Chapter 1—Economics and the World Around You

MULTIPLE CHOICE

1. Which of the following is a reason to study economics?
   a. Economic analysis explains daily events.
   b. It helps us understand why people, firms and government behave in a certain way.
   c. We need to understand relevant economic applications and policy issues.
   d. It provides useful logic for solving complex problems.
   e. All of these

   ANS: E PTS: 1 DIF: Easy
   NAT: BPROG: Reflective Thinking TOP: Preface KEY: BLOOM'S: Knowledge

2. According to the text, why are some countries rich and others very poor?
   a. Some countries have no oil.
   b. People have no property rights.
   c. Access to education is very limited.
   d. High tariffs prevent international trade.
   e. All of these.

   ANS: B PTS: 1 DIF: Moderate
   NAT: BPROG: Reflective Thinking TOP: Whole chapter
   KEY: BLOOM'S: Knowledge

3. The primary reason to explain why some nations are rich and others poor is
   a. A democratic government
   b. A strong judicial system
   c. Access to education
   d. Private ownership
   e. A stable currency

   ANS: D PTS: 1 DIF: Moderate
   NAT: BPROG: Reflective Thinking TOP: Ownership KEY: BLOOM'S: Knowledge

4. It can be said that ____ laid the foundation for the Industrial Revolution.
   a. the discovery of the Americas
   b. private property rights
   c. the invention of the cotton gin
   d. the discovery of gold
   e. the development of a strong judicial system

   ANS: B PTS: 1 DIF: Moderate
   NAT: BPROG: Reflective Thinking TOP: Ownership KEY: BLOOM'S: Knowledge

5. Private property rights are important because
   a. they create incentives for people to improve their standard of living.
   b. the Constitution says so.
   c. they allow students to choose their major field of study in college.
   d. an economy cannot grow without them.
   e. all of these

   ANS: A PTS: 1 DIF: Moderate
   NAT: BPROG: Reflective Thinking TOP: Ownership KEY: BLOOM'S: Knowledge

6. GDP per capita is one way to measure an economy's growth. China and India began to progress when they allowed private ownership, in about ____. Since then there has been steady, strong growth in these economies.
   a. 1960
   b. 1970
   c. 1980
   d. 1990
   e. 2000

   ANS: D PTS: 1 DIF: Easy
   NAT: BPROG: Reflective Thinking TOP: Ownership KEY: BLOOM'S: Knowledge

7. Overfishing, and in some cases extinction of species result from:
   a. scarcity
   b. greedy fishermen who cheat and take more than their fair share
   c. no one has an incentive to take care of it
   d. lack of laws to control the amount of fish taken
   e. all of these

   ANS: C PTS: 1 DIF: Moderate
   NAT: BPROG: Reflective Thinking TOP: Ownership KEY: BLOOM'S: Application

8. Sonia works at a restaurant where tips are pooled and divided equally. Anna works at a different restaurant where she keeps the tips her customers leave for her. Which of the following is true?
   a. Both work equally hard because their hourly wage from the employer is low, and they can make up for this with tips
   b. Sonia works harder, because she receives the same amount of tips as other workers.
   c. Anna works harder, because she works at an expensive restaurant.
   d. Anna works harder because her tips are her private property.
   e. It's impossible to say without more information.

   ANS: D PTS: 1 DIF: Challenging
   NAT: BPROG: Reflective Thinking TOP: Ownership KEY: BLOOM'S: Application

9. The main reason villagers in Xiaogang produced more rice than those in surrounding villages was
   a. they had better farmland.
   b. they were given better seeds.
   c. they were able to keep the output they produced individually.
   d. they made each family responsible for a certain, higher quota

   ANS: C PTS: 1 DIF: Moderate
   NAT: BPROG: Reflective Thinking TOP: Ownership KEY: BLOOM'S: Knowledge

10. In 1981, in San Francisco Solano, Argentina, about 1,800 families took over a piece of wasteland. The resulting houses varied greatly, based on whether the residents received title. Those who received title also behaved differently, having fewer children, and the children experienced more education and better health. This is an example of (the results from)
    a. Scarcity
    b. Economic growth
    c. Economic freedom
    d. Private property rights
    e. Quality of life

    ANS: D PTS: 1 DIF: Easy

NAT: BPROG: Reflective Thinking TOP: Ownership KEY: BLOOM'S: Knowledge

11. One of the reasons communism failed was
    a. government ran out of money.
    b. workers received the same pay whether or not they worked hard.
    c. there was no unemployment.
    d. Leonid Brezhnev and Mao Zedong passed away.
    e. technology lagged non-communistic countries.

    ANS: B PTS: 1 DIF: Moderate
    NAT: BPROG: Reflective Thinking TOP: Ownership KEY: BLOOM'S: Knowledge

12. Economic freedom is
    a. the right to own property.
    b. not having to pay taxes.
    c. exists only in some countries.
    d. affects only poor people.
    e. the ability to engage in voluntary trade.

