

Student name: _____

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

Economics is the study of how to allocate scarce resources among competing uses.

true

false

The quantity of capital in an economy is unlimited since more can always be produced.

true

false

Scarcity is not an issue in countries such as the United States since people live in nice homes and have plenty to eat.

true

false

Every economy faces the situation of scarcity of resources.

true

false

The United States is a prosperous nation because its resources are sufficient to meet the desires of its citizens.

true

false

When an economic choice is made, it is possible to avoid opportunity costs.

true

false

All economies must decide what to produce, how to produce it, and who gets the output.

true

false

The factors of production include the land, labor, and money used to produce goods and services.

true

false

Capital includes the machinery and buildings used to produce goods and services.

true

false

When a society is operating on the production possibilities curve, it is using its available resources efficiently in the production of goods and services.

true

false

More resources and better technology shift the production possibilities curve inward.

true

false

To experience future economic growth, an economy must allocate some of its scarce resources to investment.

true

false

The *for whom* to produce question focuses on the distribution of output across the members of society.

true

false

Because the economy is so complex, it is impossible to construct a theory about how it works.

true

false

An accurate definition of the term *optimal mix* would be the production of goods and services that would satisfy all the wants and needs of the individuals in society.

true

false

The "invisible hand" refers to the price signal in a free market economy.

true

false

Adam Smith was a proponent of the doctrine of laissez-faire outside of key markets like education, health care, and defense.

true

false

The United States relies primarily on central planning to allocate resources.

true

false

Karl Marx encouraged a policy of laissez-faire because he believed that the market mechanism provided society with the best answers to the *what, how, and for whom* questions.

true

false

A mixed economy is one that relies solely on market signals to allocate goods and services.

true

false

Pollution is an example of a market failure.

true

false

Government failure occurs when government intervention fails to improve economic outcomes.

true

false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

The central problem of economics is the

distribution of goods and services to those in need.

fact that human wants exceed the availability of resources.

inefficiency of government operations.

labor unemployment visible throughout the economy.

The primary concern of economics is the study of

why human wants exist and what motivates them.

how to distribute goods and services according to human needs.

how best to allocate scarce resources among competing uses.

the measurement of political power in an economy.

Which of the following explains why economic choices must be made?

The factors of production are scarce.

The factors of production are expensive.

The factors of production are used inefficiently.

The factors of production are of inferior quality.

The main focus of economic studies concerns

the behavior of successful businesses.

the role of money in our economy.

how best to allocate scarce resources.

the elimination of opportunity costs.

If society lacks enough resources to satisfy all the desired uses of the resources, this is known as government failure.

laissez-faire.

scarcity.

market failure.

Scarcity means

retail stores always run out of popular products.

the desire for goods exceeds our capacity to produce them.

society will run out of the factors of production in the near future.

a surplus of unsold goods in a specific market will not occur.

Output choices are necessary within a market because of

inefficient use of resources.

high prices for goods.

scarcity of resources.

limited technology.

Which of the following statements about production possibilities is true?

Production possibilities are limited for all countries because resources are scarce.

The production of food does not involve opportunity costs since people must eat.

A reduction in productivity will expand the production possibility curve.

Production possibilities are only limited for a country if prices are too high.

All points on the production-possibilities curve

represent the use of all available resources.

are equally desirable.

represent the same mix of output.

represent the same opportunity costs.

Because of scarcity,

choices must be made.

there can be a sufficient supply of goods and services to satisfy everyone.

there are plenty of goods to go around.

governments must carefully manage economies.

An economist who says that "there is no such thing as a free lunch" means that

we cannot have everything we want, even if the price is \$0.

there are sufficient resources to produce everything we want.

even when a meal is free, we give up the chance to do something else with that time.

both we cannot have everything we want, even if the price is \$0, *and* even when a meal is free, we give up the chance to do something else with that time.

Which of the following best describes the shift in attitudes for American adults in the years after the Great Recession of 2008–2009?

American adults felt increasingly positive about the capitalist economic system.

American adults grew more confident that another recession would not happen for many years to come.

More American adults felt that resource limitations would not be an issue in the future.

American adults became more concerned that their children would have fewer goods and services in the future.

Which of the following is true of American adults after the Great Recession of 2008–2009?

They felt more positively about the economy.

Their opinions about the economy did not change from before the recession.

They felt more negatively about the economy.

Many felt an increasing level of optimism.

Which of the following is true about the factors of production?

The physical limits of production are determined by the factors of production and technology.

Rich countries have an unlimited quantity of factors.

The factors include natural resources but not skilled labor.

Some factors are scarce but other factors are not.

Opportunity cost may be defined as the

value of the most desired goods or services that are forgone to obtain something else.

dollar price paid for a final good or service.

dollar cost of producing a particular product.

dollar cost of the next best alternative resources for producing a good.

Given that resources are scarce,

a "free lunch" is possible, but only for a limited number of people.

poor countries must make choices, but rich countries do not have to make choices.

opportunity costs always exist whenever choices are made.

some choices involve opportunity costs while other choices do not.

The opportunity cost of playing tennis with your friend is

negative since it is good exercise.

zero since you already own the tennis racket and play on a public court.

the next-best alternative use of your time that is forgone.

the cost of the tennis lessons you took last year.

There would be no reason for students to study the concept of opportunity costs if

the market mechanism functioned to allocate resources.

the government allocated resources.

the production possibilities curve bowed outward.

resources were no longer scarce.

If resources are limited,

people will rush to buy more goods than they would otherwise.

businesses will sell more products than they would otherwise.

there will be trade-offs whenever choices are made.

all individuals are deprived of basic necessities.

When economists talk about a trade-off between "guns and butter," they mean

society can produce more military goods without giving up any consumer goods.

military goods are an inefficient use of resources.

the production of more military goods requires the production of fewer consumer goods.

consumer goods are always more costly than military goods.

The following table shows the trade-off between different combinations of missile production and home construction, *ceteris paribus*. Complete the table by calculating the required opportunity costs for both missiles and houses. Then answer the indicated question.

Production of Missiles and Houses

Combination	Number of Houses	Opportunity Cost of Houses in Terms of Missiles	Number of Missiles	Opportunity Cost of Missiles in Terms of Houses
J	0		4	
K	10,000		3	
L	17,000		2	
M	21,000		1	
N	23,000		0	

In the table Production of Missiles and Houses, what is the opportunity cost of increasing the production of missiles from 1 to 2 in terms of total houses?

1,000 houses

3,333 houses

4,000 houses

17,000 houses

The following table shows the trade-off between different combinations of missile production and home construction, *ceteris paribus*. Complete the table by calculating the required opportunity costs for both missiles and houses. Then answer the indicated question.

