

Student name: _____

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

Which of the following is the best example of a macroeconomic topic?

Unemployment

A local labor strike

Textbook sales

Starbucks coffee prices

Which of the following is a normative statement?

The government should forgive student loan debt.

Students take on more debt because tuition is higher.

Debt forgiveness would give people more income to spend.

The average student loan debt exceeds \$20,000.

Reza says "we should raise taxes." Iman states that "raising taxes would cause a recession." We can conclude that

Reza's statement is normative, but Iman's is positive.

Both statements are positive.

Iman's statement is normative, but Reza's is positive.

Both statements are normative.

Answer the question on the basis of the data given in the following production possibilities table.

	Production Possibilities (Alternatives)					
	A	B	C	D	E	F
Capital Goods				2	1	0
Consumer Goods				1 2	1 4	1 5

Refer to the table. If the economy is producing at production alternative B, the opportunity cost of the sixth unit of consumer goods will be approximately
1/3 of a unit of capital goods.

4 units of capital goods.

1/4 of a unit of capital goods.

3 units of capital goods.

Answer the question on the basis of the data given in the following production possibilities table.

	Production Possibilities (Alternatives)					
	A	B	C	D	E	F
Capital Goods						
Consumer Goods						

Refer to the table. If the economy is producing at production alternative C, the opportunity cost of 2 consumer goods will be approximately
0.2 capital good.

3 capital goods.

2 capital goods.

1 capital good.

Answer the question on the basis of the data given in the following production possibilities table.

	Production Possibilities (Alternatives)					
	A	B	C	D	E	F
Capital Goods						
Consumer Goods						

Refer to the table. Which of the following combinations of capital goods and consumer goods represents an efficient use of the economy's scarce resources?

- 32 units of consumer goods and 8 units of capital goods
- 38 units of consumer goods and 6 units of capital goods
- 22 units of consumer goods and 10 units of capital goods
- 48 units of consumer goods and 8 units of capital goods

	Duckistan Production Possibilities				
	A	B	C	D	E
Civilian Goods	20	18	14		
Military Goods	0	1	2		

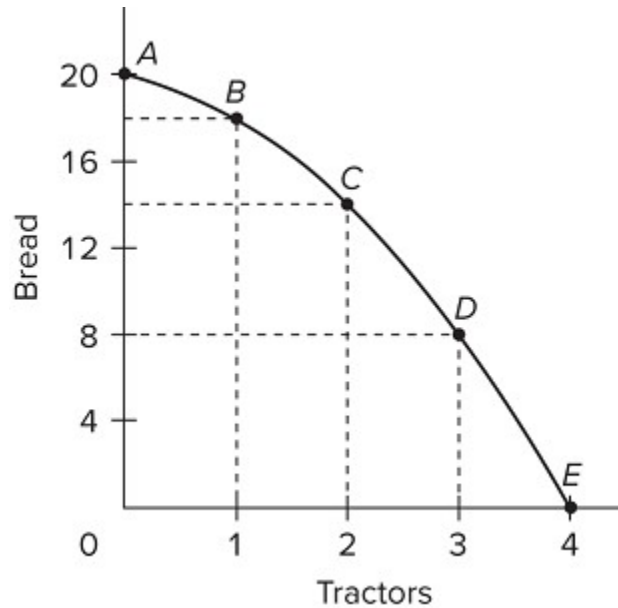
	Herbania Production Possibilities				
	A	B	C	D	E
Civilian Goods	40	36	26	14	
Military Goods	0	1	2	3	

Refer to the tables. Suppose that Duckistan is producing 14 units of civilian goods and 1 units of military goods, and Herbania is producing 14 units of civilian goods and 2 units of military goods. Then

- Duckistan is fully employing its resources, but Herbania is not.
- neither Duckistan nor Herbania is fully employing its resources.

Herbania is fully employing its resources, but Duckistan is not.

both Duckistan and Herbania are fully employing their resources.