    ANS: E PTS: 1 DIF: Moderate
    NAT: BPROG: Reflective Thinking TOP: Economic Freedom
    KEY: BLOOM'S: Knowledge

13. Economic freedom generally leads to
    a. a higher standard of living.
    b. a better living conditions.
    c. longer life expectancy.
    d. better education.
    e. all of these.

    ANS: E PTS: 1 DIF: Easy
    NAT: BPROG: Reflective Thinking TOP: Economic Freedom
    KEY: BLOOM'S: Knowledge

14. Scarcity
    a. ensures people become satisfied with less than they want.
    b. exists only during a recession.
    c. exists only in some countries.
    d. affects only poor people.
    e. requires people to make choices.

    ANS: E PTS: 1 DIF: Moderate NAT: BPROG: Analytic
    TOP: Scarcity and Opportunity Costs KEY: BLOOM'S: Evaluation

15. Which of the following is *not* a limitation one faces when shopping for clothes?
    a. The amount of time available to shop
    b. One's budget
    c. The various styles that are available
    d. The store's selection
    e. The freedom to make rational choices

    ANS: E PTS: 1 DIF: Moderate
    NAT: BPROG: Reflective Thinking TOP: Scarcity and Opportunity Costs
    KEY: BLOOM'S: Evaluation

16. The heart of the economic problem is to
    a. provide for full employment.
    b. eliminate scarcity.
    c. increase our standard of living.
    d. allocate limited resources among unlimited uses.
    e. increase leisure.

    ANS: D PTS: 1 DIF: Moderate
    NAT: BPROG: Reflective Thinking TOP: Scarcity and Opportunity Costs
    KEY: BLOOM'S: Evaluation

17. Is it possible to eliminate scarcity?
    a. Scarcity could be eliminated if all economies of the world would work together to solve world hunger.
    b. Scarcity could be eliminated if we had full employment.
    c. It is impossible to eliminate scarcity, given limited resources and unlimited wants.
    d. Scarcity could be eliminated if the entire world would adopt communism.
    e. Scarcity could be eliminated if the entire world would adopt a free market system.

    ANS: C PTS: 1 DIF: Moderate
    NAT: BPROG: Reflective Thinking TOP: Scarcity and Opportunity Costs
    KEY: BLOOM'S: Evaluation

18. Which of the following statements is *true*?
    a. Goods are scarcer for the poor than for the rich.
    b. Goods are scarce for neither the poor nor the rich.
    c. Goods are scarce for both the poor and the rich.
    d. Goods are scarce for the poor but not for the rich.
    e. Goods are scarce for the rich but not for the poor.

    ANS: C PTS: 1 DIF: Moderate
    NAT: BPROG: Reflective Thinking TOP: Scarcity and Opportunity Costs
    KEY: BLOOM'S: Application

19. Economics is the study of
    a. the allocation of scarce resources and the ways in which human decision makers utilize those resources.
    b. the methods that human decision makers use to transform a scarce good into a noneconomic good.
    c. how to operate a business successfully.
    d. a utopian society.
    e. how to make money in the stock market.

    ANS: A PTS: 1 DIF: Moderate
    NAT: BPROG: Reflective Thinking TOP: Scarcity and Opportunity Costs
    KEY: BLOOM'S: Knowledge

20. Economics is
    a. concerned with the problem of scarce resources combined with unlimited wants.
    b. the study of how to make money in the stock market.
    c. highly theoretical and has little practical application.
    d. primarily concerned with day-to-day business decision making.
    e. a decision making process involving individuals and firms rather than governments.

    ANS: A PTS: 1 DIF: Easy

NAT: BPROG: Reflective Thinking TOP: Scarcity and Opportunity Costs
KEY: BLOOM'S: Knowledge

21. To say that something is scarce means that
    a. it is no longer available in stores.
    b. it must be conserved at any cost.
    c. even the government cannot supply it.
    d. sufficient amounts of it are available only at full employment and inflated prices.
    e. not enough is available to satisfy people's wants at a zero price.

ANS: E PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: Scarcity and Opportunity Costs
KEY: BLOOM'S: Knowledge

22. The concept of scarcity as used by economists refers to
    a. shortages.
    b. a situation in which the available resources are not enough to satisfy the wants of the people.
    c. a situation in which an item is available only in very small quantities.
    d. a situation in which an item is very expensive.
    e. a situation in which a resource is nonrenewable.

ANS: B PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: Scarcity and Opportunity Costs
KEY: BLOOM'S: Knowledge

23. To an economist, scarcity means that
    a. it is very time-consuming to find a good.
    b. at a zero price, the available quantity of a good is insufficient to meet people's wants.
    c. a good is unavailable.
    d. at the current market price, the amount available is less than the amount that people want and are willing to pay for.
    e. resources are unlimited but people's desires are limited.

ANS: B PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: Scarcity and Opportunity Costs
KEY: BLOOM'S: Knowledge

24. Goods are scarce when
    a. their price is too low.
    b. their price is too high.
    c. the amount people want is more than the amount available at a zero price.
    d. they are necessities.
    e. their price is controlled.