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L	17,000		2	
M	21,000		1	
N	23,000		0	

In the table, the opportunity cost of increasing the production of houses from 10,000 to 17,000 in terms of missiles per house is

0.00014 of a missile.

0.00025 of a missile.

2.00 missiles.

4.00 missiles.

The following table shows the trade-off between different combinations of missile production and home construction, *ceteris paribus*. Complete the table by calculating the required opportunity costs for both missiles and houses. Then answer the indicated question.

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J	0		4	
K	10,000		3	
L	17,000		2	
M	21,000		1	
N	23,000		0	

In the table, the lowest opportunity cost of houses (missiles per house) is

0.00010 of a missile per house.

0.00050 of a missile per house.

7.00 missiles per house.

10.00 missiles per house.

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J	0		4	
K	10,000		3	
L	17,000		2	
M	21,000		1	
N	23,000		0	

In the table, the highest opportunity cost of houses (houses per missile) is
500 houses per missile.

4,000 houses per missile.

7,000 houses per missile.

10,000 houses per missile.

The following table shows the trade-off between different combinations of missile production and home construction, *ceteris paribus*. Complete the table by calculating the required opportunity costs for both missiles and houses. Then answer the indicated question.

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Combination	Number of Houses	Opportunity Cost of Houses in Terms of Missiles	Number of Missiles	Opportunity Cost of Missiles in Terms of Houses
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L	17,000		2	
M	21,000		1	
N	23,000		0	

In the table, the lowest opportunity cost of missiles (houses per missile) is 500 houses per missile.

0 houses per missile.

1,000 houses per missile.

2000 houses per missile.

Which of the following is *not* an assumption under which the production possibilities curve is drawn?

The economy's resources are fully employed.

The price level is stable.

Technology is being held constant.

The supplies of factors of production are fixed.

The trade-off of one good for another is not constant.

Ceteris paribus, if North Korea increases the size of its military, then

its production possibilities curve will shift outward.

its production possibilities curve will shift inward.

its production of consumer goods will increase.

its production of consumer goods will decrease.

Assuming the level of resources and technology are constant, if France decreases the size of its military, then

its production possibilities curve will shift outward.

its production possibilities curve will shift inward.

its production of consumer goods can increase.

its production of consumer goods must decrease.

In the linear production possibilities model, we assume each of five equally-sized parcels of land contributes the same to the production of food and timber: 6 units of timber or 3 units of food.

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By contrast, in the nonlinear model, we will assume that there are five different types of land in equal-sized plots and that each plot may contribute to the production of food or timber as follows:

Plot	Production Quality	Potential Contribution	
		Food	Timber
	(A plot can be used for <i>either</i> food or timber.)		
1	Great farmland/Terrible timberland	+5 food units	+2 timber units
2	Good farmland/Poor timberland	+4 food units	+4 timber units
3	Moderate farmland/Moderate timberland	+3 food units	+6 timber units
4	Poor farmland/Good timberland	+2 food units	+8 timber units
5	Terrible farmland/Great timberland	+1 food unit	+10 timber units

Assuming all parcels of land are the same, when all land is in use, one more unit of timber produced will require two more units of food produced.

five fewer units of food produced.

one-half fewer units of food produced.

two fewer units of food produced.

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Assuming all parcels of land are the same, there is a constant trade-off in the production of timber and food. When all land is in use, one more unit of food produced will require two more units of timber produced.

five fewer units of timber produced.

one-half fewer units of timber produced.

two fewer units of timber produced.

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Assuming all land is equally productive in either use, how much output of each type will be produced with 2 parcels of the land used in timber production and 3 parcels of the land used in food production?

12 units of timber and 9 units of food

9 units of timber and 12 units of food

18 units of timber and 9 units of food

9 units of timber and 18 units of food

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Starting from point A on the production possibilities line where 30 units of timber and no food is produced, suppose that we choose to produce more food by moving one parcel of land out of timber production and into food production. In order to minimize the opportunity cost of producing more food, the first plot to be repurposed should be

- 1.
- 2.
- 3.
- 4.
- 5.

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5	Terrible farmland/Great timberland	+1 food unit	+10 timber units

In the model where we assume that all parcels of land are the same, the relationship between food and timber produced when all land is in use is linear and inverse.

direct and linear.

inverse and nonlinear.

direct and nonlinear.

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4	Poor farmland/Good timberland	+2 food units	+8 timber units
5	Terrible farmland/Great timberland	+1 food unit	+10 timber units

In the model where we assume that all five parcels of land are not the same, the relationship between food and timber produced when all land is in use is linear and inverse.

direct and linear.

inverse and nonlinear.

direct and nonlinear.

The News Wire “Opportunity Cost: North Korea Unveils ‘Most Powerful Weapon’” in the text indicates that North Korea is expanding its missile and nuclear programs. If North Korea is on its production possibilities curve and reduces its production of food so that it can increase the size of its military, this is most consistent with

market failure.

a movement along the production possibilities curve.

an inward shift of the production possibilities curve.

an expansion beyond the production possibilities curve.

The News Wire “Opportunity Cost: North Korea Unveils ‘Most Powerful Weapon’” in the text indicates that North Korea is expanding its missile and nuclear programs. If North Korea is on its production possibilities curve and reduces food production so that it can increase the size of its military, this is an example of

opportunity costs.

laissez-faire.

externalities.

ceteris paribus.

The News Wire “Opportunity Cost: North Korea Unveils ‘Most Powerful Weapon’” in the text indicates that North Korea is expanding its missile and nuclear programs. The article cites the burden of this action on North Korea’s population is

increased radiation from nuclear tests.

an increasing threat to world peace.

the opportunity cost of food production.

time off taken to attend the military parade.

Factors of production are

elements that make production more difficult.

the technological innovations available to companies.

the resources used to create output.

the waste left over after goods are produced.

Opportunity cost is

the value of the least desired alternative that you give up.

the value of the most desired goods and services that are forgone in order to obtain something else.

what you acquire in the process of doing something.

the price you pay when you perform an activity.

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(Figure 1.5) If an economy has the capacity to produce represented by PP2, then point E represents
an efficient use of resources.

an efficient use of resources.

an inefficient use of resources.

an inefficient use of resources.

a linear trade-off between potato chips and doughnuts.

a linear trade-off between potato chips and doughnuts.

a combination of potato chips and doughnuts that is not attainable.

a combination of potato chips and doughnuts that is not attainable.