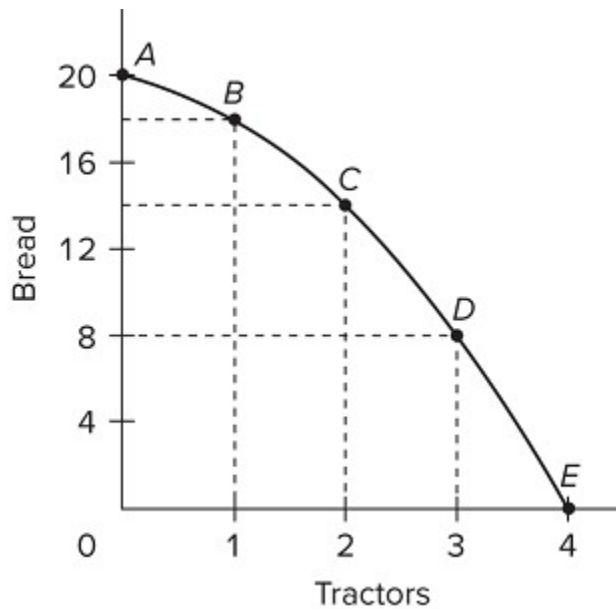


Refer to the diagram. Starting at point C, the opportunity cost of producing the third and fourth unit(s) of tractors is
2 unit(s) of bread.

8 and 6 unit(s) of bread.

6 and 8 unit(s) of bread.

the reciprocal of the output of tractors.



Refer to the diagram. If the economy is currently at point C, what is the opportunity cost of a third unit of tractors?

12 units of bread

8 units of bread

6 units of bread

The opportunity cost of the third unit of tractors cannot be determined.

The construction of a production possibilities curve assumes

the quantity of all resources is fixed.

some resources are unemployed.

technology is unlimited.

there is no inflation in the economy.

A typical concave (bowed out from the origin) production possibilities curve implies that

society maximizes well-being when it produces in the very center of the curve.

opportunity costs are constant.

society must sacrifice increasing amounts of one good to get more of another.

economic resources are perfect substitutes and fully employed.

Answer the question on the basis of the following production possibilities table for two countries, North Cantina and South Cantina.

		North Cantina Production Possibilities					
		A	B	C	D	E	F
Capital Goods			4	3	2	1	0
Consumer Goods			10	18	24	28	30
		South Cantina Production Possibilities					
		A	B	C	D	E	F
Capital Goods				3	2	1	0
Consumer Goods				15	21	25	27

Refer to the table. If South Cantina is producing at production alternative C, the opportunity cost of the fourth unit of capital goods will be 1/7 of a unit of consumer goods.

19 units of consumer goods.

3 units of consumer goods.

7 units of consumer goods.

Answer the question on the basis of the following production possibilities tables for two countries, North Cantina and South Cantina.

		North Cantina Production Possibilities					
		A	B	C	D	E	F
Capital Goods			4	3	2	1	0
Consumer Goods			10	18	24	28	30

		South Cantina Production Possibilities					
		A	B	C	D	E	F
Capital Goods				3	2	1	0
Consumer Goods				15	21	25	27

- Refer to the tables. If North Cantina is producing at production alternative D, the opportunity cost of the twenty-fifth unit of consumer goods will be
- 2 units of capital goods.
 - 4 units of capital goods.
 - 1 unit of capital goods.
 - 1/4 of a unit of capital goods.

Answer the question on the basis of the following production possibilities table for two countries, West Podunk and East Podunk.

		West Podunk Production Possibilities					
		A	B	C	D	E	F
Capital Goods							
Consumer Goods							
		East Podunk Production Possibilities					
		A	B	C	D	E	F
Capital Goods							
Consumer Goods							

- Refer to the table. If East Podunk is producing at production alternative C, the opportunity cost of the fourth unit of capital goods will be
- 15 units of consumer goods.
 - 12 units of consumer goods.
 - 27 units of consumer goods.
 - 9 units of consumer goods.

Answer the question on the basis of the following production possibilities table for two countries, West Podunk and East Podunk.

