportunity cost and its consumers have a stronger preference for cars than consumers in the other country.

136. Mike is able to complete a tax return in two hours earning a fee of \$100. As an alternative, he could pitch in at a volunteer car wash washing four cars in one hour. His roommate Joe would take four hours to complete a tax return earning a \$100 fee and also can wash four cars in one hour. Both individuals could benefit if

- A. Mike worked on tax returns for eight hours and paid Joe \$5 for each car he washed
- B. Mike worked on tax returns for eight hours and paid Joe \$10 for each car he washed.
- C. Mike worked on tax returns for eight hours and paid Joe \$15 for each car he washed
- D. Joe worked on tax returns for eight hours and paid Mike \$10 for each car he washed

137. To obtain the greatest gains from trade, a country should specialize in and ____ those goods for which it has a comparative advantage and ____ those goods for which other countries have a comparative advantage.

- A. export; export
- B. import; import
- C. export; import
- D. import; export

138. Specialization:

- A. leads to greater self-sufficiency.
- B. can lead to an increase in overall production.
- C. is always the result of an inefficient use of resources.
- D. allows workers to develop skills by working on a large number of tasks.

139. The ability to produce at a lower opportunity cost than someone else is referred to as:

- A. absolute advantage.
- B. comparative advantage.
- C. absolute superiority.
- D. competitive disadvantage.

140. Which of the following would be efficient from an economic perspective?

- A. Reducing the crime rate to zero
- B. Changing speed limits and safety requirements so that there were no traffic fatalities or injuries each year.
- C. Completely eliminating the emission of greenhouse gases
- D. None of the above would be efficient from an economic perspective.

141. In a market system, which of the following is a symptom of market failure?

- A. competition
- B. falling prices
- C. scarcity of resources
- D. air pollution

142. Which of the following serve as the language of the market system?

- A. Monetary and fiscal policies
- B. Volatility
- C. Market prices
- D. Governments

143. Prices communicate information about relative availability of products. For example, a decrease in the price of corn signals to consumers and producers that:

- A. consumers are buying more corn than before.
- B. corn is relatively more abundant than before.
- C. corn is relatively less abundant than before.
- D. consumers are stocking up on corn because of the predictions of a cold winter.

144. In a market system, decisions about how to allocate resources are made:

- A. by central planning boards in each industry.
- B. by a lottery system.
- C. by individuals and firms interacting in markets coordinated by market prices.
- D. by large conglomerates working cooperatively with the government.

145. In markets, information about the relative value of resources is communicated through:

- A. government agencies.
- B. planning committees.
- C. prices.
- D. unions.

146. In a market economy, the amount of a good that is produced is primarily decided by the interaction of:

- A. buyers and sellers.
- B. all consumers.
- C. producers and input suppliers.
- D. producers and government planning committees.

147. Market failure occurs when:

- A. the stock markets tumble due to heavy selling.
- B. the economy fails to allocate resources efficiently on its own.
- C. demand shows signs of slowing down.
- D. a country cannot produce a good or service at a lower opportunity cost than others.

148. Which of the following is true?

- A. Poverty could be potentially eliminated but scarcity could not.
- B. Scarcity could be potentially eliminated but poverty could not.
- C. Both scarcity and poverty could be potentially eliminated.
- D. Neither scarcity nor poverty could be potentially eliminated.

149. Which of the following is true of resources?

- A. Their availability is unlimited.
- B. They are the inputs used to produce goods and services.
- C. Increasing the amount of resources available could eliminate scarcity.
- D. Both b. and c. are true.

150. If scarcity was not a fact,

- A. people could have all they wanted of goods and services for free.
- B. it would no longer be necessary to make choices.
- C. poverty, defined as the lack of a minimum level of consumption would also be eliminated.
- D. all of the above would be true.

151. Which of the following is true?

- A. As long as human wants exceed available resources, scarcity will exist.
- B. Scarcity ultimately leads to competition for the available goods and services.
- C. Scarcity affects everyone to the same degree.
- D. Both a. and b. are true.

152. The most essential economic problem is the existence of:

- A. both an increasing population and the depletion of natural resources.
- B. both limited economic resources and unlimited desires.
- C. both inflation and unemployment.
- D. income inequality and economic freedom.

153. In economics, which of the following is considered "land"?

- A. A 500 acre forest.
- B. bauxite deposits.
- C. underground pools of crude oil.
- D. All of the above except a. are considered land.

154. Which of the following would not be considered "capital" in economics?

- A. A delivery van used by Federal Express.
- B. \$500 in currency.
- C. A microprocessor factory
- D. In economics, both (a) and (c) are considered capital.

155. Which of the following is true?

- A. Even intangible goods can be subjected to economic analysis.
- B. Wealthy individuals who decide to donate money to charity face the constraints of scarcity.
- C. Increases in production would not enable us to eliminate scarcity.
- D. All of the above

156. Which of the following is part of the economic way of thinking?

- A. When an option becomes less beneficial, individuals will become more likely to choose it.
- B. Costs are incurred whenever scarce resources are used to produce goods or services.
- C. The value of a good is determined by its cost of production.
- D. Both a. and b. are part of the economic way of thinking.

157. Say you had an 8 A.M. economics class, and you only come to campus to attend your economics class. The cost of coming to the economics class would then include:

- A. the value of the time it took to drive to campus.
- B. the cost of the gasoline it took to get to campus.
- C. the cost of insuring the car for that day.
- D. a. and b.

158. Which of the following would be likely to raise your opportunity cost of attending a big basketball game this Sunday night?

- A. A friend calls you up and offers you free tickets to a concert by one of your favorite bands on Sunday night.
- B. Your employer offered you double your usual wage to work this Sunday night.
- C. Late Friday afternoon, your physics professor makes a surprise announcement that there will be a major exam on Monday morning.
- D. All of the above would likely raise the opportunity cost of attending the game.

159. Mike can wash a car in 5 minutes and wax a car in 15 minutes. Tony can wash a car in 10 minutes and wax a car in 20 minutes. Which of the following is true?

- A. Mike can wash a car faster and has comparative advantage in washing cars.
- B. Mike can wax a car faster and has comparative advantage in waxing cars.
- C. Tony can wash a car faster and has comparative advantage in washing cars.
- D. Tony can wax a car faster and has comparative advantage in waxing cars.

160. The rule of rational choice is that in trying to make themselves better off, people alter their behavior if the expected marginal benefits to them from doing so _____ the expected marginal costs they will bear.

- A. exceed.
- B. equal.
- C. are less than.
- D. Either a. or b.

161. Which of the following is true?

- A. The actual result of changing behavior following the rule of rational choice will always make people better off.
- B. The actual result of changing behavior following the rule of rational choice will never make people better off.
- C. In terms of the rule of rational choice, zero levels of pollution would be far too costly in terms of what we would have to give up to achieve them.
- D. The rule of rational choice implies that it is impossible to be too safe.

162. Ted has decided to buy a burger and fries at a restaurant, but is considering whether to buy a drink as well. If the price of a burger is \$2, fries are \$1, drinks are \$1, but a value meal with all three costs \$3.80, the marginal cost to Ted of the drink is:

- A. \$0.20
- B. \$0.80
- C. \$1.00
- D. \$3.80

163. Which of the following demonstrates marginal thinking?

- A. Deciding to never eat meat.
- B. Deciding to spend one more hour studying economics tonight because you think the improvement on your next test will be large enough to make it worthwhile to you.
- C. Deciding to go to a Sociology class that you usually skip because there is a guest lecturer you are really interested in hearing that day.
- D. Both b. and c. demonstrate marginal thinking.

164. If a university begins a policy of permanently expelling any student caught cheating in any way, you would expect that:

- A. no students would cheat.
- B. fewer students would cheat.
- C. there would be no difference in the amount of cheating.
- D. minor cases of cheating would become a larger fraction of all cases of cheating attempted.

165. Which of the following is true?

- A. People specialize by concentrating their energies on the activity to which they are best suited, because they incur lower opportunity costs as a result.
- B. One advantage of specialization is that workers acquire greater skill from repetition.
- C. If a person, a region, or a country can produce a good or service at a lower opportunity cost than others, we say that they have a comparative advantage in the production of that good or service.
- D. All of the above are true.