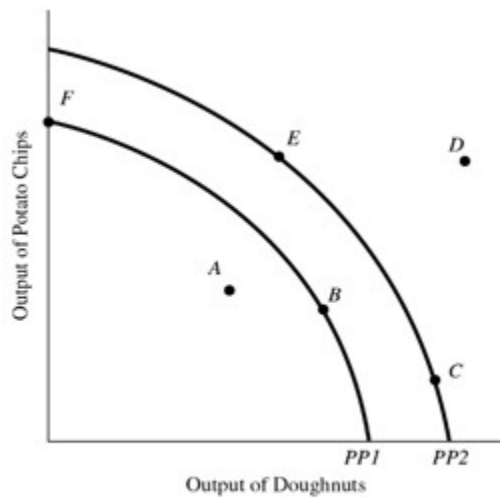


Figure 1.5

(Figure 1.5) If an economy has the capacity to produce represented by PP1, then point D represents

a combination of potato chips and doughnuts that is not attainable.

an inefficient use of resources.

an efficient use of resources.

a constant trade-off between potato chips and doughnuts.

In order to understand a particular graph, it is important to know

the total number of squares in the grid.

which variable is on the vertical axis and which is on the horizontal axis.

where a point on the graph is.

where the maximum quantity is.

The slope of a line is

the vertical distance between the two points, divided by the horizontal distance between the two points.

always positive.

sometimes referred to as "run over rise."

the horizontal distance between the two points, divided by the vertical distance between the two points.

The slope of a curve is given by the formula

the percentage change in x coordinates between two points divided by the percentage change in y coordinates.

the percentage change in y coordinates between two points divided by the percentage change in x coordinates.

the change in x coordinates between two points divided by the change in y coordinates.

the change in y coordinates between two points divided by the change in x coordinates.

A shift in a curve indicates that

one variable has increased and the other has decreased.

a change has occurred in the underlying relationship between the two variables.

the slope has changed.

the two variables are now unrelated.

A linear curve can be distinguished by

the continuous change in its slope.

the changing relationship between the two variables.

the same slope throughout the curve.

a shift in the curve.

If one variable increases when the other variable decreases, then the drawn curve is horizontal.

downward-sloping.

upward-sloping.

vertical.

If one variable increases when the other variable increases, then the drawn curve is upward-sloping.

downward-sloping.

horizontal.

vertical.

A line that slopes upward from left to right has a negative slope.

positive slope.

slope that changes as you move along the curve.

slope of zero.

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In the figure, a grade-point average of 3.0 is associated with how many hours of study time per week?

10 hours

20 hours

30 hours

40 hours

{MISSING IMAGE}

In the figure, a grade-point average of 1.0 is associated with how many hours of study time per week?

10 hours

20 hours

30 hours

40 hours

{MISSING IMAGE}

In the figure, study time is associated with a lower grade-point average after approximately 10 hours.

20 hours.

30 hours.

40 hours.

{MISSING IMAGE}

The figure suggests that the relationship between the variables is linear at every point.

linear at places and nonlinear at places.

linear at places and nonlinear at places but always negatively sloped.

negative after 30 hours of study time.

{MISSING IMAGE}

Based on the figure, if a student wants to achieve a grade-point average of 3.0, they should study an average of 40 hours per week.

30 hours per week.

20 hours per week.

10 hours per week.

{MISSING IMAGE}

Based on the figure, students who want to achieve a grade-point average of 2.0 should study an average of about 40 hours per week.

30 hours per week.

20 hours per week.

10 hours per week.

{MISSING IMAGE}

Based on the figure, students who study 40 hours per week will about earn a grade-point average between 3.5 and 4.0.

earn a grade-point average of exactly 3.0.

drop out of school because of the stress.

earn a lower grade-point average than if the study time is reduced to 30 hours per week.

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Based on the figure, students who study 30 hours per week will earn a grade-point average of 3.0.

earn a grade-point average of between 3.5 and 4.0.

earn a grade-point average 2.0.

drop out of school because of the stress.

Societies must address the question of *what* to produce because

we can't produce all the goods and services we want.

the amount of money in an economy is limited.

we are wasteful and use resources inefficiently.

our economy experiences market failures.

Which of the following is the best example of the "*what*" economic question?

Is the production process using an efficient amount of labor and capital machinery?

Who are the recipients of the goods produced?

What is the most efficient method for producing goods?

What is the optimal mix of output?

Which of the following is *not* a factor of production?

a toll-bridge across a lake

the money hidden in an old basement

a wrecking ball used to tear down old buildings

the CEO of a large corporation

In economics, capital refers to

money.

savings put aside for future investment.

goods that can be used to produce other goods.

the value of a corporation's assets.

In economics, which of the following is the best example of capital?

money held in a checking account

a computer used by a lawyer to prepare legal documents

investment in training for employees in an accounting firm

the executive producer of a new adventure movie

Which of the following is *not* an example of land or a natural resource?

coal

a river

natural gas

a homebuilder

Which of the following is an example of labor as a factor of production?

people who bring together the skills necessary for creating products and services

the skills and abilities of workers

people who are paid an hourly wage but not those paid a salary

a college or university that educates people

Entrepreneurship refers to

natural resources, such as land and water.

computer technology.

skilled labor.

the ability to see market opportunities and the will to take risk.

In economics, which of the following represents entrepreneurship?

natural resources

ideas about how to create new products and services

the skills of workers

machinery, buildings, and networks

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In the linear production possibilities model, we assume each of five equally-sized parcels of land contributes the same to the production of food and timber: 6 units of timber or 3 units of food.

By contrast, in the nonlinear model, we will assume that there are five different types of land in equal-sized plots and that each plot may contribute as follows to the production of food or timber:

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The most desirable attainable mix of output for society consists of the entire production possibilities curve.

consists of a point on the production possibilities curve.

consists of a point outside the production possibilities curve.

occurs to the left and the right of the production possibility curve.

In attempting to answer the "*what*" question, a society seeks to produce the optimal mix of output.

exploit its workers in order to produce more output.

produce more military goods so that the citizens will be safe.

distribute an equal amount of goods to all citizens.

Investment refers to all of the following except an increase in business inventories.

the purchase of new equipment by a business.

the construction of new factories by a company.

the purchase of stock by an individual.

Which of the following is *not* an example of investment?

A hair salon buys additional hair dryers.

The campus bookstore buys new T-shirts with the college logo.

A business owner uses his profits to play the lottery and wins.

Toyota expands the size of its factories located in the United States.

Economic growth always takes the form of

an expansion of production possibilities.

a change in how goods are distributed.

a movement along the production possibilities curve.

higher prices.

Economic growth is represented by

an inward shift of the production possibilities curve.

a point inside the production possibilities curve.

an outward shift of the production possibilities curve.

a movement along the production possibilities curve.