		West Podunk Production Possibilities					
		A	B	C	D	E	F
Capital Goods							
Consumer Goods							
		East Podunk Production Possibilities					
		A	B	C	D	E	F
Capital Goods							
Consumer Goods							

- Refer to the tables. If East Podunk is producing at production alternative C, the opportunity cost of the twenty-eighth consumer good will be
- 1/16 capital good.
 - 19 capital goods.
 - 15 capital goods.
 - 1/9 capital good.

Answer the question on the basis of the following production possibilities table for two countries, West Podunk and East Podunk.

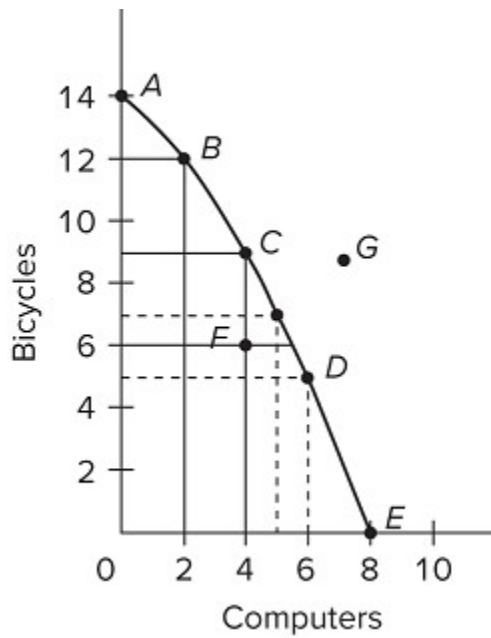
		West Podunk Production Possibilities					
		A	B	C	D	E	F
Capital Goods			4	3	2	1	0
Consumer Goods			20	48	55	58	62
		East Podunk Production Possibilities					
		A	B	C	D	E	F
Capital Goods			4	3	2	1	0
Consumer Goods			15	27	36	42	45

- Refer to the tables. If West Podunk is producing at production alternative C, the opportunity cost of the 49th consumer good will be
- 16 capital goods.
 - 1/4 capital good.
 - 1/7 capital good.
 - 7 capital goods.

Answer the question on the basis of the following production possibilities table for two countries, West Podunk and East Podunk.

		West Podunk Production Possibilities					
		A	B	C	D	E	F
Capital Goods							
Consumer Goods							
		East Podunk Production Possibilities					
		A	B	C	D	E	F
Capital Goods							
Consumer Goods							

- Refer to the tables. If West Podunk is producing at production alternative B, the opportunity cost of the twenty-first consumer good will be
- 1/20 capital good.
 - 1/16 capital good.
 - 16 capital goods.
 - 20 capital goods.



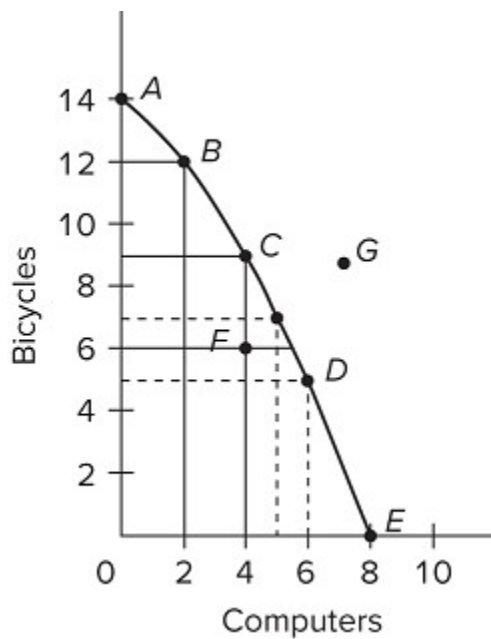
Refer to the diagram. If society is currently producing 9 units of bicycles and 4 units of computers and it now decides to increase computer output to 6, the cost

will be zero because unemployed resources are available.

will be 2 units of bicycles.

of doing so cannot be determined from the information given.

will be 4 units of bicycles.