166. Which of the following is true?

- A. Voluntary trades give both parties more in value than what they give up.
- B. Without the ability to trade, people would not tend to specialize in those areas where they had a comparative advantage.
- C. People can gain by specializing in the production of the good in which they have a comparative advantage.
- D. All of the above are true.

167. Two parties can capture gains from specialization and trade whenever:

- A. One party is twice as good as producing all goods as the other.
- B. The opportunity costs of producing each good are the same for both parties.
- C. Both parties can produce equal amounts of both goods.
- D. None of the above are true.

168. If a country wanted to maximize the value of its output, each job should be carried out by the person who:

- A. has the highest opportunity cost.
- B. has a comparative advantage in that activity.
- C. can complete the particular job most rapidly.
- D. enjoys that job the least.

169. If resources and goods are free to move across states and if Oregon producers choose to specialize in producing honey while California producers choose to specialize in growing almonds, then we could reasonably conclude that:

- A. California has a comparative advantage in producing almonds.
- B. Oregon has a comparative advantage in producing honey.
- C. the opportunity cost of growing almonds is lower in California than in Oregon.
- D. all of the above are true.

170. Which of the following is not true?

- A. Voluntary exchange is expected to be advantageous to both parties to the exchange.
- B. What one trader gains from a trade, the other must lose.
- C. If one party to a potential voluntary trade decides it does not advance his interests, he can veto the potential trade.
- D. The expectation of gain motivates people to engage in trade.

171. Advantages of specialization do not include:

- A. reduced interdependence.
- B. the exploitation of comparative advantage.
- C. the ability to utilize more complex production processes.
- D. gains from learning by doing.

172. Tom is a castaway who washes up on a remote island. He can kill eight birds per hour or catch ten fish per day. The natives on the island can kill ten birds per day or catch twenty fish per day. Tom has a comparative advantage in:

- A. hunting birds.
- B. fishing.
- C. both hunting birds and fishing
- D. neither hunting birds or fishing.

173. Tom is a castaway who washes up on a remote island. He can kill eight birds per hour or catch ten fish per day. The natives on the island can kill ten birds per day or catch twenty fish per day. The natives have a comparative advantage in:

- A. hunting birds.
- B. fishing.
- C. both hunting birds and fishing
- D. neither hunting birds or fishing.

174. Tom is a castaway who washes up on a remote island. He can kill eight birds per hour or catch ten fish per day. The natives on the island can kill ten birds per day or catch twenty fish per day. According to comparative advantage,

- A. Tom should kill more birds and fish less, then trade birds for fish.
- B. Tom should kill fewer birds and fish more, then trade fish for birds.
- C. Both, Tom should kill more birds and fish less.
- D. Both, Tom should kill fewer birds and fish more.

175. Which of the following is the most critical signaling mechanism in markets?

- A. quantity
- B. price
- C. cost
- D. government regulation

176. Government price controls

- A. strip the market of its meaning for both buyers and sellers.
- B. often impose harm on the same people they are trying to assist.
- C. sometimes force prices above or below what they would be in a market economy.
- D. all of the above

177. Which of the following would be an example of market failure?

- A. second hand cigarette smoke
- B. lack of funding for education
- C. underproduction of a good by a monopoly
- D. all of the above

178. Which of the following would most likely be an example of market failure?

- A. industrial water pollution
- B. eBay transactions
- C. tradable pollution permits
- D. brokers re-selling tickets for concerts

179. A stable monetary environment will typically lead to

- A. inflation.
- B. producers and consumers better coordinating their decisions through markets.
- C. independence of central banks.
- D. increased trade deficits and limited budgets deficits.

180. Which of the following are consequences of inflation?

- A. It increase the burdens on people with fixed incomes when inflation is not anticipated.
- B. It hurts savers but helps those who have borrowed at a fixed rate.
- C. Inflation imposes costs on people who devote resources to protecting themselves from expected inflation.
- D. all of the above

181. Government policies that use taxes and government spending in an attempt to stabilize the economy are known as

- A. fluctuation policy.
- B. cyclical policy.
- C. monetary policy.
- D. fiscal policy.

182. Which of the following generally does not cause increased unemployment?

- A. increased consumption
- B. people changing jobs
- C. seasonal fluctuations in the economy
- D. workers' skills not matched to available jobs

183. The most meaningful measure of economic growth is

- A. the employment rate.
- B. the unemployment rate.
- C. real GDP.
- D. real GDP per capita.

184. Which of the following do not contribute to economic growth?

- A. substantial increases in money supply
- B. increased productivity
- C. savings and investment
- D. new production technologies

185. Which of the following contribute to increases in productivity?

- A. incentives for innovation
- B. more physical capital
- C. an improved education system
- D. all of the above

186. Assume that Colombia can produce 1,000 pounds of coffee in one day or produce 200 pounds of bananas in one day. In addition, assume that Ecuador can produce 300 pounds of coffee in one day or produce 100 pounds of bananas in one day. Which country has the comparative advantage in coffee and which has the comparative advantage in bananas? Determine a pattern of trade regarding these countries and these goods that would benefit both countries.

187. How would an economist respond to the following statement: "Wanting more goods makes us greedy."

188. Explain the difference between poverty and scarcity.

189. Explain why each of the following is considered an economic issue:

- a. whether to spend Saturday afternoon at a football game
- b. obtaining tickets to a U2 concert
- c. your university considers your application for one of 25 available scholarships

190. Why do people generally switch channels when a movie's final credits are being displayed?

191. Would it make good sense for a community to seek to reduce its levels of pollution to zero? Why or why not?

192. Differentiate between positive and negative incentives.

193. If race-car driving is dangerous, why would any rational person choose to be a race-car driver?

194. Farmer Fred could grow wheat and barley. He could grow 75 bushels of wheat or 125 bushels of barley using the same resources on an acre of his land. The price of wheat is \$2.00 per bushel and the price of barley \$0.80. Show the benefits to Fred from specialization. What should he specialize in?

195. Maggie is a potter and she likes to dig her own clay for producing pots, cups and other ceramic items. She is aware of two places where she can obtain the right clay for her work. The first field is quite close, just at the edge of town. The second field is 15 miles away and (since there are no access roads) requires a half-day of travel just to get there. Compare the opportunity cost of producing pots using clay from each of these fields.

196. Prices communicate information about the relative value of resources in the marketplace. Which of the following would cause the value and, hence, the price, of oranges to rise?

- a. A freeze wipes out half of the Florida citrus groves.
- b. Orange juice is shown to reduce blood cholesterol levels.
- c. The price of grape, cranberry, and pineapple juice falls dramatically.

197. How do price controls undermine the market as a communication device?

198. How can market failure occur in the market for hybrid automobiles? What could the government try to do to improve the situation?

Chapter 2--Economics: Eight Powerful Ideas **Key**

1. Scarcity is a problem faced by all but the wealthiest of citizens.

FALSE

2. Tractors, shovels, copy machines, and computer programming expertise are all examples of scarce resources.

TRUE

3. Human capital consists of computers, tools, and equipment owned by private individuals.

FALSE

4. An entrepreneur organizes the other factors of production and bears the business risk.

TRUE

5. Everyone faces scarcity.

TRUE

6. A permanent change to a much higher price of gasoline would lead us to expect fewer gas guzzlers on the road, ceteris paribus.

TRUE

7. Economists would predict that if salaries increased for engineers and decreased for MBAs that fewer people would go to graduate school in business and more would go in engineering, ceteris paribus.

FALSE

8. Marginal cost is the additional cost incurred as a result of an economic decision.

TRUE

9. When considering whether or not to consume a second slice of cake, an individual is following marginal thinking if she compares the total cost of consuming both the first and second slices with their total benefit before making a decision.

FALSE

10. If Xavier gives up a job in which he earns \$23,000 per year in order to go to college full time, his foregone income is part of the opportunity cost of going to college.

TRUE

11. The opportunity cost of attending college is likely higher for a high school graduate who leaves a job grilling hamburgers than it is for a high school dropout who leaves a job working as a computer network administrator.

FALSE

12. The opportunity cost of a decision is the value of the best foregone alternative.

TRUE

13. The opportunity cost of a decision is the value of all of the available alternatives that were not chosen.

FALSE

14. Since it is possible to grow coffee in the United States, we should clearly create a U.S. coffee industry and no longer import coffee from Brazil.

FALSE

15. A country has a comparative advantage in the production of DVD players if it can produce DVD players at a lower opportunity cost than others.