The production possibilities curve shifts outward in response to

a decline in technology, more resources, or both.

a decline in technology, fewer resources, or both.

improved technology, more resources, or both.

improved technology, fewer resources, or both.

Ceteris paribus, which of the following is likely to cause an outward shift of the production possibilities curve?

investment in telecommunications networks

the deportation of illegal immigrants
an increase in the unemployment rate
a tax increase on factors of production

Ceteris paribus, which of the following is likely to cause an outward shift of the production possibilities curve?

investment in Physical Capital
an increase in unemployment rate
reduced availability of financial aid for college
increased government regulations of industry

Ceteris paribus, when technological change allows a smaller amount of a resource to be used in producing any combination of two goods, there will be

a movement along the production possibilities curve.
an outward shift of the production possibilities curve.
an inward shift of the production possibilities curve.
no change in the production possibilities curve.

Ceteris paribus, which of the following is least likely to contribute to economic growth?

a greater quantity of labor
a greater quantity of capital
an increase in prices
improved production technology

Ceteris paribus, which of the following will most likely cause an inward shift of the production possibilities curve?

a decrease in the size of the labor force
an increase in population

an increase in knowledge

an improvement in technology

Ceteris paribus, which of the following events would most likely cause the production possibilities curve to shift inward?

The labor supply grows.

New factories are built.

A technological breakthrough occurs that makes production of all goods more efficient.

A major earthquake destroys several industrial centers.

{MISSING IMAGE}

Society is employing some of the available technology but not all of it. Select the appropriate point that could represent this situation.

A

B

C

D

{MISSING IMAGE}

Society is producing some output, but some of the available resources are unemployed. Select the appropriate point that could represent this situation.

A

B

C

D

{MISSING IMAGE}

Society is producing the maximum potential output, given its existing resources and technology. Select the appropriate point that could represent this level of production for office buildings and housing.

- A
- B
- C
- D

{MISSING IMAGE}

Society might be able to produce this combination if new resources were discovered but cannot produce it with current resources. Select the appropriate point that would represent the production possibilities after this discovery.

- A
- B
- C
- D

{MISSING IMAGE}

It is not possible for society to produce this combination of office buildings and housing with current resources and technology. Which of the following points in the figure could represent this combination?

- A
- B
- C
- D

{MISSING IMAGE}

Society is not producing either good because of extreme inefficiencies. Select a point that would represent this combination of office buildings and housing.

- A
- B

C

D

When society searches for the optimal method of producing goods and services, it is responding to the

"what" question.

"how" question.

"for whom" question.

"why" question.

When society struggles with how to divide up the "economic pie," it is responding to the

"for whom" question.

"how" question.

"what" question.

"why" question.

Welfare programs are designed to address the

"how" question.

"for whom" question.

issue of scarce resources.

"what" question.

Which of the following groups of words best represents macroeconomic goals?

full employment, price stability, economic growth

rate of production, choice of factors of production, and the pricing of specific goods

welfare of individual consumers and business firms

land, labor, and capital

Macroeconomics focuses on

government failure.

the behavior of individuals, firms, and government agencies.

land, labor, and capital.

the economy as a whole.

Microeconomics focuses on

full employment, price stability, and economic growth.

the behavior of individuals, firms, and government agencies.

land, labor, and capital.

centrally planned economies.

Which of the following is associated with microeconomics?

an increase in sales for a chain of pet supply stores

a decrease in the unemployment rate for the nation

an increase in the inflation rate for the entire economy

a decrease in the level of economic growth for the country

Which of the following is associated with microeconomics?

an economy's overall output level

the country's unemployment rate

a specific U.S. industry's sales figures

the economy's rate of growth

Economic theories can be used to do all of the following *except*

evaluate economic policy.

design economic policy.

explain consumer and market behavior.

determine exact economic outcomes.

Economic models

focus on details about the economy.

focus on basic relationships.

cannot be constructed because of the complexity of the economy.

can be used to predict market behavior but not consumer behavior.

According to the Latin phrase *ceteris paribus*,

resources are limited.

things do not remain equal.

there is no government intervention.

nothing else changes.

Ceteris paribus means

leave the market alone.

noninterference by the government.

other things remaining equal.

things are always changing.

The News Wire “Future Living Standards? Will Your Kids Be Better Off?” in the text asks, “Do you feel confident that life for our children's generation will be better than it has been for us?”

What is necessary for the standard of living to rise?

economic growth

a greater allocation of resources to consumption

an inward shift in the production possibilities curve

a less equitable distribution of income

Which of the three basic economic questions deals with choosing the correct mix of output?

what to produce

how to produce

for whom to produce

how much to charge

Economic growth means

an increase in imports.

an expansion of production possibilities outward.

an increase in population.

both an increase in imports and an expansion of production possibilities outward.

Ceteris paribus, which of the following events would most likely cause the production possibilities curve to shift inward?

The labor supply grows.

New factories are built.

A technological breakthrough occurs that makes production of all goods more efficient.

A major pandemic requires a closure of people-facing services like restaurants and schools.

Ceteris paribus, which of the following events would most likely cause the production possibilities curve to shift outward?

The labor supply decreases.

New broadband infrastructure increases productivity.

Global warming causes increased fires and floods and destroys buildings and machines.

A major pandemic requires a "lockdown" of people-facing services like restaurants and schools.

Which of these is *not* one of the three basic economic questions?

what to produce

how to produce

for whom to produce

how much to charge

Which of the following is the best example of land?

the water used to make a soft drink

a factory that produces new goods and services

a barber's chair

the ethanol refined from corn

Which of the following is the best example of entrepreneurship?

an individual seeking a new, cheaper source for inputs

the workers in a business department

the desks used in an office building

the water flowing in a river

Which of the following is *not* a macroeconomic statement?

Jenny's wage rate rose, and, in response, she decided to work more hours.

The United States has begun trading more with China.

The Federal Reserve raised interest rates to combat rising prices.

Unemployment has been declining for the past several months.

Which of the following is *not* a macroeconomic statement?

Li decided to purchase new boots for the winter months.

The Federal Reserve raised interest rates to combat rising prices.

The economy is experiencing a period of inflation.

The United States has begun trading more with China.

Which of the following best describes what allocates resources in the U.S. economy?

rules

markets

regulations

government

The market mechanism

works through central planning by the government.

eliminates market failures created by the government.

uses prices as a means of communication between consumers and producers.

is very inefficient since consumers cannot communicate directly with producers.

The market mechanism

is an inefficient means of communicating consumer wants to producers.

relies on government control and planning.

eliminates the market failures caused by government.

relies on prices and sales to communicate consumer wants to producers.

The essential signal of the market mechanism is

income.

price.

property.

government directive.