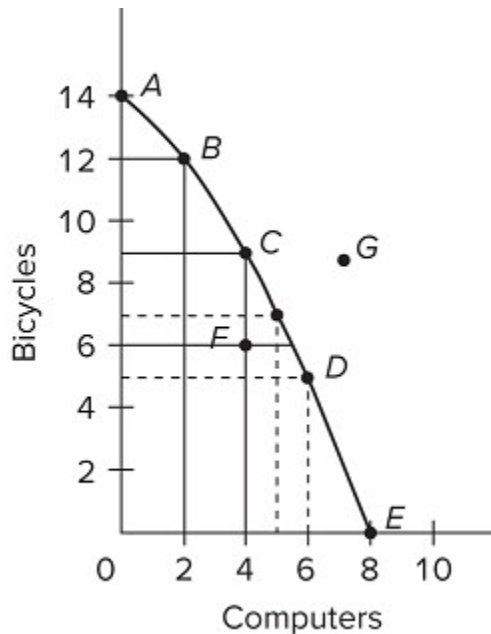


Refer to the diagram. The combination of computers and bicycles shown by point F is unattainable given currently available resources and technology.

is attainable but implies that the economy is not using all its resources.

suggests that opportunity costs are constant.

is irrelevant because it is inconsistent with consumer preferences.



Refer to the diagram. If society is currently producing the combination of bicycles and computers shown by point E, the production of 5 more units of bicycles will cost 8 units of computers.

will cost 2 units of computers.

cannot be achieved because resources are fully employed.

will cause some resources to become unemployed.

The law of increasing opportunity costs and the concept of scarcity, respectively, are represented by

a downward sloping curve, bowed out from the origin.

a curve bowed out from the origin, downward sloping.

a curve bowed in toward the origin, upward sloping.

a downward sloping curve, bowed in toward the origin.

A nation can produce two products: steel and wheat. The following table is the nation's production possibilities schedule.

Production Possibilities						
Product	A	B	C	D	E	F
Steel	0	1	2	3	4	5
Wheat	100	90	75	55	30	0

Which of the following output-combinations is unattainable?

95 wheat and 0 steel

1 steel and 80 wheat

30 wheat and 3 steel

5 steel and 30 wheat

A nation can produce two products: steel and wheat. The table below is the nation's production possibilities schedule.

Production Possibilities						
Product	A	B	C	D	E	F
Steel	0	1	2	3	4	5
Wheat	100	90	75	55	30	0

A change from combination E to D means that

1 unit of steel is given up to get 25 more units of wheat.

2 units of steel are given up to get 30 units of wheat.

2 units of steel are given up to get 25 more units of wheat.

1 unit of steel is given up to get 30 units of wheat.

A nation can produce two products: tanks and autos. The following table is the nation's production possibilities schedule.

Production Possibilities						
Product	A	B	C	D	E	F
Tanks	0	1	2	3	4	5
Autos	1,000	950	850	650	350	0

Given the production possibilities schedule above, a combination of 3 tanks and 850 autos cannot be produced by society, given its current resources and production technology.

is attainable but entails some unemployment or inefficient use of society's resources.

is both attainable and represents an efficient use of society's resources.

is the optimal combination of tanks and autos for society.

A nation can produce two products: tanks and autos. The following table is the nation's production possibilities schedule.

Production Possibilities						
Product	A	B	C	D	E	F
Tanks	0	1	2	3	4	5
Autos	1,000	950	850	650	350	0

In moving from combination D to C, the opportunity cost of producing 200 more autos is 1,500 units of autos.

650 units of autos.

3 units of tanks.

1 unit of tanks.

A nation can produce two products: tanks and autos. The following table is the nation's production possibilities schedule.

Production Possibilities						
Product	A	B	C	D	E	F
Tanks	0	1	2	3	4	5
Autos	1,000	950	850	650	350	0

The *total* opportunity cost of four unit(s) of tanks is 650 units of autos.

300 units of autos.

350 units of autos.

100 units of autos.

A nation can produce two products: tanks and autos. The following table is the nation's production possibilities schedule.