TRUE

16. Small, developing countries must first become self-sufficient before they can benefit from international trade.

FALSE

17. Market failure is a term used to describe what happens whenever governments intervene into markets (e.g., the imposition of a price control).

FALSE

18. Government price controls make communication of information between buyers and sellers more effective.

FALSE

19. Scarcity applies to our needs but does not apply to our wants.

FALSE

20. The market mechanism assures full employment and stable prices

FALSE

21. The market mechanism assures full employment and stable prices

FALSE

22. Inflation is an increase in the overall price level in the economy.

TRUE

23. Unemployment can be caused by downswings in the business cycle, people changing jobs, different skills needed by employers, or seasonal fluctuations in demand.

TRUE

24. An increase in population, ceteris paribus, will raise the standard of living.

FALSE

25. The only way that an economy can increase its rate of consumption in the long run is by increasing the amount that it produces.

TRUE

26. Economic choices or tradeoffs are the result of:

- A. basic human greed.
- B. scarcity.**
- C. poverty.
- D. private ownership of resources.

27. Scarcity implies that:

- A. consumers are too poor to afford the goods and services available.
- B. at the current market price, consumers are willing to purchase more of a good than suppliers are willing to produce.
- C. it is impossible to completely fulfill the unlimited human desire for goods and services with the limited resources available.**
- D. consumers would be willing to purchase the same quantity of a good at a higher price.

28. Scarcity means that:

- A. human desires are limited.
- B. resources are insufficient to satisfy all human desires.**
- C. choices are unnecessary.
- D. all but the very wealthy must face choices.

29. Scarcity applies to:

- A. only the poor.
- B. the value of our time.
- C. both the rich and poor.
- D. both (b) and (c)**

30. Because of scarcity:

- A. we must sacrifice valuable alternatives to obtain more goods and services we desire.**
- B. the opportunity cost of consumption is zero.
- C. we can obtain more of a desirable good without sacrificing other goods and services.
- D. shortages of goods prevail at current market prices.

31. Scarcity:

- A. is only a problem in communist countries.
- B. is a problem in both communist and socialist countries, but not in market economies.
- C. does not exist in wealthy countries.
- D. will never be eradicated because humans develop new wants as productive capabilities improve.**

32. Scarcity:

- A. exists in command economies.
- B. exists in market economies.
- C. exists only in economies in which there is poverty.
- D.** (a) and (b) above are correct

33. An economy's resources:

- A.** consist of land, labor, capital, and entrepreneurial skills.
- B. are unlimited in a country like the United States.
- C. are always efficiently utilized in wealthy nations.
- D. consist of land, labor, and entrepreneurial skills but not capital.

34. Which of the following is not a resource?

- A. capital
- B. entrepreneurship
- C.** legal institutions
- D. labor

35. Which of the following is not a resource?

- A.** cash
- B. entrepreneurship
- C. land
- D. labor

36. Which of the following is an example of a resource?

- A. land
- B. capital
- C. entrepreneurship
- D.** All of the above

37. Additions to human capital can be made through:

- A. increases in pension benefits
- B. monthly deposits into a savings account.
- C.** improved education and on-the-job training.
- D. the purchase of tools and equipment by workers.

38. Economic resources are also known as:

- A. elements.
- B. financial capital.
- C.** factors of production.
- D. building blocks.

39. Which of the following will not directly add to improvements in human capital?

- A.** increases in take home pay
- B. a low-level manager is sent back to college to acquire an MBA degree
- C. improved job training programs offered to employees
- D. an increase in the computer-proficiency requirements of all high school graduates

40. Which of the following is an example of a resource?

- A. a river
- B. a John Deere tractor
- C. the chef at the city's best café
- D.** all of the above are resources

41. Which of the following is not an example of a resource?

- A. an office building
- B.** a product's price
- C. the land plowed by a farmer in order to grow corn
- D. the chief executive officer of a large corporation

42. Land as a resource can include all of the following except:

- A. trees.
- B.** a sawmill.
- C. a water body.
- D. a limestone deposit.

43. Which of the following would be categorized as capital resources for a college or university?

- A. water, trees, and the acreage a campus rests on
- B.** chalkboards, overhead projectors, and the expertise of professors
- C. exams, fuel oil (which heats the buildings), and electricity
- D. the work effort of registrars, clerical assistants, and teaching assistants

44. An example of physical capital is:

- A. a \$100 bill.
- B. a stock certificate.
- C.** a chainsaw.
- D. a cheeseburger.

45. Human capital is:

- A. the same as labor.
- B. a term describing the tools and equipment owned by households.
- C. a worker's physical effort when working with machines.
- D.** the expertise or knowledge possessed by workers.

46. Human capital is:

- A. machinery owned by firms, but not by individuals.
- B. machinery owned by individuals, but not by firms.
- C. machinery owned by individuals or firms, but not by the government.
- D.** the skill or knowledge of individuals.

47. An example of a capital resource is:

- A. stock in a computer software company.
- B. a bond issued by a company selling electric generators.
- C.** a dump truck.
- D. an employee of a moving company.

48. Which of the following is an example of a capital resource?

- A. an unskilled worker
- B. a large coal deposit
- C.** a fishing boat
- D. yellow-fin tuna

49. Which of the following is not an example of a capital resource?

- A. the expertise of a computer programmer
- B. a pitch fork
- C. a commercial sewing machine
- D.** 100 acres of farmland in central California

50. Which of the following is an example of a capital resource?

- A. redwood trees
- B. unskilled labor
- C. stocks and bonds
- D.** an oil rig

51. The function of an entrepreneur is to:

- A. bear the business risks.
- B. organize the other factors of production.
- C. innovate.
- D.** do all of the above.

52. Entrepreneurship is:

- A. human capital.
- B. another word for the financial capital that can be used to start a business.
- C.** the resource that organizes the other factors of production in order to produce goods and/or services.
- D. another word for physical capital that is used to produce goods and services.

53. Every time an individual decides to try out new equipment, or finds better ways to manage money, he or she is exhibiting traits of:

- A. money management.
- B.** entrepreneurship.
- C. strategic management.
- D. capital management.

54. An example of an intangible good is:

- A. an automobile.
- B. a new house.
- C. a snowplow.
- D.** friendship.

55. All of the following are intangible except:

- A. health.
- B. love.
- C. computer programming expertise.
- D.** All of the above are intangible goods.

56. All of the following are tangible goods except:

- A. a skateboard.
- B. a desk.
- C. a train locomotive.
- D.** fairness.

57. Economic goods are:

- A. only those commodities priced in monetary terms.
- B.** scarce products that are created from scarce resources.
- C. the opposite of normative economic goods.
- D. not subject to scarcity.

58. Which of the following observations regarding economic goods is incorrect?

- A. They are limited in supply.
- B. They are desirable.
- C.** They are solely low-priced essential goods.
- D. They are scarce goods created from scarce resources

59. The expression, "There's no such thing as a free lunch" implies that:

- A. everyone has to pay for his/her own lunch.
- B. the person consuming a good must always pay for it.
- C.** costs are incurred when resources are used to produce goods and services.
- D. no one has time for a good lunch anymore.

60. The similarity between all goods and services, whether tangible or intangible, is that they:

- A. are not subject to economic analysis.
- B. require technical expertise.
- C. have no price tags.
- D.** are made from scarce resources and are subject to economic analysis.

61. Trent decides to spend an hour playing basketball rather than studying. His opportunity cost is:

- A. nothing because he enjoys playing basketball more than studying.
- B.** the benefit to his grades from studying for an hour.
- C. the increase in skill he obtains from playing basketball for that hour.
- D. nothing because he had a free pass into the sports complex to play basketball.

62. The opportunity cost of an action is equal to:

- A. only the monetary payment the action required.
- B. the total time spent by all parties in carrying out the action.
- C. the highest valued opportunity that must be sacrificed in order to take the action.
- D. the value of all of the alternative actions that could have been taken.

63. The opportunity cost of going to college includes:

- A. both tuition and the value of the student's time.
- B. tuition, but not the value of the student's time, which is a monetary cost.
- C. neither tuition nor the value of the student's time, since obtaining a college degree makes one's income higher in the future.
- D. neither tuition nor the value of the student's time, at least at state-supported universities and colleges.

64. Opportunity cost includes

- A. monetary costs only.
- B. non-monetary costs only.
- C. both monetary and non-monetary costs.
- D. neither monetary nor non-monetary costs.