The price of a good or service
never has an impact on the market mechanism.
serves as the essential signal of the market mechanism.
sometimes plays a role in the market mechanism.
rarely has an impact on the market mechanism.

Which of the following best describes the "invisible hand"?

Price signals drive the market mechanism.
Government regulations influence the allocation of society's scarce resources.
The Internal Revenue Service enforces the nation's tax laws.
Lobbyists influence which laws are passed by Congress.

The essential feature of the market mechanism is
that every consumer is concerned about the welfare of others.
the price signal for both consumers and producers.
equity in the distribution of income and housing.
government taxation of profits.

Laissez-faire refers to
the belief that government can make better choices than the market about the mix of output.
the economic theory of Karl Marx.
a belief of non-intervention by government in the market mechanism.
a preference for central planning.

Which of the following is most consistent with a market economy?

shortages
central planners

government directives

laissez-faire

Which of the following individuals is typically associated with a laissez-faire economic policy?

Adam Smith

Karl Marx

The Chairperson of the Federal Reserve

John Maynard Keynes

Which of the following statements is consistent with central planning?

The economy relies heavily on the market mechanism to allocate resources.

Government planners play the dominant role in deciding how resources are allocated.

Economic decisions are made by large competitive firms.

Market prices are used to guide production and consumption activities.

Karl Marx wrote

Das Kapital, which was used as the rationale for centrally planned economies.

Das Kapital, which described the virtues of market-based economies.

The Wealth of Nations, which provided the rationale for centrally planned economies.

The Wealth of Nations, which described the virtues of market-based economies.

Central planning is the principal method for making economic decisions in
the United States.

Singapore.

New Zealand.

North Korea.

The economy of the United States is best characterized as centrally planned.

a laissez-faire model.

a mixed economy.

a democratic socialist economy.

Which of the following factors determines how the market mechanism allocates economic activity?

the price of the good

the government

the presence of foreigners

the quantity of the good

Consumers play a part in the market mechanism by

writing letters to firms asking for certain products.

buying goods that they both desire and can afford.

voting for their favorite politician.

producing the output that firms pay them to produce.

Karl Marx viewed _____ as the major flaw within capitalism.

state-controlled production

labor unions

private property ownership

social classes

Which of the following is *not* a reason why the U.S. government intervenes in the economy?

to ensure the safety of products

to reduce pollution

to make a profit for the government

to improve the mix of output

If the market mechanism causes the economy to arrive at the wrong mix of output, there is market failure.

mixed economy failure.

government failure.

laissez-faire.

Market failure means

government solutions fail to improve economic outcomes.

the market mechanism does not produce the best mix of output.

the market allocates goods more efficiently than does the government.

the market is responsive to consumer demand.

When unregulated companies pollute the environment as they produce, then market failure exists.

a government failure exists.

government regulation is inevitable.

the market mechanism is working well.

The fact that “the visible hand of the government” may not be any better than the “invisible hand of the marketplace” implies the existence of

market failures.

microeconomic theory.

government failures.

macroeconomic theory.

Pollution is an example of
inefficiency by the polluting firm.
market failure.
government transfers.
economic instability.

If government intervention fails to improve economic outcomes, the result is known as
government failure.
market failure.
mixed economy failure.
laissez-faire.

Government intervention designed to address market failure
may either improve or worsen the mix of output produced.
will definitely worsen the mix of output produced.
will definitely improve the mix of output produced.
never has an impact on the mix of output produced.

Which of the following is an example of government failure?

pollution from production
an increase in bureaucracy that fails to improve economic outcomes
an increase in airline safety
an increase in the costs of production and an improvement in economic outcomes

If government intervention makes the economy worse off, this is referred to as

scarce resources.

central planning.

market failure.

government failure.

Most Americans do not trust the federal government to do the right thing. If they are correct, then government intervention results in

a decrease in opportunity costs.

a less desirable mix of output.

market failure.

less unemployment.

Which of these is an example of a market failure?

too few doctors and hospitals in rural areas

too much pollution in urban areas

too many people living in poverty

All of these choices are correct.

A market failure occurs

when the market does not provide the "best" answers to the basic economic questions.

when the market doesn't always produce the "right" amount of output.

when the government fails to improve market outcomes.

both when the market fails to provide the "best" answers to the basic economic questions and when the market doesn't always produce the "right" amount of output.

Which of these scenarios will cause an outward shift of the PPC, representing an increase in production capacity?

The 2011 Tōhoku Earthquake and Tsunami in Japan caused widespread destruction, including damage to nuclear power plants, infrastructure, and manufacturing facilities.

Germany's robust vocational training and apprenticeship system has helped develop a highly skilled workforce. This system combines theoretical education with practical training and equips workers with specialized skills.

Overfishing in the Grand Banks off Newfoundland, Canada, in the early 1990s led to a drastic reduction in fish stocks, which are a natural resource.

The COVID-19 pandemic led to widespread economic disruptions globally, including lockdowns, supply chain interruptions, and a reduced workforce.

The 2024 National Defense Authorization Act (NDAA) increased military spending by \$886 billion, including a 5.2% increase in salaries to administrative staff in the Pentagon, aimed at enhancing national security for the United States. Which of the following outcomes most accurately represents the possible economic trade-offs resulting from this legislation concerning the optimal output mix on the production possibilities curve (PPC)?

The production of consumer goods and military goods increased, reflecting a reallocation of resources toward defense priorities and significant movement along the PPC toward the optimal output mix.

Production of consumer goods decreased and production of military goods increased, reflecting a reallocation of resources toward defense priorities with movement along the PPC. However, the optimal output mix was not necessarily reached.

Production of military goods decreased, allowing more resources to be allocated to consumer goods, ensuring a balanced economy and movement along the PPC toward the optimal output mix.

There will be no change in the production of either military or consumer goods, as a large part of the budget allocation is going toward increasing military administrative salaries.

A country is grappling with a significant decrease in its labor force, which is the result of a change in immigration policy that reduces immigration by 300,000 people, 500,000 more deaths than the usual annual rate due to COVID, and the unexpected occurrence of 1,200,000 retirements during a pandemic. What will be the impact of this significant decrease in the labor force on the country's production-possibilities curve (PPC)?

The PPC will shift outward because the remaining labor force will work more hours.

The PPC will shift inward, reflecting a decrease in the economy's productive capacity because fewer workers can't produce as much output.

The PPC will not shift. There will only be movement along the PPC as the mix of output changes.

The PPC will not shift. The decrease in the labor force does not affect potential output or the output mix.

The first manned mission to Mars makes a groundbreaking discovery of a vast deposit of dilithium crystals. This discovery paves the way for the development of matter–antimatter reactors, a revolutionary technology that could power all manufacturing plants on earth with affordable, clean energy. This not only promises a significant reduction in production costs but also a substantial increase in production efficiency across all industries, ushering in a new era of economic prosperity. How will this technological advance affect the country's production possibilities curve (PPC)?