Production Possibilities						
Product	A	B	C	D	E	F
Tanks	0	1	2	3	4	5
Autos	1,000	950	850	650	350	0

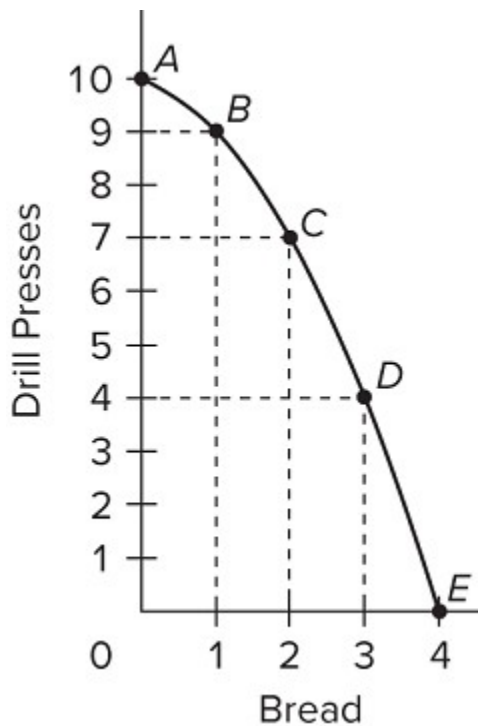
The *marginal* opportunity cost of the second unit of tanks is
150 units of autos.

850 units of autos.

100 units of autos.

2 units of tanks.

The following graph is the production possibilities curve of a nation.



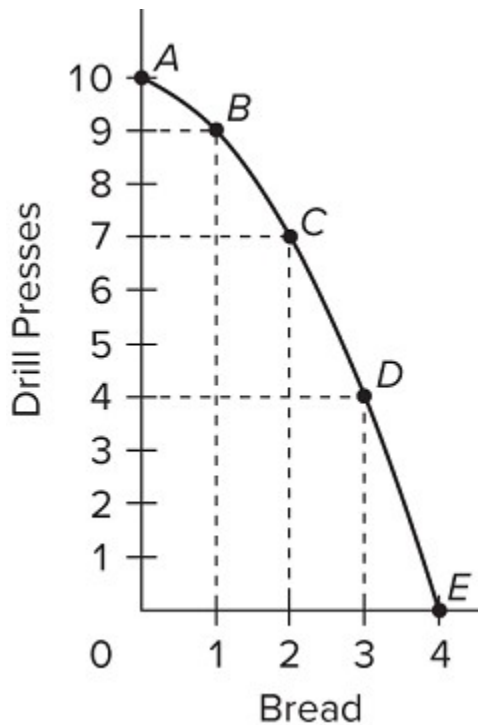
The combination "4 drill presses and 3 bread" indicates
a combination produced when the nation is at full employment.

that this society prefers bread to drill presses.

that some resources in the nation are unemployed.

an unattainable combination for the nation.

The following graph is the production possibilities curve of a nation.



Which of the following combinations would be unattainable?

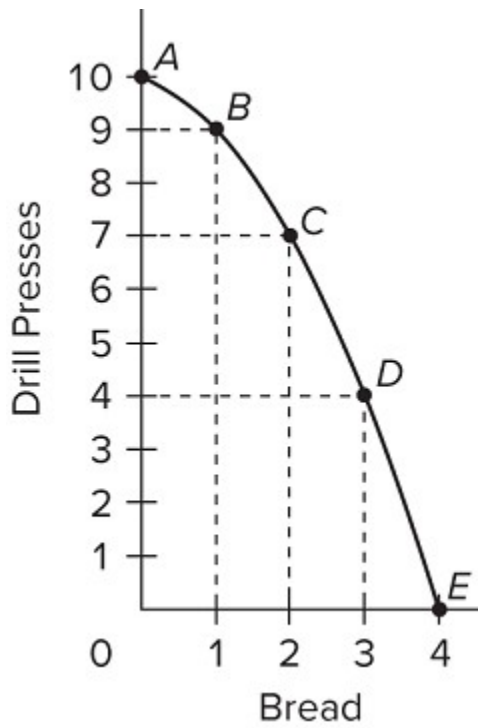
7 drill presses and 3 bread

4 drill presses and 2 bread

9 drill presses and 1 bread

10 drill presses and 0 bread

The following graph is the production possibilities curve of a nation.