65. A student has a chance to see Taylor Swift in concert. The student also has a major economics exam in the morning. If the student goes to the concert:

- A. she may receive a lower grade on the economics exam.
- B. the opportunity cost of the concert is the value of the time spent studying.
- C. the decision involves a tradeoff.
- D. all of the above are correct.

66. The opportunity cost of an item is:

- A. greater during periods of inflation and lower during periods of deflation.
- B. the highest valued alternative you give up to get that item.
- C. the value of all available alternatives you sacrifice to get that item.
- D. always equal to the dollar value of the item.

67. "If I didn't have class tonight, I would save the \$4 campus parking fee and spend four hours at work where I earn \$10 per hour." The opportunity cost of attending class this evening is:

- A. \$4.
- B. \$40.
- C. \$44.
- D. \$0.

68. Which of the following statements is true?

- A. The opportunity cost of a decision is equal to the explicit cost in monetary terms.
- B.** The opportunity cost of a decision is the value of the best foregone alternative.
- C. Some economic decisions have zero opportunity cost.
- D. The opportunity cost of attending college is the same for all students at the same university but may differ among students at different universities.

69. The opportunity cost of attending college is likely to include all except which of the following?

- A. the cost of required textbooks
- B. tuition fees
- C. the income you forego in order to attend classes
- D.** the cost of haircuts received during the school term

70. The opportunity cost of attending a university for a year is measured by:

- A. the tuition fees incurred.
- B. the size of the student loans the student becomes responsible for.
- C. the sum of all expenditures on rent, food, books, and tuition incurred during the school year.
- D.** the value of the best opportunity or opportunities foregone in order to enroll for the year.

71. Jamie and Danny both attend the same college and incur the same expenses for tuition, books, and school supplies. Jamie gave up a lucrative modeling job in Paris to attend school full-time and Danny gave up a part-time job as a sales clerk in a department store. It follows that:

- A. the opportunity cost of attending college is the same for both since they are enrolled at the same academic institution.
- B.** the opportunity cost of attending college is likely greater for Jamie than for Danny.
- C. the opportunity cost of attending college is likely greater for Danny than for Jamie.
- D. the opportunity cost is minimal for both since college graduates are paid much higher than high school graduates on average.

72. The opportunity cost of an airplane flight:

- A. differs across passengers only to the extent that each traveler pays a different airfare.
- B. is identical for all passengers and equal to the number of hours a particular flight takes.
- C.** differs across passengers to the extent that both the airfare paid and the highest valued use of travel time vary.
- D. is equal to the cost of a bus ticket, the next best form of alternative transportation to flying.

73. Exhibit 2-1

<u>Possibility A</u>	<u>Economics</u>	<u>History</u>
I	94	76
II	87	84
III	77	91

Refer to **Exhibit 2-1**. A student has only a few hours to prepare for two different exams this afternoon. The above table shows alternative possible exam scores with three alternative uses of the student's time. The opportunity cost of scoring a 94 on the economics exam rather than a 77 is:

- A. 8 points on the history exam.
- B. 15 points on the history exam.**
- C. 76 points on the history exam.
- D. 91 points on the history exam.

74. Exhibit 2-1

<u>Possibility A</u>	<u>Economics</u>	<u>History</u>
I	94	76
II	87	84
III	77	91

Refer to **Exhibit 2-1**. A student has only a few hours to prepare for two different exams tomorrow morning. The above table shows alternative possible exam outcomes with three alternative uses of the student's time. The opportunity cost of scoring an 84 on the history exam rather than 76 is:

- A. 10 points on the economics exam.
- B. 7 points on the economics exam.**
- C. 8 points on the history exam.
- D. 12 points on the economics exam.

75. Opportunity costs:

- A. only include explicit costs paid out-of-pocket.
- B. never involve costs paid out-of-pocket.
- C. may or may not involve costs paid out-of-pocket.**
- D. are always measured in time units.

76. The opportunity cost of an action includes:

- A. the monetary expenses incurred as a result of the action.
- B. the highest valued alternative use of the time spent on the action.
- C. the benefits received as a result of the action.
- D. only a. and b.**

77. The opportunity cost of an action is equal to:

- A. the monetary expense incurred as a result of the action.
- B. the value of any alternative use of the time expended on the action.
- C. the highest valued alternative sacrificed as a result of the action.
- D. the sum of the benefits received as a result of the action.

78. The opportunity cost of an action:

- A. can be objectively determined only by economists.
- B. is a subjective valuation that can only be determined by the individual who chooses the action.
- C. can be determined by adding up the bills incurred as a result of the action.
- D. can be determined by considering both the benefits that flow from as well as the monetary costs incurred as a result of the action.

79. The opportunity cost of attending a college basketball game is:

- A. price of the admission to the game.
- B. the sum of the value of all the alternative uses of your time while at the game.
- C. the value of the highest alternative use of your time and money sacrificed as a result of attending the game.
- D. less if your favorite team wins.

80. "Opportunity cost" refers to:

- A. the dollar price paid for a good.
- B. the value of the best foregone alternative.
- C. the finder's fee paid to a job placement agency for locating employment for workers.
- D. the membership fee paid to join a health club.

81. The opportunity cost of an action is:

- A. the value of the best foregone alternative.
- B. the difference between the benefits that result and the expenses incurred as a result of the action.
- C. the same as the expected benefit of the action.
- D. the same for everyone who undertakes the action.

82. Lance's boss offers him twice his usual wage rate to work tonight instead of taking his girlfriend on a romantic date. This offer will likely:

- A. not affect the opportunity cost of going on the date.
- B. reduce the opportunity cost of going on the date because giving up the additional work dollars will make his girlfriend feel even more appreciated.
- C. increase the opportunity cost of going on the date.
- D. reduce the opportunity cost of working.

83. The opportunity cost of a two-week vacation in Hawaii for an Arizona resident includes:

- A. the cost of the beach resort hotel accommodations.
- B. the airfare to and from Honolulu International Airport.
- C. two weeks of wages that could have been earned.
- D.** all of the above.

84. A university offers a free shuttle service around campus. The opportunity cost of the shuttle service is equal to:

- A. zero, since it is free to students who want to ride.
- B. the wages paid to the shuttle drivers.
- C. the wages paid to the shuttle drivers, plus the gasoline expenses.
- D.** the highest valued alternative use of the resources devoted to the shuttle program.

85. In order to acquire more of a good we must sacrifice production of another good (because resources are in limited supply). This illustrates the concept of:

- A. the division of labor.
- B. *ceteris paribus*.
- C.** opportunity cost.
- D. specialization.

86. Who of the following would economists considered most likely to commit a crime?

- A. An individual with a high paying job because he faces a lower opportunity cost if caught
- B. An individual with a high paying job because he faces a higher opportunity cost if caught
- C.** An individual without a job because he faces a lower opportunity cost if caught
- D. An individual without a job because he faces a higher opportunity cost if caught

87. Airlines that restrict the use of frequent flyer miles during holiday periods likely do so because:

- A. the opportunity cost to airlines of filling seats with frequent flyers is lower at these times.
- B.** the opportunity cost to airlines of filling seats with frequent flyers is higher at these times.
- C. passengers have more transportation alternatives available to them at these times.
- D. airlines want to protect their most loyal customers from the discomfort of overcrowded airplanes.

88. Marginal thinking is best demonstrated by:

- A.** choosing to spend one more hour studying economics because you think the improvement in your score on the next quiz will be worth the sacrifice of time.
- B. deciding to never purchase a coat made with animal skins or furs.
- C. acquiring all the information relevant to a choice before making that choice.
- D. measuring all of the costs of a meal against all of the benefits when deciding whether to order a second milkshake.

89. According to the rule of rational choice, an individual will undertake an activity as long as:

- A. the expected marginal benefits are less than the expected marginal costs.
- B.** the expected marginal benefits are greater than the expected marginal costs.
- C. total costs exceed total benefits.
- D. total benefits exceed total costs.

90. Which of the following best defines rational behavior?

- A. analyzing the total costs of a decision
- B. analyzing the total benefits of a decision
- C. undertaking an activity as long as the total benefit of all activities exceeds the total cost of all activities
- D.** undertaking activities whenever the marginal benefit exceeds the marginal cost

91. The additional benefit received as a result of undertaking an action is:

- A. the opportunity cost.
- B. the marginal cost.
- C.** the marginal benefit.
- D. the total benefit.