Shift the PPC outward, indicating increased potential output due to lower production costs.

Shift the PPC inward, indicating decreased potential output because less labor will be needed in production processes.

No shift in the PPC, but a change in the allocation of resources to change the mix of output indicated by movement along the PPC.

The PPC will become linear, indicating perfect substitution between goods.

State and federal governments pass legislation that provides increased funding for scholarships and grants to make attending public colleges or receiving vocational training more affordable. How will this additional funding likely affect the country's production-possibilities curve (PPC)?

The PPC will shift inward, indicating a loss in productive capacity because everyone will want to go to school instead of work.

The PPC will remain unchanged, as education and training do not directly affect output.

The PPC will shift outward, reflecting increased productivity and potential output because the labor force is better trained and skilled.

The PPC will become convex, indicating increased specialization in production.

When President Biden made health care a top priority of his administration, which factor of production was he most interested in bolstering?

land

labor

capital

entrepreneurship

As spending on health care increased due to President Biden's policies in the wake of the pandemic, the production possibilities model suggests that

spending on all other goods must have risen.

the production possibility curve shifted outward.

spending on all other goods must have fallen.

the production possibility curve shifted inward.

The reason some people objected to President Biden's focus on increased health care spending can best be described by which of the following statements?

Resources are scarce.

The government never fails.

The market never fails.

Opportunity costs only sometimes exist.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

Explain opportunity cost. Give one example of an opportunity cost.

What are the factors of production? How do these factors play a role in an economy answering the three Basic Economic Questions?

Define market mechanism and discuss Adam Smith's explanation of the "invisible hand."

Answer Key

Test name: Ch1_Essentials of Economics_12e

TRUE

FALSE

FALSE

TRUE

FALSE

FALSE

TRUE

The Three Basic Economic Questions are *what, for whom, and how*.

FALSE

TRUE

TRUE

All resources are being used efficiently.

FALSE

Economic growth will expand the production possibilities outward, allowing more production and thus shifting the production possibilities curve outward.

TRUE

TRUE

For whom question addresses issues of distribution and who will get what share of goods and services.

FALSE

The focus of economics is on basic relationships, ignoring unnecessary details. Therefore, theories, or models of economic behavior, are possible to formulate.

FALSE

With limited resources, it is impossible to satisfy everyone's needs. The optimal mix would be the best combination of output from scarce resources that could meet as many needs as possible.

TRUE

No direct communication is needed between the producer and the consumer.

TRUE

Adam Smith preferred little or no government intervention in most markets outside of the provided examples.

FALSE

FALSE

Karl Marx believed central planning was necessary to keep workers from being exploited as society transitioned from capitalism to (eventually) a Communist society.

FALSE

TRUE

Pollution imposes a cost on others that the market mechanism does not readily consider, which reflects a market failure.

TRUE

Government intervention does not always result in a positive outcome.

B

There is only a finite amount of resources, so there are not enough to meet all human desires.

C

There are not enough resources for everyone to have all that they desire.

A

The factors of production and the resources used to make goods and services are scarce.

C

The goal of economic theory is to figure out how to use scarce resources in the best possible way.

C

All factors of production are finite in quantity.

B

Given that resources are finite, consumers will not be able to have everything they desire.

C

With limited factors of production and technology, output would have a finite limit.

A

No country has an infinite amount of resources.

A

A production-possibilities curve describes the various combination of final goods or services that could be produced in a given time period with available resources and technology.

A

Scarcity forces us to make choices about what we want to produce, how we want to produce it, and how much everyone will get after production takes place. The fact that resources are scarce means we must find answers to these key questions.

D

Scarcity forces us to choose between alternative uses of a resource; even if there is no monetary cost to a choice, we must pick the "best" use of the resource and give up the next alternative.

D

Survey results revealed increasingly pessimistic views about the economy and many adults were concerned that economic growth would not positively impact their children.

C

Survey results revealed increasingly pessimistic views about the economy and many adults were concerned that economic growth would not positively impact their children.

A

The more advanced our technological and managerial abilities, the more output we will be able to produce with available factors of production.

A

The opportunity cost is the value of the next best alternative that is given up when we make a choice.

C

Resources required in the production of desired goods and services are limited so there is an opportunity cost for every production decision.

C

In this case, an opportunity cost is an opportunity lost due to scarce time.

D

If no resources were scarce, consumers would not have to make choices. This would also mean that humans would need to live forever and could do everything they want simultaneously, otherwise time is always a scarce resource.

C

Available resources always fall short of our desires.

C

In this case guns represent military spending while butter represents consumer goods. Because resources are scarce, it must be true that increased military spending comes at the expense of other forms of spending.

C

Twenty-one thousand houses are built when one missile is built. Seventeen thousand houses are built when two missiles are built. Over this range of production four thousand houses are sacrificed so that an additional missile can be produced.

A

The difference in the production of 10,000 houses to 17,000 houses is 7,000 houses. The difference between the number of missiles produced is one. Therefore the opportunity cost of increasing the production of houses from 10,000 to 17,000 in terms of missiles per house is 0.00014, or $1 \div 7,000$.

A

When 10,000 houses are built the cost is 1 missile. Therefore, the opportunity cost of a house over this range is 0.00010 missiles, or $1 \div 10,000$ missiles.

D

The creation of 1 missile creates the highest cost at 10,000 houses. This is the opportunity cost of producing the fourth missile given an economy is already producing three (moving from combination K to combination J).

D

The creation of 1 missile creates the lowest cost at 2,000 houses. This is the opportunity cost of producing the 1st missile given an economy is producing 0 (moving from combination N to combination M).

B

The production possibilities curve represents the alternative combinations of goods and services that could be produced in a given time period with all available resources and technology. Price is not a factor.

D

Because of limited resources the increase in military production will decrease the production of consumer goods. This would represent a movement along a given production possibilities curve since the fundamental ability of North Korea to produce has not changed (and so the curve would not shift).

C

Because of limited resources, the decrease in military production will increase the production of consumer goods. This would represent a movement along a given production possibilities curve since the fundamental ability of France to produce has not changed (and so the curve would not shift).

C

Because all parcels of land are the same, we can focus on the linear production-possibility model case. If each parcel of land can produce 6 units of timber or 3 units of food, then each additional unit of timber produced would mean one-half fewer units of food (two units of timber produced come at the expense of 1 unit of food, so one unit of timber means one-half fewer units of food).