ANS: C PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: Scarcity and Opportunity Costs
KEY: BLOOM'S: Knowledge

25. The basic economic problem is
    a. inflation.
    b. unemployment.
    c. poverty.
    d. scarcity.
    e. lack of money.

ANS: D PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: Scarcity and Opportunity Costs
KEY: BLOOM'S: Knowledge

26. To say that there is a scarcity of gold means that
    a. gold prices will rise.
    b. there is not enough gold to satisfy people's demand for it at a zero price.
    c. there are very few substitutes for gold.
    d. gold is very expensive.
    e. the demand for gold is changing.

ANS: B PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: Scarcity and Opportunity Costs
KEY: BLOOM'S: Application

27. A good or service becomes scarcer over time if
    a. the difference between quantities demanded and supplied at a zero price decreases.
    b. the excess of the quantity demanded over the quantity supplied at a zero price increases.
    c. the economy is capable of producing more goods and services.
    d. people begin to reduce their requirements for the goods and services that are actually available.
    e. the amount of a good available equals the amount desired.

ANS: B PTS: 1 DIF: Challenging
NAT: BPROG: Reflective Thinking TOP: Scarcity and Opportunity Costs
KEY: BLOOM'S: Application

28. Choices are *not* made because of limited
    a. resources.
    b. income.
    c. wants.
    d. time.
    e. availability of goods.

ANS: C PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

29. Which of the following statements is *false*?
    a. Economists look at the factors that lead an individual to decide that a particular idea is in his or her best interest.
    b. Economists do not ask whether a particular decision is in the individual's best interest.
    c. Choices must be made because of scarcity.
    d. A particular choice is made because that choice provides the individual making the choice with the greatest satisfaction.
    e. None of these statements is false—they are all true.

ANS: E PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

30. Which statement concerning opportunity costs is *false*?
    a. Opportunity costs can always be expressed in money terms.
    b. Every choice involves opportunity costs.

c. Opportunity costs are the highest-valued alternatives that must be forgone when a choice is made.
d. The full cost of an activity includes the opportunity costs.
e. Economists refer to the forgone benefits of the next-best alternative as opportunity costs.

ANS: A PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

31. Which of the following sayings best represents the concept of opportunity costs?
a. "A glass can be half empty or half full."
b. "When in Rome, do as the Romans do."
c. "There is no such thing as a free lunch."
d. "No taxation without representation."
e. "What's up?"

ANS: C PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

32. Which economic concept is the closest parallel to the saying, "There's no such thing as a free lunch"?
a. Specialization
b. Unlimited wants
c. Underutilization of resources
d. Opportunity costs
e. Overutilization of resources

ANS: D PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Evaluation

33. The opportunity cost of studying economics tonight at the library does *not* include
a. the good time you could be having by going out with your friends.
b. the time you could be spending studying for your history class.
c. your lost sleep.
d. the time you could be spending listening to music or watching television.
e. the higher grade you might earn on the next economics test.

ANS: E PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Evaluation

34. Because of scarcity,
a. costs are incurred in making choices.
b. we attempt to utilize our resources as efficiently as possible.
c. we must make choices between production possibilities.
d. we are unable to produce all we would like to produce.
e. all of these.

ANS: E PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Evaluation

35. What economic concept is illustrated by the saying "You can't have your cake and eat it too"?
a. Private property rights

b. Economic freedom
c. Scarcity
d. Opportunity cost
e. Gains from trade

ANS: D PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Evaluation

36. Jane wins $100,000 in the lottery and immediately uses her winnings to open a donut shop. Her direct costs for the first year are $50,000. Alternatively, Jane could have placed her lottery winnings in a savings account earning 10 percent annual interest. Jane's total cost is
a. $60,000.
b. $50,000.
c. $160,000.
d. $45,000.
e. $55,000.

ANS: A PTS: 1 DIF: Moderate NAT: BPROG: Analytic
TOP: The Definition Of Economics KEY: BLOOM'S: Application

37. Ronnie waits one hour in line to buy a ticket to a rock concert. The opportunity cost of buying the $28 ticket
a. is Ronnie's best alternative use of the $28.
b. is Ronnie's best alternative use of the one hour it took to wait in line.
c. is the value of the $28 to the ticket agent.
d. is Ronnie's best alternative use of both the $28 and the one hour spent in line.
e. cannot be measured because there is no opportunity cost associated with consumption.

ANS: D PTS: 1 DIF: Moderate NAT: BPROG: Analytic
TOP: The Definition Of Economics KEY: BLOOM'S: Application

38. If you must make a choice about consuming two apples, three oranges, or one candy bar, the opportunity cost of the candy bar is
a. two apples.
b. three oranges.
c. two apples and three oranges.
d. two apples or three oranges, whichever you most prefer.
e. the difference in the prices of the three options.