92. The additional cost incurred as a result of undertaking an action is:

- A. the opportunity benefit.
- B. the marginal benefit.
- C. the total cost.
- D.** the marginal cost.

93. The marginal (dollar) cost of an additional plate of food to a patron at an "All-You-Can-Eat" restaurant is:

- A. equal to the price paid for the meal divided by the number of plates of food consumed.
- B. equal for all plates of food consumed during the meal.
- C.** equal to zero.
- D. equal to the price paid for the meal (since there is no such thing as a free lunch).

94. Marginal analysis involves:

- A. comparing the total benefits of all actions to the total costs incurred as a result of those actions.
- B. abstract thinking, which is never actually utilized by consumers when making purchasing decisions.
- C. holding all other variables constant when isolating the relationship between two variables.
- D.** comparing the additional benefit from an action to the additional cost.

95. An airline decides to sell 5 unoccupied seats on a flight from California to Chicago at \$300 each, which is less than its average cost per ticket of \$450 each. Which of the following might have prompted this decision to sell tickets below cost?

- A. total costs
- B. average costs
- C. marginal costs**
- D. traceable costs

96. The rule of rational choice suggests that you will engage in more of an activity if:

- A. the total benefit from that activity exceeds the total cost of the activity.
- B. the total cost from that activity exceeds the total benefit of the activity.
- C. the additional cost incurred as a result of the activity exceeds the additional benefit received.
- D. the additional benefit received as a result of the activity exceeds the additional cost incurred.**

97. If a student enrolls in an additional course at the university, an economist would conclude that:

- A. the total benefit that the student expects to receive as a result of completing her college degree exceeds the total cost of her college education.
- B. the student is not following the rule of rational choice.
- C. the student must not be involved in extracurricular campus activities.
- D. the expected marginal benefit of an additional course must exceed the expected marginal cost of the course.**

98. The price of a ticket to the latest Broadway musical is \$80. You will purchase a ticket if:

- A. you are acting irrationally.
- B. you place a lower valuation on seeing the musical than \$80 but are extremely bored.
- C. your expected marginal benefit from viewing the musical exceeds \$80.**
- D. your expected marginal cost from viewing the musical exceeds \$80.

99. The expected marginal benefit to you from purchasing a new sport utility vehicle is \$20,000. The price of the new sport utility vehicle is \$22,000.

- A. If you are acting rationally, you will borrow \$2,000 and purchase a new sport utility vehicle.
- B. You will not purchase the new sport utility vehicle at this time if you are acting rationally.**
- C. If you do not purchase the new sport utility vehicle, your net loss will be \$2,000.
- D. If you are acting rationally, you will purchase sport utility vehicles until the marginal cost of doing so falls to \$20,000.

100. The marginal benefit to you of drinking bottled iced tea is \$1.50. The price of a bottle of iced tea is \$1.25.

- A. If you purchase iced tea you will suffer a net loss of 25 cents per bottle.
- B.** If you purchase a bottle of iced tea, the net gain to you from doing so is 25 cents.
- C. You will not purchase iced tea if you are acting rationally.
- D. If you are acting rationally, you will purchase iced tea until the marginal benefit falls to 25 cents.

101. Individuals will only pursue an activity if:

- A. $E(MB) \neq E(MC)$.
- B. $E(MB) = E(MC)$.
- C.** $E(MB) > E(MC)$.
- D. $E(MB) < E(MC)$.

102. Jared declines to purchase a new bicycle priced at \$200. An economist would conclude that:

- A. Jared does not enjoy riding a bicycle.
- B. the expected marginal benefit of the bicycle to Jared exceeds \$200.
- C.** the expected marginal benefit of the bicycle to Jared is less than \$200.
- D. the expected marginal benefit of the bicycle to Jared is less than \$100.

103. Rational choices:

- A. are based on a comparison of total benefits and total costs.
- B. can only be made by those who are economists.
- C.** are made based on expectations of the additional benefits and additional costs involved.
- D. measure benefits based on the past.

104. Henry must choose between going to his psychology class this evening or going on a double date. If he chooses to go on the date, the expected value of the psychology lecture:

- A. is impossible to compare to the expected enjoyment from going on a date.
- B. is likely greater than the expected marginal benefit from going on the date.
- C.** is likely less than the expected marginal benefit from going on the date.
- D. is likely equal to the expected marginal benefit from going on the date.

105. The rule of rational choice:

- A. requires the availability of complete information before decisions can be made.
- B. can only be applied in business decisions.
- C.** involves "marginal thinking."
- D. is the basis on which only greedy people make decisions.

106. Gallons of milk at a local grocery store are priced at one for \$4.00, or two for \$6.00. The marginal cost of buying a second gallon of milk:

- A. equals \$6.00.
- B. equals \$4.00.
- C. equals \$3.00.
- D.** equals \$2.00.

107. The marginal benefit to Lasca of weekend vacations during the year at a local resort are given by the following schedule:

<u>Number of Weekend Vacations</u>	<u>Marginal Benefit</u>
1	\$600
2	\$550
3	\$475
4	\$325
5	\$250
6	\$180

If the marginal cost of a weekend vacation at the local resort is constant and equal to \$350, how many weekends at the local resort is Lasca likely to enjoy?

- A. 2
- B.** 3
- C. 4
- D. 5

108. Economists believe that people respond to incentives in predictable ways. Therefore, if the government imposed a tax on each child born, you would expect that:

- A. families would have the same number of children, but wait longer to begin having them.
- B. more children would be born, but spaced further apart.
- C. more children would be adopted.
- D.** fewer children would be born.

109. Economists believe that in regards to criminal behavior:

- A. people engage in criminal activity because they are genetically predisposed to do so.
- B.** those choosing to commit criminal acts weigh the expected marginal benefits versus the expected marginal costs.
- C. individuals are irrational and don't respond to incentives.
- D. economics can shed very little light on the subject.

110. The following table shows the marginal benefit to a consumer of DVD rentals.

<u>DVD Rentals per Month</u>	<u>Marginal Benefit (in dollars)</u>
1	\$8.50
2	\$7.50
3	\$6.50
4	\$5.50
5	\$4.50
6	\$3.50
7	\$2.50
8	\$1.50

If the price of a DVD rental is \$4, a consumer following the rule of rational choice will rent:

- A. 2 DVDs per month.
- B. 3 DVDs per month.
- C. 4 DVDs per month.
- D.** 5 DVDs per month.

111. The following table shows the marginal benefit to a consumer from viewing theatrical-release films each month.

<u>Movie Tickets per Month</u>	<u>Marginal Benefit (in dollars)</u>
1	\$10.50
2	\$ 9.50
3	\$ 8.50
4	\$ 7.50
5	\$ 6.50
6	\$ 5.50
7	\$ 4.50
8	\$ 3.50

If the price of a movie ticket is \$8, a consumer following the rule of rational choice will purchase:

- A. 2 movie tickets per month.
- B.** 3 movie tickets per month.
- C. 4 movie tickets per month.
- D. 5 movie tickets per month.

112. The marginal cost of a vacation in the south of France is \$4,500. The marginal benefit to Druscilla of a vacation in the south of France is \$4,800.

- A. Druscilla will lose \$300 if she vacations in the south of France.
- B.** Druscilla will experience a net gain of \$300 if she vacations in the south of France.
- C. Druscilla will be worse off if she vacations in the south of France.
- D. Druscilla will enjoy a net gain of \$4,800 if she vacations in the south of France.

113. The marginal cost of a vacation in Jamaica is \$3,500. The marginal benefit to Colby of a vacation in Jamaica is \$3,000.

- A. According to the rule of rational choice, Colby should choose not to vacation in Jamaica at this time.
- B. According to the rule of rational choice, Colby will experience a net gain of \$500 if he vacations in Jamaica.
- C. According to the rule of rational choice, Colby should borrow \$500 and vacation in Jamaica.
- D. According to the rule of rational choice, Colby will experience a net gain of \$3,000 if he vacations in Jamaica.