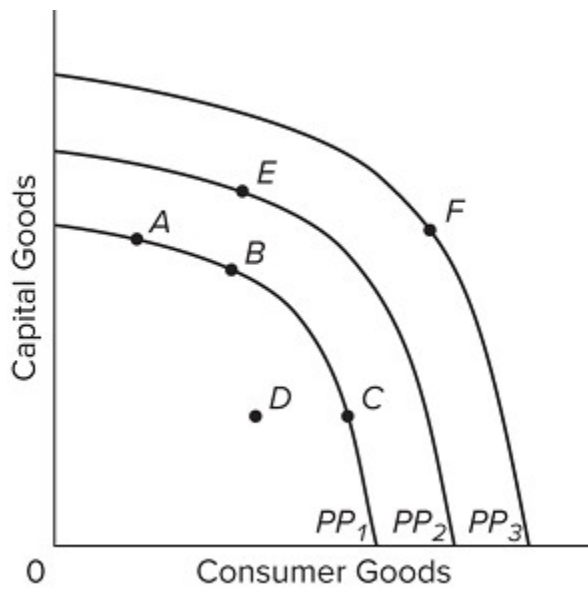


The total opportunity cost of 4 drill presses is 4 units of drill presses.

1 unit of bread.

1/4 of a unit of bread.

6 units of drill presses.

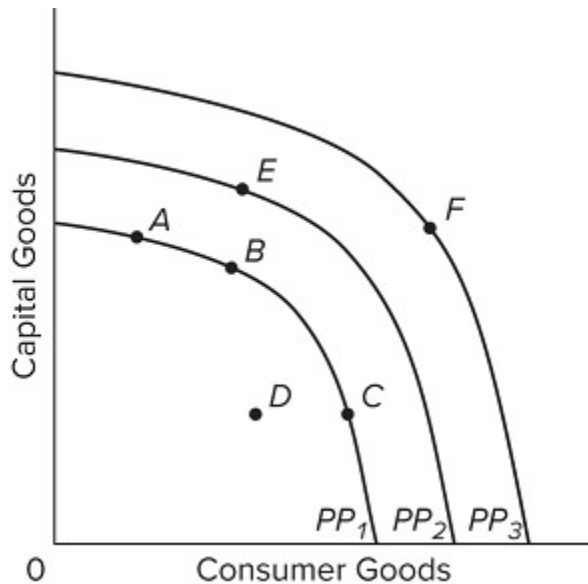


Refer to the diagram. The concept of opportunity cost is best represented by the move from B on PP1 to E on PP2.

move from C on PP1 to A on PP1.

shift of the production possibilities curve from PP1 to PP2.

move from D inside PP1 to B on PP1.



Refer to the diagram. An improvement in technology will move the economy from A to C along PP1.

shift the production possibilities curve from PP2 to PP1.

shift the production possibilities curve from PP1 to PP2.

move the economy from A, B, or C on PP1 to D.

Which of the following is not a feature of a command system?

consumer sovereignty

government owns most property resources

a central planning board makes production decisions

firms produce according to government directives

Which of the following is a feature of laissez-faire capitalism?

entrepreneurs make their own decisions about what to produce

government has an unlimited role in all aspects of the economy

a central planning board for production decisions

government owns most business firms

Which of the following is *not* a typical characteristic of a market system?

competition in product and resource markets

private property

government ownership of most property resources

self-interested behavior in the markets

freedom of enterprise

Which of the following is one of the Three Fundamental Questions?

How much should entrepreneurs be taxed?

How will the system promote progress?

How much should society save?

How will the system stop creative destruction?