D

Because all parcels of land are the same, we can focus on the linear production-possibility model case. If each parcel of land can produce 6 units of timber or 3 units of food, then each additional unit of food produced would mean 2 fewer units of timber ($6 \text{ timber} \div 3 \text{ food} = 2 \text{ timber per food}$).

A

Each parcel of land used in timber production yields 6 units of timber. If 2 of the 5 total parcels are used on timber production, then 12 timber units are produced ($2 \text{ land parcels} \times 6 \text{ timber units per land parcel} = 12 \text{ timber units}$). This eliminates all other options, but we can also see that if 3 of the 5 parcels are used for food, then 9 food units should be produced ($3 \text{ land parcels} \times 3 \text{ food units per land parcel} = 9 \text{ food units}$).

A

Plot 1 (Great farmland/Terrible timberland) is best suited for food production as compared to the other plots. To prove this, you can always calculate the opportunity cost of one unit of food for each plot. Converting Plot 1 to food production adds 5 units of food at the expense of 2 timber units. This means the opportunity cost of each food unit produced is 0.4 timber units ($2 \text{ timber units} \div 5 \text{ food units} = 0.4 \text{ timber units per food unit}$). By comparison, the opportunity cost of each food unit on Plot 2 is 1 timber unit ($4 \text{ timber units} \div 4 \text{ food units} = 1 \text{ timber unit per food unit}$). For Plots 3, 4, and 5, the opportunity cost of food production will similarly be higher than Plot 1.

A

If all parcels of land are the same, then the opportunity costs of food and timber production are constant. This means that the slope of the production possibilities curve is constant (linear when graphed). We also know that increasing production of one good means fewer units produced of other goods because opportunity costs exist. This means there is an inverse (negative) relationship between food and timber produced.

C

If all five parcels of land are not the same, we need to focus on the nonlinear model. This is because the opportunity costs of producing more food (starting from Point A) increases as more is produced. For example, using Plot 5 to produce more food yields 1 unit of food at the expense of 10 timber units. Plot 1 yields 5 food units while only sacrificing 2 timber units. A sacrifice is still involved as more food or timber is produced, so do know the relationship should be inverse (negative) to reflect the existence of opportunity costs.

B

With a reduction in food production there are more resources to produce military goods. This leads to a movement along the production possibilities curve.

A

Resources used for the military aren't available for producing food. This is an opportunity cost of the production of missiles.

C

Resources used for the military aren't available for producing food. This is an opportunity cost to the production of missiles in terms of food.

C

Factors of production are the resource inputs used to produce goods and services.

B

Opportunity cost is described by the value of goods or services you give up in order to obtain something.

ABAB

Point E is a point along the production possibilities curve, indicating that society is efficiently using all resources.

A

Efficiency occurs along the production possibilities curve. The slope of the line reflects opportunity costs.

B

The horizontal and vertical axes identify the variables being analyzed, which is critical to understanding what a graph is showing.

A

Divide the vertical distance between the two points by the horizontal distance between the two points. By doing this, we scale how much the variable on the vertical axis changes whenever the variable on the horizontal axis changes by one unit.

D

Slope is calculated as the change in vertical distance (y-coordinates) compared to the change in horizontal distance (x-coordinates) between two points.

B

Shifts are reflective of changes in the underlying relationships between the two variables.

C

A distinguishing feature of linear curves is that they have the same slope throughout and so they appear straight on a graph.

B

A negative relationship among the variables produces a negatively sloped curve.

A

Variables on both axes are moving upward to the right.

B

This would imply that if one variable increases, the other does too.

C

A grade of 3.0 intersects with 30 hours of study time.
See Figure A.1 in the textbook.

A

A grade of 1.0 intersects with 10 hours of study time.
See Figure A.1 in the textbook.

D

Sometime after studying more than 40 hours, increased study time is associated with a decreased grade-point average.

See Figure A.1 in the textbook.

ABAB

The line is straight until approximately 4.0 and then the slope starts to decline. Eventually, the curve becomes downward-sloping.

See Figure A.1 in the textbook.

B

A grade of 3.0 intersects with 30 hours.

See Figure A.1 in the textbook.

C

A grade of 2.0 intersects with 20 hours.

See Figure A.1 in the textbook.

A

A point between 3.5 and 4.0 intersects with 40 hours.

See Figure A.1 in the textbook.

A

The intersection of 3.0 and 30 hours implies that someone studying 30 hours would earn a grade of 3.0.

See Figure A.1 in the textbook.

A

With finite factors of production, society must decide what is best to produce for the majority of the population.

D

The "*what*" question of economics asks which goods or services to produce that would best benefit society.

B

In economics, capital is referred to as the goods that are used to make other goods. Money is not a factor of production. A toll-bridge and a wrecking ball could be considered capital while the work of a CEO is considered labor. Each of these helps facilitate production and is therefore considered a factor of production.

C

Capital would include items such as machinery, buildings, and networks. Money is not economic capital because money is spent to acquire resources that do physically contribute to production.

B

Capital refers to goods that are used to produce other goods. In this example, the computer is the good used to produce the document (which is the other good).

D

A homebuilder would be an example of a labor resource. The remaining resources listed represent the physical space of land, the characteristics of these natural spaces, or the elements that can be extracted from them.

B

Labor is both the quantity of workers and the skills they possess.

D

Entrepreneurship involves skills of creating products, services, and processes. An entrepreneur uniquely combines the other three factors of production to make a good or service.

B

Entrepreneurship involves skills of creating products, services, and processes. An entrepreneur uniquely combines the other three factors of production to make a good or service.

B

While each point on a production possibilities curve is efficient, only one of those points is the most desirable. The specific point that is most desirable will depend on the goals of each society.

A

Locating and producing the optimal mix of output is the essence of the "*what*" challenge, answering the question of what to produce.

D

Economic investments enhance the ability to produce by adding to the quantity of capital a firm can use to make goods. Stock purchases help companies raise money for investment, but only those actual purchases are considered investment.

C

The lottery is a game of chance and is not an investment, which should expand the ability of a firm to produce its output. Investment purchases add to the amount of capital a firm can use to produce.

A

Economic growth expands the possibilities to produce more.

C

Production possibilities increase and shift outward with growth in resources and technology.

C

Outward shifts of the production possibilities curve occur with growth. Growth is due to improved technologies which use fewer resources and/or an increase in resources.

A

Investment in new technologies is necessary to economic growth.

A

Investment in physical capital is necessary to economic growth.

B

A change in technology allows for resources to be used more efficiently.

C

Prices are not a factor in growth because they do not represent resources or technology.

A

Labor is a factor of production. If there is a reduction of labor, production possibilities decrease.

D

In this scenario, a loss of industrial centers creates a reduction in capital which would cause production to decrease.