ANS: D PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: The Definition Of Economics KEY: BLOOM'S: Application

39. Opportunity cost is best defined as the
a. sum of all alternatives given up when a choice is made.
b. money spent once a choice is made.
c. highest-valued alternative given up when a choice is made.
d. cost of a good less profits.
e. cost of capital resources used in the production of additional capital.

ANS: C PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

40. The total cost of attending college

a. includes only college-related expenses.
b. is the sum of the costs of tuition, books, and meals.
c. would not include other options that were sacrificed due to the decision to attend college.
d. would not include the lost opportunity to travel.
e. is the sum of college-related expenses and opportunity cost.

ANS: E PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

41. Which of the following should *not* be considered an opportunity cost of attending college?
a. Money spent on living expenses that are the same whether or not you attend college
b. Lost salary
c. Business lunches
d. Interest that could have been earned on your money had you put the money into a savings account rather than spent it on tuition
e. Opportunities sacrificed in the decision to attend college

ANS: A PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

42. It is inappropriate to assume that accounting costs are equal to total costs of a particular item or activity because
a. accounting costs do not necessarily include the forgone benefits of the next-best alternative.
b. total costs are expressed only in monetary terms.
c. accounting costs include opportunity costs.
d. accounting costs overstate the tradeoffs involved.
e. total costs do not include direct, out-of-pocket expenses.

ANS: A PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

43. Nicky makes $25,000 a year as a sales clerk. He then decides to quit his job to enter an MBA program full-time (assume Nicky does not work in the summer or hold any part-time jobs). His tuition, books, living expenses, and fees total $15,000 a year. Given this information, the annual total cost of Nicky's MBA studies is
a. $10,000.
b. $25,000.
c. $15,000.
d. $40,000.
e. $35,000.

ANS: D PTS: 1 DIF: Moderate NAT: BPROG: Analytic
TOP: The Definition Of Economics KEY: BLOOM'S: Application

44. An example of opportunity cost
a. is the Chinese food that you gave up when you chose to eat Italian food.
b. is the tuition that you pay to attend college.
c. for a professor of economics is the pleasure that he or she derives from teaching economics.
d. is sweets given up by a person who would never eat them even if he or she could.
e. is the price paid for a ticket when you go to the movies.

ANS: A PTS: 1 DIF: Challenging
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

45. Opportunity cost
    a. applies only to consumption decisions.
    b. applies only to production decisions.
    c. is the same as monetary costs.
    d. exists because of scarcity.
    e. is irrelevant for wealthy economies.

ANS: D PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Evaluation

46. In economics, which of the following is *not* considered capital?
    a. Offices and warehouses
    b. Stocks and bonds
    c. Machinery
    d. Factories
    e. Equipment

ANS: B PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Evaluation

47. An economy's resources
    a. are limited in quantity.
    b. are always efficiently utilized.
    c. consist of land, labor, capital, and money.
    d. are unrelated to its standard of living.
    e. are unlimited when we use the latest technology.

ANS: A PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

48. Which of the following is considered to be physical capital?
    a. Stocks
    b. Bonds
    c. Machinery
    d. Money
    e. Finished products

ANS: C PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

49. In economics, physical capital includes
    a. money.
    b. natural resources.
    c. machinery and factories.
    d. bonds.
    e. shares of stock.

ANS: C PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

50. Oil found underground in Texas is an example of
a. a labor resource.
b. land or a natural resource.
c. an entrepreneur.
d. human capital.
e. a capital resource.

ANS: B PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

51. Which of the following is *not* physical capital?
a. An office building
b. Machinery on an assembly line
c. An industrial robot
d. Cash paid for raw materials
e. A computer used by a business

ANS: D PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

52. Labor resources (input) include
a. skilled workers but not unskilled workers.
b. unskilled workers but not skilled workers.
c. a robot.
d. education and training of workers.
e. coffee breaks.

ANS: D PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

53. A skilled worker is an example of
a. scarcity.
b. land resources.
c. labor resources.
d. capital resources.
e. both labor and capital resources.

ANS: C PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

54. A factory is an example of
a. capital.
b. scarcity.
c. enterprise.
d. financial capital.
e. output.

ANS: A PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

55. Which of the following is *true* of resources?
    a. Capital resources include manual labor.
    b. Natural resources are produced by nature and are available at a zero price.
    c. Labor includes the skills and training people acquire to use in production.
    d. Technological know-how is an example of a natural resource.
    e. *Human capital* is the technical term for a robot.

ANS: C PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

56. Every society must deal with the problem of scarcity because
    a. people do not have enough money to buy everything they need.
    b. government taxes consumers too much.
    c. human beings become satiated as consumption increases.
    d. human wants are nearly unlimited relative to the availability of resources.
    e. productive resources, technology, and labor are unlimited.

ANS: D PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

57. Which of the following is an example of capital?
    a. Education
    b. Natural resources
    c. Machinery
    d. Training
    e. Money

ANS: C PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

58. Stocks and bonds are examples of
    a. natural resources.
    b. financial capital.
    c. physical capital.
    d. financial labor.
    e. internal capital.