Answer Key

Test name: Ch1 Algo_Principles of Microeconomics_11e

A

Things like apple prices, toilet paper, and Starbucks all point to specific industries, so they are microeconomic topics. Inflation, unemployment, and federal income taxes are macroeconomic topics.

A

Positive statements are "what is" statements of fact (whether accurate or not) or are assertions about cause and effect relationships (even if incorrect). Normative statements are "what should be" statements indicating opinions. Suggesting that something is "too high" (or too low), or that there is a best target or course of action indicates a normative statement.

A

Positive statements are "what is" statements of fact (whether accurate or not). Normative statements are "what should be" statements indicating opinions. Suggesting that something is "too high" (or too low), or that there is a best target or course of action indicates a normative statement. Even though Iman may be incorrect, it is a positive statement because it is articulating how something works (or would work), not whether or not it should be a certain way.

C

To find the opportunity cost of the "nth" unit (e.g. the sixth unit) of consumer goods, divide one (the change in capital goods between the two alternatives) by the difference between the two alternatives for consumer goods either side of this unit. For the sixth unit, the alternatives on either side are 5 and 9 units of consumer goods; their difference is 4 ($= 9 - 5$). So for the sixth unit of consumer goods, the opportunity cost $= 1 \div 4$ of a unit of capital goods.

C

If the economy is at point C on its production possibilities curve and moves to point D, it gains 2 consumer goods but gives up 2 capital goods. The opportunity cost is 2 capital goods.

C

The various combinations in the table represent points on a production possibilities curve. An economy efficiently using its scarce resources will produce at a point on the curve. An economy can't produce outside the curve. Producing inside the curve is inefficient.

B

C

C

The opportunity cost of one more unit of tractors is measured in terms of how much bread must be sacrificed. In this case, production starts at point C (14 bread, 2 tractor(s)) and moves to point D (8 bread, 3 tractors). The 6 fewer units of bread represent the opportunity cost of the third tractor.

A

C

The PPC is concave and opportunity costs are increasing (not constant) because resources are not perfect substitutes. Where society maximizes well-being depends on the preferences of the society. That could be in the very center, but could easily be elsewhere. There is no way to determine with the PPC in isolation.

D

To find the opportunity cost of the "nth" unit (e.g. the fourth unit) of capital, find the difference between the two alternatives for consumer goods on either side of this unit. For the fourth unit, the alternatives on either side are 8 and 15 units of consumer goods; their difference is 7 units ($= 15 - 8$). So for the third unit of capital goods, the opportunity cost = 7 units of consumer goods.

D

To find the opportunity cost of the "nth" unit (e.g. the twenty-fifth unit) of consumer goods, divide one (the change in capital goods between the two alternatives) by the difference between the two alternatives for consumer goods either side of this unit. For the twenty-fifth unit, the alternatives on either side are 24 and 28 units of consumer goods; their difference is 4 ($= 28 - 24$). So for the twenty-fifth unit of consumer goods, the opportunity cost $= 1 \div (28 - 24) = 1 \div 4$ of a unit of capital goods.

B

To find the opportunity cost of the "nth" unit (e.g., the fourth unit) of capital, find the difference between the two alternatives for consumer goods on either side of this unit. For the fourth unit, the alternatives on either side are 15 and 27 units of consumer goods; their difference is 12 units ($= 27 - 15$). So, for the fourth unit of capital goods, the opportunity cost = 12 units of consumer goods.

D

To find the opportunity cost of the "nth" unit (e.g. the twenty-eighth) of consumer goods, divide one (the change in capital goods between the two alternatives) by the difference between the two alternatives for consumer goods either side of this unit. For the twenty-eighth, the alternatives on either side are 27 and 36 units of consumer goods; their difference is 9 ($= 36 - 27$). So for the twenty-eighth consumer good, the opportunity cost = $1 \div (36 - 27) = 1 \div 9$ capital good.

C

To find the opportunity cost of the "nth" unit (e.g., the forty-ninth unit) of consumer goods, divide one (the change in capital goods between the two alternatives) by the difference between the two alternatives for consumer goods either side of this unit. For the 49th unit, the alternatives on either side are 48 and 55 consumer goods; their difference is 7 ($= 55 - 48$). So, for the 49th consumer good, the opportunity cost is $1/7$ capital good.

