

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

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

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

Answer B

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Scarcity

AACSB 3. Analytic thinking

2) Which of the following statements is *true* about scarcity?

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

Answer A

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Scarcity

AACSB 3. Analytic thinking

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

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

Answer A

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Scarcity

AACSB 3. Analytic thinking

4) By definition, economics is the study of

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

Answer C

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Scarcity

AACSB 3. Analytic thinking

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

- A) market

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

Answer D

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Economic models

AACSB 3. Analytic thinking

6) Where do economic agents, such as individuals, firms and nations, interact with each other?

A) In public locations monitored by the government.

B) In any arena that brings together buyers and sellers.

C) In any physical location people where people can physically get together for selling goods, such as shopping malls.

D) In any location where transactions can be monitored by consumer groups and taxed by the government.

Answer B

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Markets

AACSB 3. Analytic thinking

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

A) collective

B) cooperative

C) market

D) trade-off

Answer C

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Markets

AACSB 3. Analytic thinking

8) Economists assume that individuals

A) behave in unpredictable ways.

B) will never take action to help others.

C) prefer to live in a society that values fairness above all else.

D) are rational and respond to incentives.

Answer D

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic People are rational

AACSB 3. Analytic thinking

9) Economists assume that rational behaviour is useful in explaining choices people make

A) because irrational people do not make economic choices.

B) even though people may not behave rationally all the time.

C) because individuals act rationally all the time in all circumstances.

D) even though people rarely, if ever, behave in a rational manner.

Answer B

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are

made at the margin.

Topic People are rational

AACSB 3. Analytic thinking

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

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

Answer B

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic People are rational

AACSB 3. Analytic thinking

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

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

Answer B

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic People are rational

AACSB 3. Analytic thinking

12) Consider the following statements

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

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

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

Answer D

Diff 3

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic People respond to economic incentives

AACSB 3. Analytic thinking

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

- A) people are rational.
- B) people respond to economic incentives.
- C) optimal decisions are made at the margin.

D) equity is more important than efficiency.

Answer A

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic People are rational

AACSB 3. Analytic thinking

14) Suppose that some investors have decided that economic and financial uncertainty have made the prospect of investing in domestic stock markets more risky than investing in foreign stock markets, and therefore choose to invest in foreign markets. By using all available information as they act to achieve their goals, these investors are exemplifying the economic idea that

A) people are rational.

B) people respond to economic incentives.

C) optimal decisions are made at the margin.

D) equity is more important than efficiency.

Answer A

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic People are rational

AACSB 3. Analytic thinking

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

A) people with health insurance will be less likely to be overweight than people without health insurance.

B) people with health insurance will be more likely to be overweight than people without health insurance.

C) people with health insurance will be equally likely to be overweight as people without health insurance.

D) there is no correlation between having health insurance and being overweight.

Answer B

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic People respond to economic incentives

AACSB 3. Analytic thinking

16) In economics, the term _____ means 'additional' or 'extra.'

A) allocative

B) marginal

C) equity

D) optimal

Answer B

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

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

A) Marginal revenue.

B) Gross earnings.

C) Pure profit.

D) Marginal costs.

Answer A

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

- 18) Economists reason that the optimal decision is to continue any activity up to the point where the
- A) marginal benefit is zero.
 - B) marginal benefit is greater than the marginal cost.
 - C) marginal cost is zero.
 - D) marginal benefit equals the marginal cost.

Answer D

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

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

Answer C

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

- 20) The revenue received from the sale of _____ of a product is a marginal benefit to the firm.
- A) an additional unit
 - B) the total number of units
 - C) no units
 - D) only profitable units

Answer A

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

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

Answer C

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

- 22) Making 'how much' decisions involves

- A) calculating the total benefits of the activity and determining if you are satisfied with that amount.
- B) calculating the total costs of the activity and determining if you can afford to incur that expenditure.
- C) calculating the average benefit and the average cost of an activity to determine if it is worthwhile undertaking that activity.
- D) determining the additional benefits and the additional costs of that activity.

Answer D

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

- 23) The extra cost associated with undertaking an activity is called
- A) net loss.
 - B) marginal cost.
 - C) opportunity cost.
 - D) foregone cost.

Answer B

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

- 24) DeShawn's Detailing is a service that details cars at the customers' homes or places of work. DeShawn's cost for a basic detailing package is \$40, and he charges \$75 for this service. For a total price of \$90, DeShawn will also detail the car's engine, a service that adds an additional \$20 to the total cost of the package. What is DeShawn's marginal benefit if he sells a basic detailing package?
- A) \$35
 - B) \$75
 - C) He incurs a marginal loss of \$15, not a marginal benefit.
 - D) The marginal benefit cannot be determined.

Answer B

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

- 25) DeShawn's Detailing is a service that details cars at the customers' homes or places of work. DeShawn's cost for a basic detailing package is \$40, and he charges \$75 for this service. For a total price of \$90, DeShawn will also detail the car's engine, a service that adds an additional \$20 to the total cost of the package. What is the marginal cost of adding the engine detailing to the basic detailing package?
- A) \$20
 - B) \$30
 - C) \$60
 - D) \$60 plus the value of his time

Answer A

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

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

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

Answer C

Diff 3

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

27) Allison's Auto Art is a company that applies pinstripes to vehicles. Allison's cost for a basic 1-colour pinstriping job is \$35, and she charges \$95 for this service. For a total price of \$175, Allison will apply a fancier 3-colour pinstripe application to an automobile, a service that adds an additional \$40 to the total cost of the package. What is Allison's marginal benefit if she sells a basic 1-colour job?