ANS: B PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

59. What accounts for specialization?
    a. People specialize when opportunity costs are at a maximum.
    b. People specialize when their opportunity costs are lowest.
    c. People do not specialize.
    d. People specialize in the activity that pays the highest wage.
    e. People specialize in the activity that they enjoy the most, no matter what the salary is.

ANS: B PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: Specialization and Exchange
KEY: BLOOM'S: Knowledge

60. People
    a. tend to specialize in those activities in which their opportunity costs are minimized.
    b. tend to specialize in those activities in which their opportunity costs are maximized.
    c. never consider opportunity costs.
    d. consider only direct costs.
    e. do not behave in their own self-interest.

ANS: A PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: Specialization and Exchange
KEY: BLOOM'S: Knowledge

61. Which of the following is *false* when speaking about a specialist?
    a. A specialist may be someone with many talents who enjoys one activity more than others.
    b. A specialist may be someone with many talents who is relatively better at one activity than others.
    c. A specialist is a person who is capable of doing only one thing.
    d. A specialist is someone whose opportunity cost of switching to an activity other than the one in which he or she is engaged is very high.
    e. A specialist may be someone who is not very good at what he or she does, but enjoys it so much that the opportunity cost of switching to another activity is very high.

ANS: C PTS: 1 DIF: Challenging
NAT: BPROG: Reflective Thinking TOP: Specialization and Exchange
KEY: BLOOM'S: Evaluation

Table 1.1

Table 1.1: Output per Hour		
	Cookies	**Chili**
Ohio	6	24
Iowa	12	96

62. According to the data in Table 1.1, the opportunity cost of a cookie in Iowa is
    a. 8 chilies.
    b. 96 chilies.
    c. $\frac{1}{8}$ chili.
    d. less than in Ohio.
    e. the same as in Ohio.

ANS: A PTS: 1 DIF: Moderate NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

63. According to the data in Table 1.1, the opportunity cost of chili in Ohio is
    a. the same as in Iowa.
    b. $\frac{1}{4}$ cookie.
    c. 4 cookies.
    d. $\frac{1}{8}$ cookie.
    e. 8 cookies.

ANS: B PTS: 1 DIF: Moderate NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

64. According to Table 1.1, which of the following is *true*?
a. Ohio should specialize in the production of cookies and trade with Iowa.
b. Iowa should specialize in the production of cookies and trade with Ohio.
c. Ohio should specialize in the production of chili and trade with Iowa.
d. Neither state can benefit from trade.
e. None of these

ANS: A PTS: 1 DIF: Moderate NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

65. According to the data in Table 1.1, if trade were to occur, what would be the *least* amount Ohio would be willing to accept for 1 cookie?
a. 8 chilies
b. $\frac{1}{4}$ of a chili
c. $\frac{1}{8}$ of a chili
d. 4 chilies
e. 12 chilies

ANS: D PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

66. According to the data in Table 1.1, if trade were to occur, what would be the *most* Ohio would be willing to pay for 1 chili?
a. 4 cookies
b. 8 cookies
c. $\frac{1}{4}$ of a cookie
d. $\frac{1}{8}$ of a cookie
e. 6 cookies

ANS: C PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

Table 1.2

Table 1.2: Production Possibilities Schedule				
	Country X		**Country Y**	
Choice	**Coffee**	**Sugar**	**Coffee**	**Sugar**
A	200	0	100	0
B	160	40	80	30
C	120	80	60	60
D	80	120	40	90
E	40	160	20	120
F	0	200	0	150

67. According to the data in Table 1.2, if trade were to occur, which of the following is *true*?
a. Country X should export coffee to country Y, but the two countries should not exchange sugar.
b. Country X should export coffee to country Y, and country Y should export sugar to country X.

c. Country X should export sugar to country Y, and country Y should export coffee to country X.
d. Country X should export sugar and coffee to country Y.
e. Country Y should export sugar and coffee to country X.

ANS: B PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

68. According to the data in Table 1.2, if trade were to occur, what is the *most* country X would be willing to pay for 1 unit of sugar?
a. 1 unit of coffee
b. $1\frac{1}{2}$ units of coffee
c. $\frac{2}{3}$ unit of coffee
d. 200 units of coffee
e. $\frac{1}{2}$ unit of coffee

ANS: A PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

69. According to the data in Table 1.2, if trade were to occur, what is the *least* country Y would be willing to accept for 1 unit of sugar?
a. 1 unit of coffee
b. $1\frac{1}{2}$ units of coffee
c. $\frac{2}{3}$ unit of coffee
d. 200 units of coffee
e. $\frac{1}{2}$ unit of coffee

ANS: C PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

70. In Table 1.2, assume that before specialization and trade, both countries were producing at production possibility *C*. If each country specializes according to comparative advantage, what will be the gains from trade?
a. 20 units of sugar and 10 units of coffee
b. 20 units of coffee and 10 units of sugar
c. 20 units of coffee
d. 10 units of sugar
e. 80 units of coffee and 90 units of sugar

ANS: B PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

Table 1.3

Table 1.3		
Labor Hours Required to Produce 1 Gallon of	**In Maine**	**In New Hampshire**
Grape juice	1 hour	9 hours
Apple juice	5 hours	6 hours

71. According to the data in Table 1.3, Maine has an absolute advantage in producing

a. both grape juice and apple juice.
b. only grape juice.
c. only apple juice.
d. neither grape juice nor apple juice.
e. There is not enough information to say.