114. If people follow the rule of rational choice they will choose options that they think will:

- A. create more average benefits than average costs
- B. create more additional costs than additional benefits
- C. create equivalent additional benefits and additional costs
- D. create more additional benefits than additional costs

115. You lose \$20 from your wallet and decide to miss an hour from work in order to search for it. To an economist, this means that:

- A. you estimate the expected cost of searching for one hour to be greater than \$20.
- B. you must earn more than \$20 per hour.
- C. in your estimation the expected value of searching for the lost \$20 for an hour exceeds your hourly wage.
- D. you are irrational, since it is always a waste of time to search for lost money.

116. Despite the warning on a package of cigarettes about the potential health hazards of smoking, a man lights up a cigarette. An economist would conclude that:

- A. in the man's judgment, the expected marginal cost of smoking the cigarette outweighs the expected marginal benefit.
- B. the man is behaving irrationally.
- C. the smoker is unconcerned about his future health.
- D. in the man's judgment, the expected marginal benefit of smoking the cigarette outweighs the expected marginal cost.

117. Several political leaders have proposed that parents be granted a substantially larger reduction in their annual personal income taxes for each child that they parent. The economic way of thinking indicates that legislation of this type would:

- A. make it more expensive for parents to provide for their children.
- B. reduce the value of children to their parents and therefore lead to a reduction in the birth rate.
- C. reduce the after-tax cost of raising children and therefore increase the birth rate.
- D. exert no impact on either the cost of raising children or the birth rate since parenting children is a non-economic activity.

118. Pollution damages the environment we live in. An economist would advise that we reduce air pollution: A. as long as the marginal benefit from air pollution reduction outweighs the marginal cost of achieving the reduction.

B. until the total benefit from air pollution reduction just equals the total cost of pollution reduction.

C. until air pollution levels reach near-zero levels.

D. to the levels experienced in the 1950s when air was much cleaner near big cities.

119. Positive incentives:

A. increase benefits or reduce costs.

B. decrease behaviors.

C. decrease benefits or increase costs.

D. create additional taxes on behaviors.

120. Positive incentives do not:

A. increase benefits.

B. result in an increased level of the related activity.

C. reduce costs.

D. discourage consumption.

121. Negative incentives:

A. increase benefits or reduce costs.

B. increase behaviors.

C. decrease benefits or increase costs.

D. include both cash subsidies and taxes.

122. Which of the following is an example of a positive incentive?

A. You expect to be grounded if your grades slip below a B average.

B. You expect to receive a scholarship if your grades remain high.

C. Desserts will be unavailable at the cafeteria if you arrive after 7:00 p.m.

D. Campus police institute a policy of impounding cars parked in delivery zone spaces.

123. Which of the following is likely to provide teenagers with the greatest incentive not to smoke?

A. public service television advertisement featuring Jennifer Lopez urging kids to refrain from smoking

B. a \$2.00 per-pack tax on cigarettes

C. citing moral grounds, Leonardo DiCaprio refuses to play any part in which he will be seen smoking

D. a law prohibits anyone from smoking in public buildings

124. Which of the following statements is most consistent with the rule of rational choice?

- A. "The Environmental Protection Agency should strive to eliminate virtually all air and water pollution."
- B.** "When evaluating new prescription drugs, the Food and Drug Administration should weigh each drug's potential health benefits against the potential health risks posed by known side effects."
- C. "Police forces should be enlarged until virtually all crime is eliminated."
- D. "Manufacturers of automobiles should seek to make cars safer, no matter the costs involved."

125. The following table shows the marginal benefit to an individual of consuming pints of ice cream.

<u>Pints of ice cream</u>	<u>Marginal Benefit</u>
1	\$7.00
2	\$5.00
3	\$3.00
4	\$2.00
5	\$1.00
6	\$0.50
7	-\$1.00

If the price of each pint is \$4.00 at this establishment, a rational consumer would purchase

- A. 1 pint of ice cream
- B.** 2 pints of ice cream
- C. 3 pints of ice cream
- D. 5 pints of ice cream

126. Individuals:

- A. respond to incentives in predictable ways.
- B. decrease the level of an activity in response to negative incentives.
- C. respond to positive incentives by increasing the level of activity.
- D.** do all of the above.

127. If airfares to Europe were to increase, an economist would predict that:

- A. most people will not change their travel and vacation plans.
- B. more individuals will choose to fly to Europe because now it is a more valuable experience.
- C.** some individuals will substitute toward other travel destinations.
- D. airlines will make significantly greater profits.

128. Specialization is a way for:

- A.** individuals to make the best use of resources by devoting themselves to one primary productive activity.
- B. society to become wealthier while not using their resources.
- C. people to avoid having to trade.
- D. increasing one's opportunity cost for an activity.

129. Which of the following explains why people tend to dedicate their resources to one primary activity?

- A.** Opportunity costs
- B. Negative incentives
- C. Positive thinking
- D. Fallacy of composition

130. Resources are used more efficiently if people, regions, and countries specialize in goods for which they have a(n):

- A. disincentive to trade with others.
- B. higher opportunity cost.
- C. absolute advantage in production.
- D.** comparative advantage in production.

131. Kelly is an attorney and also an excellent typist. She can type 120 words per minute, but she is pressed for time because she has all the legal work she can handle at \$75 per hour. Kelly's friend Todd works as a waiter and would like some typing work (provided that he can make at least his wage as a waiter, which is \$25 per hour). Todd can only type 60 words per minute.

- A. Kelly should do all the typing because she is faster.
- B.** Todd should do the typing as long as his earnings are more than \$25 and less than \$37.50 per hour.
- C. Unless Todd can match Kelly's typing speed, he should remain a waiter.
- D. Todd should do the typing, and Kelly should pay him \$20 per hour.

132. Sergei makes millions of dollars a year playing hockey. Sergei is also the best tailor in his hometown in Russia. Why doesn't Sergei make his own clothes?

- A. He has already made all the clothes he will need for a few years.
- B.** The opportunity cost to him of making his own clothes is very high because it takes away from his lucrative hockey career.
- C. Sergei just can't find the material he likes in the United States.
- D. Sergei has a comparative advantage in tailoring clothes.

133. An individual has a comparative advantage in production if that individual:

- A. can produce at the highest opportunity cost.
- B. is more self-sufficient than others.
- C.** can produce at the lowest opportunity cost.
- D. all of the above

134. When a person possesses a comparative advantage in the production of one good or service, it:

- A. means that the person's opportunity cost is higher than for that of other goods.
- B. discourages specialization.
- C. promotes greater self-sufficiency.
- D.** permits gains from trade to be realized due to a more efficient use of resources.

135. A nation has a comparative advantage in the production of cars over another nation if:

- A. it can produce cars with fewer resources than the other country.
- B.** it can produce cars at a lower opportunity cost than the other country.
- C. it can produce cars at a higher opportunity cost than the other country.
- D. it can produce cars at the same opportunity cost and its consumers have a stronger preference for cars than consumers in the other country.

136. Mike is able to complete a tax return in two hours earning a fee of \$100. As an alternative, he could pitch in at a volunteer car wash washing four cars in one hour. His roommate Joe would take four hours to complete a tax return earning a \$100 fee and also can wash four cars in one hour. Both individuals could benefit if

- A. Mike worked on tax returns for eight hours and paid Joe \$5 for each car he washed
- B.** Mike worked on tax returns for eight hours and paid Joe \$10 for each car he washed.
- C. Mike worked on tax returns for eight hours and paid Joe \$15 for each car he washed
- D. Joe worked on tax returns for eight hours and paid Mike \$10 for each car he washed

137. To obtain the greatest gains from trade, a country should specialize in and ____ those goods for which it has a comparative advantage and ____ those goods for which other countries have a comparative advantage.

- A. export; export
- B. import; import
- C.** export; import
- D. import; export

138. Specialization:

- A. leads to greater self-sufficiency.
- B.** can lead to an increase in overall production.
- C. is always the result of an inefficient use of resources.
- D. allows workers to develop skills by working on a large number of tasks.

139. The ability to produce at a lower opportunity cost than someone else is referred to as:

- A. absolute advantage.
- B.** comparative advantage.
- C. absolute superiority.
- D. competitive disadvantage.

140. Which of the following would be efficient from an economic perspective?

- A. Reducing the crime rate to zero
- B. Changing speed limits and safety requirements so that there were no traffic fatalities or injuries each year.
- C. Completely eliminating the emission of greenhouse gases
- D.** None of the above would be efficient from an economic perspective.