C

When all resources are not used to their fullest capacity, production falls below the production possibilities curve. Remember that each point on the curve itself represents an efficient use of resources.

C

Point C falls below the production possibilities curve, which indicates that some resources are not being used to the fullest potential. Remember that each point on the curve itself represents an efficient use of resources.

B

Point B is a point along the production possibilities curve, indicating that society is efficiently using all resources to produce office buildings and housing.

A

If new resources are discovered the production possibilities curve shifts to the right. This would make Point A possible if the discovery of new resources is sufficiently significant.

A

There are not sufficient resources or technology to produce at the level of office buildings or housing represented by Point A.

D

At Point D there is no production of houses nor of office buildings.

B

The best possible answer to the *how* question will entail both efficiency in the use of factors of production and adequate safeguards for the environment and other social concerns.

A

Everyone wants a slice of the "economic pie" that would best fit their needs. Because the pie is limited, we must choose how to allocate what is produced.

B

The optimal distribution of income and output must satisfy our sense of fairness as well as our desire for more. Welfare programs are implemented to redistribute income or output to better match our view of who should receive what.

A

Macroeconomics focuses on the behavior of an entire economy—the big picture.

D

The essential concern of macroeconomics is to understand and improve the performance of the economy as a whole.

B

Microeconomics focuses on individuals, firms, and government agencies.

A

One focus of microeconomics is on individual firms and markets. Changes to economy-wide measures like unemployment, inflation, and growth are a focus of macroeconomics.

C

One focus of microeconomics is on individual firms and markets. Changes to economy-wide measures like unemployment, inflation, and growth are a focus of macroeconomics.

D

There are too many factors that contribute to economic theory; exact economic outcomes cannot be determined.

B

Models are used to show basic relationships as a way to understand reality.

D

The assertion is that all things remain equal except for one. This assumption is made to better isolate the relationship between two variables.

C

Only one circumstance will change in a model; all other circumstances will remain constant.

A

Economic growth is essential for future generations to continue to enjoy a higher standard of living than previous generations.

A

What to produce refers to choosing the mix of output by selecting how many scarce resources to allocate to producing each possible good or service.

B

Economic growth involves an outward shift of production possibilities.

D

A pandemic will cause production to decrease if people cannot go to work due to governmental regulations.

B

Increased productivity will shift the production possibilities curve outwards, reflecting an improvement in society's ability to produce.

D

What, how, and

for whom to produce are the three basic economic questions. How much to charge is a question best suited for a specific, microeconomic problem.

A

Land refers to physical space and the natural resources on that land, including water.

A

Entrepreneurship refers to the assembling of resources to produce new or improved products and technologies.

A

Macroeconomics focuses on the behavior of an entire economy—the big picture—rather than the decisions of an individual.

A

Macroeconomics deals with economy-wide issues such as unemployment, inflation, and economic growth.

B

Market prices and sales signal desired outputs. These prices are generated in markets, which largely determine how goods and services are allocated.

C

The market mechanism signals to producers what products consumers demand.

D

Prices and sales indicate to producers what they should continue to produce.

B

Price and sales send signals to producers about what mix of output consumers want.

B

Price and sales send signals to producers about what mix of output consumers want.

A

No direct communication between consumer and producer is required to signal what market participants want.

B

Price is a determining factor for consumers to buy and producers to sell.

C

Laissez-faire means "hands off," which invites the government to stay out of the market decisions.

D

Laissez-faire means "hands off," which invites the government to stay out of the market decisions.

A

Adam Smith argued that nations would prosper with less government interference.

B

The government, not the market, assumes responsibility for answering the three basic economic questions.

A

Karl Marx proposed serious faults with market-based economies.

D

Central planning is still the principal mechanism of choice in countries without democratic governmental structures.

C

The U.S. uses a mix of market mechanism and government directives to make economic choices.

A

The price of the good is the determining factor in a market. Prices induce both consumers and producers to alter their behavior. The quantity supplied and quantity demanded are determined by price, so that cannot be a correct answer.

B

As firms see the sales and prices of certain goods rise, they will produce more of these goods.

C

Karl Marx felt that private property ownership would increase inequality within society and lead to capitalism's downfall.

C

The government is not a business and does not seek profits.

A

The market may not always pick the best possible mix of output.

B

The market did not produce the best possible mix of outputs.

A

This circumstance reflects a failure of the market to produce according to society's goals.

C

If governmental policy fails to make improve market outcomes, this is an example of government failure.

B

When the market mechanism selects the wrong choice of how to produce, this will cause a market failure.

A

The government may not necessarily offer better answers to the three basic questions.

A

Government intervention might not just worsen the mix of output but even reduce the total amount of output.

B

An increase in bureaucratic processes may burden private industry and reduce the total amount of output.

D

Government intervention may fail to improve market outcomes.

B

A government failure may result in a less desirable mix of output.

D

Each of these answers illustrates a circumstance where too much or too little of a product is provided by the market.

D

Market failure is described by both of these.

B

Better educated and trained workers are more efficient, which makes them more productive. Increasing worker productivity increases the overall production capacity of the entire economy.

B

The “best” possible output mix (optimal mix) depends on the country’s resources and values. Often, compromise is required. A compromise implies that the optimal mix was not reached.

B

Labor is one of the four factors of production. A decrease in the labor force generally indicates that less output can be produced unless the decrease in the labor force is offset by an increase in production efficiency.

A

Improvements in technology typically increase production efficiency, which in turn increases the overall production capacity of the economy.

C

Making college education and vocational training more affordable makes them more accessible to potential labor force participants. Better educated and trained workers are more efficient, which makes them more productive. Increasing worker productivity increases the overall production capacity of the entire economy.

B

By placing emphasis on the health of the population, President Biden sought to ensure that workers were healthy enough to work (and live). This means the policy focused on ensuring the resource of labor remained strong.

C

The notion of opportunity costs tells us that if health care spending rose, then resources used on producing other goods must have gone down.

A

Resources are scarce, which means that increased spending on health care necessarily implies an opportunity cost of producing other goods and services. Some people valued the spending on other goods more than increased health care spending.

Essay

An opportunity cost is the value of the second best alternative to a choice made. Example: A student stays home to study for an exam instead of going to a movie with friends. (Answers may vary).

Essay

The factors of production are land, labor, capital, and entrepreneurship. Each factor of production plays a role in answering the *what*, *how*, and *for whom* questions by distributing scarce resources in the best possible way. (Answers may vary).

Essay

The market mechanism is central in reshuffling resources and outputs. Market sales and prices send a signal to producers about what mix of output consumers want. Without direct communication between consumers and producers, the "invisible hand" communicates sales and prices.