ANS: A PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

72. According to Table 1.3, the opportunity cost of producing 1 gallon of grape juice in Maine is
a. 5 gallons of apple juice.
b. $\frac{1}{5}$ gallon of apple juice.
c. 5 gallons of grape juice.
d. 6 gallons of apple juice.
e. $\frac{1}{8}$ gallon of apple juice.

ANS: B PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

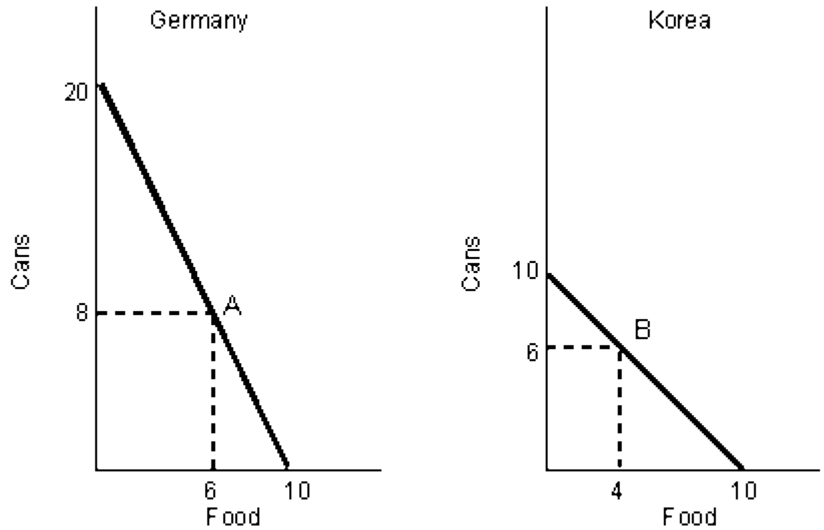
73. According to the data in Table 1.3, New Hampshire has a comparative advantage in producing
a. neither good.
b. grape juice.
c. both apple juice and grape juice.
d. apple juice.
e. There is not enough information to say.

ANS: D PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

74. According to the data in Table 1.3, the opportunity cost of producing 1 gallon of grape juice in New Hampshire is ____ gallon(s) of apple juice.
a. 1.33
b. $\frac{5}{6}$
c. 1.5
d. 6
e. $\frac{2}{3}$

ANS: C PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

Figure 1.1



75. Suppose that points *A* and *B* in Figure 1.1 represent pre-trade positions. If each country specializes according to comparative advantage, what are the potential gains to trade?
    a. 6 cars
    b. 6 cars and 6 units of food
    c. 6 units of food
    d. 4 units of food
    e. 12 cars

ANS: A PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

76. According to Figure 1.1, if trade occurs, what is the *most* Germany would be willing to pay for 1 unit of food?
    a. 1 car
    b. 2 cars
    c. $\frac{1}{2}$ car
    d. 20 cars
    e. 10 cars

ANS: B PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

77. According to Figure 1.1, if trade occurs, what is the *least* Korea would be willing to accept for 1 unit of food?
    a. 1 car
    b. 2 cars
    c. $\frac{1}{2}$ car
    d. 20 cars
    e. 10 cars

ANS: A PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

78. A person has a comparative advantage in producing a good if that person
    a. can produce the good at a lower absolute cost than anyone else.
    b. can produce the good at a lower opportunity cost than anyone else.
    c. can do a better job than anyone else.

d. spends less money in out-of-pocket expenses than anyone else.
e. can produce the good at a higher opportunity cost than anyone else.

ANS: B PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: Specialization and Exchange
KEY: BLOOM'S: Knowledge

Scenario 1.1

Alan and Brian work at a baseball and softball manufacturing plant. Alan can produce either 10 baseballs or 4 softballs in an hour. Brian can produce either 8 baseballs or 2 softballs in an hour.

79. According to Scenario 1.1, the opportunity cost for Brian to produce 1 softball is
   a. 4 baseballs.
   b. less than the opportunity cost for Alan to produce 1 softball.
   c. $\frac{1}{4}$ baseball.
   d. $2\frac{1}{2}$ baseballs.
   e. $\frac{2}{5}$ baseball.