B

To find the opportunity cost of the 21st consumer good, divide one (the change in capital goods between the two alternatives) by the difference between the two alternatives for consumer goods either side of this unit. For the 21st consumer good, the alternatives on either side are 20 and 36 consumer goods; their difference is 16 ($= 36 - 20$). So for the 21st consumer good, the opportunity cost is $1/16 (= 1 \div 16)$ capital good.

D

To find the (opportunity) cost of the additional units of computers, take the difference between the starting and ending values for bicycles. For example, if society is currently producing 9 units of bicycles and 4 units of computers, in order to produce 6 units of computers, bicycle output will have to fall to 5 units. That makes the cost of the computer increase of 2 units equal to 4 ($= 9 - 5$).

B

B

To find the (opportunity) cost of the additional units of bicycles, take the difference between the starting and ending values for computers. For example, if society is currently producing 0 units of bicycles and 8 units of computers, in order to produce 5 more units of bicycles, computer output will have to fall to 6 units. That makes the cost of the 5 units of bicycles equal to 2 units ($= 8 - 6$).

B

The law of increasing opportunity costs is reflected in the shape of the curve (bowed out from the origin), and scarcity is represented by the downward slope.

D

A

A

D

To find the opportunity cost of producing "X" number of additional autos (e.g. 200 between combinations D to C), find the change in the output of tanks over same range (e.g. from D to C, the change in the number of tanks is 1 ($= 3 - 2$)).

A

To find the total opportunity cost of producing "X" number of tanks (e.g. four units), subtract the number of autos corresponding with the production alternative for the number of tanks produced (e.g. at production alternative of four tanks, 350 autos are produced) from the maximum number of autos that can be produced (1,000). For four tanks produced, the total opportunity cost is 650 ($= 1,000 - 350$).

C

To find the total opportunity cost of producing "nth" unit of tanks (e.g. second), subtract the number of autos corresponding with the production alternative for the number of tanks produced from the number of autos produced at the previous alternative. The marginal opportunity cost is 100 ($= 950 - 850$).

A

A

Any point that would lie on or inside the production possibilities curve is attainable. Anything that would lie outside (e.g. 7 drill presses and 3 bread) is unattainable.

B

To find the total opportunity cost of a number of units (e.g. 4) of drill presses, calculate how many units of the other good (bread) would have to be sacrificed to move from 0 to 4 on the drill press axis. In this example, to move from 0 to 4 in drill press production, society would have to move from 4 to 1 in bread production. The change of 1 unit ($= 4 - 3$) represents the opportunity cost of producing 4 drill presses.

B

The concept of opportunity cost refers to the trade-off of one good that must be made in order to obtain more of another, assuming fixed resources and technology. Visually this is represented by movement along a stable production possibilities curve. Changes involving moving to another curve would mean that available resources and technology had changed, potentially meaning that more of a particular good could be obtained without facing the tradeoff of sacrificing another.

C

Improvements in technology shift out the production possibilities curve, usually allowing a society to produce more of both goods. Visually this is represented by moving from one curve to a curve further to the right (e.g. from PP1 to PP2).

A

The command system is a system in which government owns most property resources and economic decision making is set by a central economic plan created and enforced by the government. The government owns most of the business firms, which produce according to government directives.

A

In laissez-faire systems, the government's role is limited to protecting private property and establishing a legal environment in which contracts are enforced and people interact in markets to buy and sell goods, services, and resources. Entrepreneurs and businesspeople make their own decisions about what to produce and how to produce it.

C

Characteristics of a market system include: private property, freedom of enterprise, freedom of choice, self-interest, competition, conveys the decisions made by buyers and sellers, use of capital goods, technological advance, specialization, use of money, and an active but limited government.

B

The Three Fundamental Questions are:

- What goods and services will be produced?
- How will the goods and services will be produced?
- Who will get the output?