141. In a market system, which of the following is a symptom of market failure?

- A. competition
- B. falling prices
- C. scarcity of resources
- D.** air pollution

142. Which of the following serve as the language of the market system?

- A. Monetary and fiscal policies
- B. Volatility
- C.** Market prices
- D. Governments

143. Prices communicate information about relative availability of products. For example, a decrease in the price of corn signals to consumers and producers that:

- A. consumers are buying more corn than before.
- B.** corn is relatively more abundant than before.
- C. corn is relatively less abundant than before.
- D. consumers are stocking up on corn because of the predictions of a cold winter.

144. In a market system, decisions about how to allocate resources are made:

- A. by central planning boards in each industry.
- B. by a lottery system.
- C.** by individuals and firms interacting in markets coordinated by market prices.
- D. by large conglomerates working cooperatively with the government.

145. In markets, information about the relative value of resources is communicated through:

- A. government agencies.
- B. planning committees.
- C.** prices.
- D. unions.

146. In a market economy, the amount of a good that is produced is primarily decided by the interaction of:

- A.** buyers and sellers.
- B. all consumers.
- C. producers and input suppliers.
- D. producers and government planning committees.

147. Market failure occurs when:

- A. the stock markets tumble due to heavy selling.
- B.** the economy fails to allocate resources efficiently on its own.
- C. demand shows signs of slowing down.
- D. a country cannot produce a good or service at a lower opportunity cost than others.

148. Which of the following is true?

- A.** Poverty could be potentially eliminated but scarcity could not.
- B. Scarcity could be potentially eliminated but poverty could not.
- C. Both scarcity and poverty could be potentially eliminated.
- D. Neither scarcity nor poverty could be potentially eliminated.

149. Which of the following is true of resources?

- A. Their availability is unlimited.
- B.** They are the inputs used to produce goods and services.
- C. Increasing the amount of resources available could eliminate scarcity.
- D. Both b. and c. are true.

150. If scarcity was not a fact,

- A. people could have all they wanted of goods and services for free.
- B. it would no longer be necessary to make choices.
- C. poverty, defined as the lack of a minimum level of consumption would also be eliminated.
- D.** all of the above would be true.

151. Which of the following is true?

- A. As long as human wants exceed available resources, scarcity will exist.
- B. Scarcity ultimately leads to competition for the available goods and services.
- C. Scarcity affects everyone to the same degree.
- D.** Both a. and b. are true.

152. The most essential economic problem is the existence of:

- A. both an increasing population and the depletion of natural resources.
- B.** both limited economic resources and unlimited desires.
- C. both inflation and unemployment.
- D. income inequality and economic freedom.

153. In economics, which of the following is considered "land"?

- A. A 500 acre forest.
- B. bauxite deposits.
- C. underground pools of crude oil.
- D.** All of the above except a. are considered land.

154. Which of the following would not be considered "capital" in economics?

- A. A delivery van used by Federal Express.
- B. \$500 in currency.
- C. A microprocessor factory
- D.** In economics, both (a) and (c) are considered capital.

155. Which of the following is true?

- A. Even intangible goods can be subjected to economic analysis.
- B. Wealthy individuals who decide to donate money to charity face the constraints of scarcity.
- C. Increases in production would not enable us to eliminate scarcity.
- D.** All of the above

156. Which of the following is part of the economic way of thinking?

- A. When an option becomes less beneficial, individuals will become more likely to choose it.
- B.** Costs are incurred whenever scarce resources are used to produce goods or services.
- C. The value of a good is determined by its cost of production.
- D. Both a. and b. are part of the economic way of thinking.

157. Say you had an 8 A.M. economics class, and you only come to campus to attend your economics class. The cost of coming to the economics class would then include:

- A. the value of the time it took to drive to campus.
- B. the cost of the gasoline it took to get to campus.
- C. the cost of insuring the car for that day.
- D.** a. and b.

158. Which of the following would be likely to raise your opportunity cost of attending a big basketball game this Sunday night?

- A. A friend calls you up and offers you free tickets to a concert by one of your favorite bands on Sunday night.
- B. Your employer offered you double your usual wage to work this Sunday night.
- C. Late Friday afternoon, your physics professor makes a surprise announcement that there will be a major exam on Monday morning.
- D.** All of the above would likely raise the opportunity cost of attending the game.

159. Mike can wash a car in 5 minutes and wax a car in 15 minutes. Tony can wash a car in 10 minutes and wax a car in 20 minutes. Which of the following is true?

- A.** Mike can wash a car faster and has comparative advantage in washing cars.
- B. Mike can wax a car faster and has comparative advantage in waxing cars.
- C. Tony can wash a car faster and has comparative advantage in washing cars.
- D. Tony can wax a car faster and has comparative advantage in waxing cars.

160. The rule of rational choice is that in trying to make themselves better off, people alter their behavior if the expected marginal benefits to them from doing so _____ the expected marginal costs they will bear.

- A.** exceed.
- B. equal.
- C. are less than.
- D. Either a. or b.

161. Which of the following is true?

- A. The actual result of changing behavior following the rule of rational choice will always make people better off.
- B. The actual result of changing behavior following the rule of rational choice will never make people better off.
- C.** In terms of the rule of rational choice, zero levels of pollution would be far too costly in terms of what we would have to give up to achieve them.
- D. The rule of rational choice implies that it is impossible to be too safe.

162. Ted has decided to buy a burger and fries at a restaurant, but is considering whether to buy a drink as well. If the price of a burger is \$2, fries are \$1, drinks are \$1, but a value meal with all three costs \$3.80, the marginal cost to Ted of the drink is:

- A. \$0.20
- B.** \$0.80
- C. \$1.00
- D. \$3.80

163. Which of the following demonstrates marginal thinking?

- A. Deciding to never eat meat.
- B. Deciding to spend one more hour studying economics tonight because you think the improvement on your next test will be large enough to make it worthwhile to you.
- C. Deciding to go to a Sociology class that you usually skip because there is a guest lecturer you are really interested in hearing that day.
- D.** Both b. and c. demonstrate marginal thinking.

164. If a university begins a policy of permanently expelling any student caught cheating in any way, you would expect that:

- A. no students would cheat.
- B.** fewer students would cheat.
- C. there would be no difference in the amount of cheating.
- D. minor cases of cheating would become a larger fraction of all cases of cheating attempted.

165. Which of the following is true?

- A. People specialize by concentrating their energies on the activity to which they are best suited, because they incur lower opportunity costs as a result.
- B. One advantage of specialization is that workers acquire greater skill from repetition.
- C. If a person, a region, or a country can produce a good or service at a lower opportunity cost than others, we say that they have a comparative advantage in the production of that good or service.
- D.** All of the above are true.

166. Which of the following is true?

- A. Voluntary trades give both parties more in value than what they give up.
- B. Without the ability to trade, people would not tend to specialize in those areas where they had a comparative advantage.
- C. People can gain by specializing in the production of the good in which they have a comparative advantage.
- D.** All of the above are true.

167. Two parties can capture gains from specialization and trade whenever:

- A. One party is twice as good as producing all goods as the other.
- B. The opportunity costs of producing each good are the same for both parties.
- C. Both parties can produce equal amounts of both goods.
- D.** None of the above are true.

168. If a country wanted to maximize the value of its output, each job should be carried out by the person who:

- A. has the highest opportunity cost.
- B.** has a comparative advantage in that activity.
- C. can complete the particular job most rapidly.
- D. enjoys that job the least.

169. If resources and goods are free to move across states and if Oregon producers choose to specialize in producing honey while California producers choose to specialize in growing almonds, then we could reasonably conclude that:

- A. California has a comparative advantage in producing almonds.
- B. Oregon has a comparative advantage in producing honey.
- C. the opportunity cost of growing almonds is lower in California than in Oregon.
- D.** all of the above are true.

170. Which of the following is not true?

- A. Voluntary exchange is expected to be advantageous to both parties to the exchange.
- B.** What one trader gains from a trade, the other must lose.
- C. If one party to a potential voluntary trade decides it does not advance his interests, he can veto the potential trade.
- D. The expectation of gain motivates people to engage in trade.

171. Advantages of specialization do not include:

- A.** reduced interdependence.
- B. the exploitation of comparative advantage.
- C. the ability to utilize more complex production processes.
- D. gains from learning by doing.