ANS: A PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

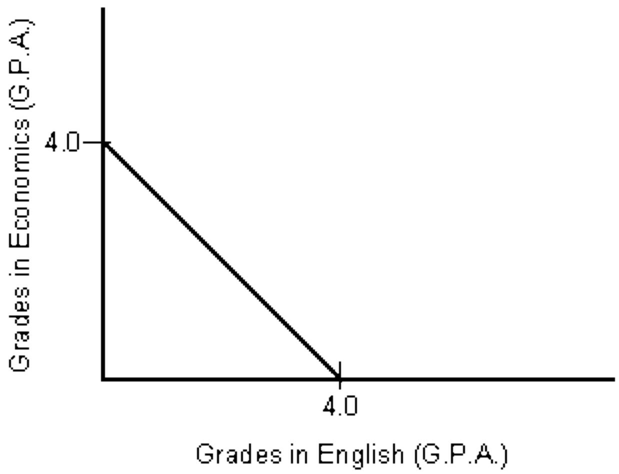
80. According to Scenario 1.1, the opportunity cost for Alan to produce 1 baseball is
   a. $\frac{1}{4}$ softball.
   b. $\frac{2}{5}$ softball.
   c. less than the opportunity cost of Brian to produce 1 baseball.
   d. $2\frac{1}{2}$ softballs.
   e. 4 softballs.

ANS: B PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

81. According to Scenario 1.1, Brian has a comparative advantage over Alan in the production of
   a. softballs.
   b. both softballs and baseballs.
   c. neither softballs nor baseballs.
   d. baseballs.
   e. softballs if he makes no more than 2 an hour.

ANS: D PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Specialization and Exchange KEY: BLOOM'S: Application

Figure 1.2



82. The PPC in Figure 1.2 indicates a student who
    a. is better at economics than English.
    b. is better at English than economics.
    c. is equally proficient in economics and English.
    d. prefers economics over English.
    e. prefers English over economics.

ANS: C PTS: 1 DIF: Moderate OBJ: N/A
NAT: BPROG: Analytic TOP: Working with Graphs
KEY: BLOOM'S: Application

83. The production possibilities curve illustrates
    a. the tradeoffs facing a society.
    b. that more of one product can be produced only by reducing the quantity of other products that are being produced, assuming that resources are being used efficiently.
    c. the maximum output that can be produced with a limited amount of resources.
    d. the opportunity cost of alternative choices.
    e. all of these.

ANS: E PTS: 1 DIF: Easy OBJ: N/A
NAT: BPROG: Reflective Thinking TOP: Working with Graphs
KEY: BLOOM'S: Knowledge

Table 1.4

Table 1.4: Production Possibilities Schedule		
Choice	**Good A**	**Good B**
1	100	0
2	90	20
3	70	40
4	40	60
5	0	80

84. According to the production possibilities schedule in Table 1.4, which of the following statements is *true*?
    a. This economy could produce 100 units of good A and 20 units of good B.
    b. The opportunity cost of producing more of good A decreases as the amount of good A produced increases.
    c. The opportunity cost of producing more of good B decreases as the amount of good B

produced increases.
d. This economy could produce 70 units of good A and 40 units of good B.
e. If this economy were to fully and efficiently employ all its resources, it could provide 100 units of good A and 80 units of good B.

ANS: D PTS: 1 DIF: Moderate OBJ: N/A
NAT: BPROG: Analytic TOP: Working with Graphs
KEY: BLOOM'S: Application

85. According to the production possibilities schedule in Table 1.4, which of the following statements is *true*?
a. If one moves from choice 2 to choice 3, the opportunity cost of 20 more units of good B is 20 units of good A.
b. There are increasing opportunity costs associated with getting more of good B.
c. If one moves from choice 3 to choice 4, the opportunity cost of 20 more units of good B is 30 units of good A.
d. If one moves from choice 1 to choice 2, the opportunity cost of 20 more units of good B is 10 units of good A.
e. All of these

ANS: E PTS: 1 DIF: Moderate OBJ: N/A
NAT: BPROG: Analytic TOP: Working with Graphs
KEY: BLOOM'S: Application

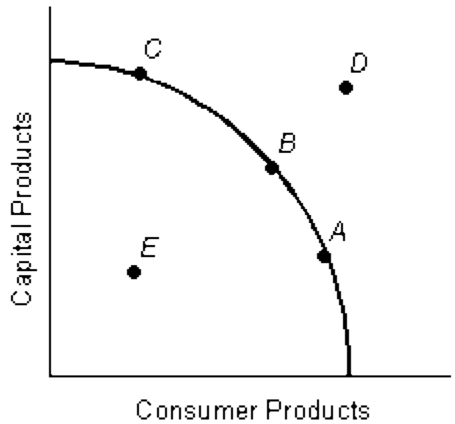
86. Assume that our national economy is operating at a point on its bowed-out production possibilities curve. According to the production possibilities schedule in Table 1.4, if our nation produces more consumer goods (good A), then
a. it must sacrifice larger and larger amounts of investment goods (good B) to do so.
b. the value of investment goods that must be forgone decreases.
c. the resources transferred will be increasingly efficient in producing those consumer goods.
d. it must have a comparative advantage in the production of consumer goods (good A).
e. we will experience a greater rate of economic growth.