172. Tom is a castaway who washes up on a remote island. He can kill eight birds per hour or catch ten fish per day. The natives on the island can kill ten birds per day or catch twenty fish per day. Tom has a comparative advantage in:

- A.** hunting birds.
- B. fishing.
- C. both hunting birds and fishing
- D. neither hunting birds or fishing.

173. Tom is a castaway who washes up on a remote island. He can kill eight birds per hour or catch ten fish per day. The natives on the island can kill ten birds per day or catch twenty fish per day. The natives have a comparative advantage in:

- A. hunting birds.
- B. fishing.**
- C. both hunting birds and fishing
- D. neither hunting birds or fishing.

174. Tom is a castaway who washes up on a remote island. He can kill eight birds per hour or catch ten fish per day. The natives on the island can kill ten birds per day or catch twenty fish per day. According to comparative advantage,

- A. Tom should kill more birds and fish less, then trade birds for fish.**
- B. Tom should kill fewer birds and fish more, then trade fish for birds.
- C. Both, Tom should kill more birds and fish less.
- D. Both, Tom should kill fewer birds and fish more.

175. Which of the following is the most critical signaling mechanism in markets?

- A. quantity
- B. price**
- C. cost
- D. government regulation

176. Government price controls

- A. strip the market of its meaning for both buyers and sellers.
- B. often impose harm on the same people they are trying to assist.
- C. sometimes force prices above or below what they would be in a market economy.
- D. all of the above**

177. Which of the following would be an example of market failure?

- A. second hand cigarette smoke
- B. lack of funding for education
- C. underproduction of a good by a monopoly
- D. all of the above**

178. Which of the following would most likely be an example of market failure?

- A. industrial water pollution**
- B. eBay transactions
- C. tradable pollution permits
- D. brokers re-selling tickets for concerts

179. A stable monetary environment will typically lead to

- A. inflation.
- B.** producers and consumers better coordinating their decisions through markets.
- C. independence of central banks.
- D. increased trade deficits and limited budgets deficits.

180. Which of the following are consequences of inflation?

- A. It increase the burdens on people with fixed incomes when inflation is not anticipated.
- B. It hurts savers but helps those who have borrowed at a fixed rate.
- C. Inflation imposes costs on people who devote resources to protecting themselves from expected inflation.
- D.** all of the above

181. Government policies that use taxes and government spending in an attempt to stabilize the economy are known as

- A. fluctuation policy.
- B. cyclical policy.
- C. monetary policy.
- D.** fiscal policy.

182. Which of the following generally does not cause increased unemployment?

- A.** increased consumption
- B. people changing jobs
- C. seasonal fluctuations in the economy
- D. workers' skills not matched to available jobs

183. The most meaningful measure of economic growth is

- A. the employment rate.
- B. the unemployment rate.
- C. real GDP.
- D.** real GDP per capita.

184. Which of the following do not contribute to economic growth?

- A.** substantial increases in money supply
- B. increased productivity
- C. savings and investment
- D. new production technologies

185. Which of the following contribute to increases in productivity?

- A. incentives for innovation
- B. more physical capital
- C. an improved education system
- D.** all of the above

186. Assume that Colombia can produce 1,000 pounds of coffee in one day or produce 200 pounds of bananas in one day. In addition, assume that Ecuador can produce 300 pounds of coffee in one day or produce 100 pounds of bananas in one day. Which country has the comparative advantage in coffee and which has the comparative advantage in bananas? Determine a pattern of trade regarding these countries and these goods that would benefit both countries.

Colombia has the comparative advantage in coffee because its opportunity cost of one pound of coffee is only 0.2 pounds of bananas while Ecuador's is 0.33 pounds of bananas. Ecuador has the comparative advantage in bananas because its opportunity cost of one pound of bananas is only three pounds of coffee while Colombia's is five pounds of bananas. If Ecuador traded one pound of bananas to Colombia for between three and five pounds of coffee, both countries could enjoy greater consumption and be better off.

187. How would an economist respond to the following statement: "Wanting more goods makes us greedy."

Economists do not view the unlimited human desire for goods and services to be an indication of "greediness." Economists assume that all individuals want more resources in order to reach greater levels of satisfaction (whether to benefit yourself, your family, or others).

188. Explain the difference between poverty and scarcity.

People living in poverty have access to few resources, which limits the goods and services that can be consumed. When an individual faces scarcity it means not having enough resources to consume all that is desired (necessitating that choices be made). While not everyone lives in poverty, everyone does face scarcity. Even the rich face scarcity (since as wealth increases, so do human wants).

189. Explain why each of the following is considered an economic issue:

- a. whether to spend Saturday afternoon at a football game
- b. obtaining tickets to a U2 concert
- c. your university considers your application for one of 25 available scholarships

Each of the following are economic issues that illustrate scarcity and the necessity of making choices:

- a. The decision as to whether to spend Saturday afternoon at a football game involves weighing the marginal benefit versus the marginal cost. There is an opportunity cost associated with going to the football game since you could spend the time in other ways, such as studying or working.
- b. Attending a U2 concert requires a sacrifice of both money and time. Individuals face a tradeoff between what could be done with the time and the dollars expended acquiring tickets and attending the concert.
- c. Since there are a limited number of scholarships and many students who would wish to receive one, the university must decide to whom to allocate these scarce scholarship resources.

190. Why do people generally switch channels when a movie's final credits are being displayed?

Individuals will only pursue an activity if expected marginal benefits are greater than the expected marginal costs. If you perceive the marginal benefits of watching something else to be greater than watching the credit line of the movie, you may choose to switch channels.

191. Would it make good sense for a community to seek to reduce its levels of pollution to zero? Why or why not?

In general it would not make sense for a community to seek to reduce pollution levels to zero because the costs involved would exceed the benefits received.

192. Differentiate between positive and negative incentives.

Positive incentives either increase benefits or reduce costs and thus result in an increased level of the related activity or behavior. Negative incentives either reduce benefits or increase costs, resulting in a decreased level of the related activity or behavior.

193. If race-car driving is dangerous, why would any rational person choose to be a race-car driver?

A rational person might choose to drive race cars if, after assessing the potential dangers, he or she believes the expected marginal benefit from racing outweighs the expected marginal cost.

194. Farmer Fred could grow wheat and barley. He could grow 75 bushels of wheat or 125 bushels of barley using the same resources on an acre of his land. The price of wheat is \$2.00 per bushel and the price of barley \$0.80. Show the benefits to Fred from specialization. What should he specialize in?

Farmer Fred could make \$150 if he grew only wheat and just \$100 if he grew only barley. By specializing in wheat production he will be better off. Even though he can produce more bushels of barley than he can bushels of wheat, his opportunity cost of producing wheat (the \$100 income sacrificed. is lower than the opportunity cost of producing barley (\$150 in sacrificed income).

195. Maggie is a potter and she likes to dig her own clay for producing pots, cups and other ceramic items. She is aware of two places where she can obtain the right clay for her work. The first field is quite close, just at the edge of town. The second field is 15 miles away and (since there are no access roads) requires a half-day of travel just to get there. Compare the opportunity cost of producing pots using clay from each of these fields.

The opportunity cost of the clay necessary for her work is higher at the second field. Maggie would have to spend more time traveling, consume more gasoline, and use extra time and energy to dig from the second field.

196. Prices communicate information about the relative value of resources in the marketplace. Which of the following would cause the value and, hence, the price, of oranges to rise?

- a. A freeze wipes out half of the Florida citrus groves.
- b. Orange juice is shown to reduce blood cholesterol levels.
- c. The price of grape, cranberry, and pineapple juice falls dramatically.

a. and b. would result in higher orange prices. The freeze in some orange groves would cause the price of the remaining oranges to increase. A stronger preference for orange juice would likely result once the cholesterol-reducing health benefits of orange juice become known, increasing the price of orange juice. A reduction in the price of substitute juices would decrease the price of oranges (as consumers switch to alternative fruit sources).

197. How do price controls undermine the market as a communication device?

The imposition of price controls (which restrict prices above or below market clearing prices) sends incorrect signals to both consumers and producers about the true market prices.

198. How can market failure occur in the market for hybrid automobiles? What could the government try to do to improve the situation?

An unregulated market would be likely to produce too few hybrid autos since these cars produce benefits for someone other than the buyers and sellers. As such, the government could provide a subsidy or tax credit to those consumers who purchase hybrid or other fuel efficient autos in an effort to promote more purchases and usage of fuel efficient vehicles.