ANS: A PTS: 1 DIF: Challenging OBJ: N/A
NAT: BPROG: Analytic TOP: Working with Graphs
KEY: BLOOM'S: Evaluation

87. When an economy is operating on its production possibilities curve, more production of one good means less production of another because
a. resources are limited.
b. resources are not perfectly adaptable to alternative uses.
c. wants are limited.
d. wants are unlimited.
e. some resources are not employed.

ANS: A PTS: 1 DIF: Easy OBJ: N/A
NAT: BPROG: Reflective Thinking TOP: Working with Graphs
KEY: BLOOM'S: Knowledge

Figure 1.3



88. In Figure 1.3, underutilization of resources is represented by point
    a. *A*.
    b. *B*.
    c. *C*.
    d. *D*.
    e. *E*.

ANS: E PTS: 1 DIF: Easy OBJ: N/A
NAT: BPROG: Analytic TOP: Working with Graphs
KEY: BLOOM'S: Application

89. In Figure 1.3, which of the following points would best enhance *future* production (that is, which point would be best for investment purposes)?
    a. Point *A*
    b. Point *B*
    c. Point *C*
    d. Point *D*
    e. Point *E*

ANS: C PTS: 1 DIF: Challenging OBJ: N/A
NAT: BPROG: Analytic TOP: Working with Graphs
KEY: BLOOM'S: Application

90. Point *D* in Figure 1.3 represents
    a. economic growth.
    b. an inefficient use of resources.
    c. full employment.
    d. a combination of consumer and capital products that may be obtainable sometime in the future but is impossible to produce now.
    e. a combination of products that can be produced only if resources are fully and efficiently employed.

ANS: D PTS: 1 DIF: Moderate OBJ: N/A
NAT: BPROG: Analytic TOP: Working with Graphs
KEY: BLOOM'S: Application

91. In Figure 1.3, full employment is shown with
    a. points *A*, *B*, and *C*.
    b. point *C*.
    c. none of these.
    d. point *A*.

e. point *B*.

ANS: A PTS: 1 DIF: Easy OBJ: N/A
NAT: BPROG: Analytic TOP: Working with Graphs
KEY: BLOOM'S: Application

92. In Figure 1.3, at which point should society produce?
a. point *A*.
b. point *B*.
c. point *C*.
d. point *E*.
e. Point A, B, or C, whichever society prefers most.

ANS: E PTS: 1 DIF: Challenging NAT: BPROG: Analytic
TOP: Gains from Trade KEY: BLOOM'S: Evaluation

TRUE/FALSE

93. Economists are concerned with ways global production could increase.

ANS: T PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

94. The primary goal of economics is to help people make money.

ANS: F PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

95. Scarcity is a concept that implies that choices must be made.

ANS: T PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

96. Diamonds are more expensive than water because diamonds are a necessity of life.

ANS: F PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

97. A limitation one faces when shopping for clothes is the amount of time available to shop.

ANS: T PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Evaluation

98. Scarcity is a result of an unfair distribution of income.

ANS: F PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Evaluation

99. Economics is the study of the allocation of scarce resources and scarce time, and the ways in which people utilize those resources or that time.

ANS: T PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

100. A positive (nonzero) price for a good means there is a surplus of that good.

ANS: F PTS: 1 DIF: Challenging
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Evaluation

101. Choices must be made because of scarcity; people do not have enough time or money to get everything they want.

ANS: T PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

102. According to economic analysis, in making a decision, an individual compares the benefits expected from one option with the benefits expected from other options.

ANS: T PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

103. Because of scarcity, we attempt to utilize our resources as efficiently as possible.

ANS: T PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Evaluation

104. If you have a choice about consuming bundle X or bundle Y, the opportunity cost of consuming bundle X is bundle Y.

ANS: T PTS: 1 DIF: Challenging
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

105. If you must make a choice about consuming two apples, three oranges, or one candy bar, the opportunity cost of the two apples is the candy bar plus the three oranges.

ANS: F PTS: 1 DIF: Challenging
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

106. An example of an opportunity cost is the time you forgo to eat a "free lunch."

ANS: T PTS: 1 DIF: Challenging
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

107. The opportunity cost of going to the movies is always the same for everyone.

ANS: F PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

108. The *total* cost of attending college is the sum of the cost of tuition, books, housing, and meals.

ANS: F PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Application

109. When you work to support your lifestyle, you are making a tradeoff.

ANS: T PTS: 1 DIF: Moderate
NAT: BPROG: Reflective Thinking TOP: The Definition Of Economics
KEY: BLOOM'S: Knowledge

110. Specialization according to comparative advantage followed by trade, that is, the exchange of goods produced, allows everyone to acquire more of the goods they want.

ANS: T PTS: 1 DIF: Easy
NAT: BPROG: Reflective Thinking TOP: Specialization and Exchange
KEY: BLOOM'S: Knowledge