- A) \$35
- B) \$60
- C) \$95
- D) The marginal benefit cannot be determined.

Answer C

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

28) Allison's Auto Art is a company that applies pinstripes to vehicles. Allison's cost for a basic 1-colour pinstriping job is \$35, and she charges \$95 for this service. For a total price of \$175, Allison will apply a fancier 3-colour pinstripe application to an automobile, a service that adds an additional \$40 to the total cost of the package. What is the marginal cost of moving up from the 1-colour application to the 3-colour application?

- A) \$35
- B) \$40
- C) \$80
- D) \$175

Answer B

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

29) Allison's Auto Art is a company that applies pinstripes to vehicles. Allison's cost for a basic 1-colour pinstriping job is \$35, and she charges \$95 for this service. For a total price of \$175, Allison will apply a fancier 3-colour pinstripe application to an automobile, a service that adds an additional \$40 to the total cost of the package. Should Allison continue to offer the 3-colour pinstripe application?

- A) Yes, she still makes a profit by selling the 3-colour application.
- B) Yes, but only if she lowers the price of the 1-colour application.
- C) No, her marginal benefit is less than her marginal cost.
- D) More information is needed for Allison to make this decision.

Answer A

Diff 3

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

30) Soo Jin shares a one-bedroom apartment with her classmate. Her share of the rent is \$700 per month. She is considering moving to a studio apartment which she will not have to share with anyone. The studio apartment rents for \$950 per month. Recently, you ran into Soo Jin on campus and she tells you that she has moved into the studio apartment.

Soo Jin is as rational as any other person. As an economics major, you rightly conclude that

- A) Soo Jin did not have a choice; her roommate was a slob.
- B) Soo Jin figures that the additional benefit of having her own place (as opposed to sharing) is at least \$250.
- C) Soo Jin figures that the benefit of having her own place (as opposed to sharing) is at least \$950.
- D) the cost of having one's own space outweighs the benefits.

Answer B

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

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

- A) only if the marginal benefit she receives is greater than \$200 plus an acceptable profit margin.
- B) as long as the marginal benefit she receives is just equal to or greater than \$200.
- C) as long as the marginal cost does not rise.
- D) until the marginal benefit she receives reaches zero.

Answer B

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

32) Consider the following statements

- a. Consumers buy more MP3 players from an electronics store that sells MP3 players at a lower price than other rival electronics stores in the area.
- b. Schools take steps to increase security since they believe it is more costly to allow vandalism than to hire additional security guards.
- c. Citrus growers produce more oranges when the selling price of oranges falls.

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

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

Answer C

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic People respond to economic incentives

AACSB 3. Analytic thinking

33) A restaurant sells a large soft drink at a fixed price of \$1.79. A term used by economists to describe the money received

from the sale of an additional large soft drink is

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

Answer A

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

34) The _____ the sale of an additional unit of a product is a marginal benefit to the firm.

- A) revenue received from
- B) extra cost of
- C) total value of
- D) sales tax on

Answer A

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

35) Damian shares a small food truck with his sister. His share of the expenses is \$500 per month. He has decided to get his own, newer food truck which he will not have to share with anyone. His expenses for the newer truck are \$1400 per month. Damian is as rational as any other person. As an economics major, you rightly conclude that

- A) Damian cannot afford the newer truck and will have to go back to sharing a truck with his sister.
- B) Damian figures that the additional benefit of having his own truck (as opposed to sharing) is at least \$900.
- C) Damian figures that the benefit of having his own truck (as opposed to sharing) is at least \$1400.
- D) the cost of having one's own truck outweighs the benefits.

Answer B

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

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

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

Answer ☒

True False

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Scarcity

AACSB 3. Analytic thinking

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

Answer True ☒

False

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Scarcity

AACSB 3. Analytic thinking

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

Answer ☒

True False

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Economic models

AACSB 3. Analytic thinking

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

Answer ☒

True False

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

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

Answer True ☒

False

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

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

Answer ☒

True False

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

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

Answer ☒

True False

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

43) All economic questions arise from the fact that resources are unlimited.

Answer True ☒

False

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Scarcity
AACSB 3. Analytic thinking

44) Even if the population declines, scarcity will still exist.

Answer ☒
True False
Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Scarcity
AACSB 3. Analytic thinking

45) The term 'market' refers to trading arrangements by which buyers and sellers come together.

Answer ☒
True False
Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Markets
AACSB 3. Analytic thinking

46) The additional cost to a producer of hiring an additional unit of labour is called the marginal cost.

Answer ☒
True False
Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin
AACSB 3. Analytic thinking

47) Marginal benefit refers to the additional benefit that your activity provides to you.

Answer ☒
True False
Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin
AACSB 3. Analytic thinking

48) If it costs Danitra \$225 to create 4 necklaces and \$275 to create 5 necklaces, then \$50 is the marginal cost of producing the 5th necklace.

Answer ☒
True False
Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin
AACSB 3. Analytic thinking

49) Suppose the extra cost to a doctor of keeping his office open on Saturdays is \$1200. Then, the doctor should stay open on Saturdays if keeping the office open brings in additional revenue of \$1200 or more.

Answer ☒
True False
Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are

made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

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

50) Explain the economic assumption that 'people are rational.'

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

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic People are rational

AACSB 3. Analytic thinking

51) Explain the economic idea that 'people respond to incentives.'

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

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic People respond to economic incentives

AACSB 3. Analytic thinking

52) What is meant by the statement that 'optimal decisions are made at the margin'?

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

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

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

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

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic People are rational

AACSB 3. Analytic thinking

54) What is an economic model?

Answer An economic model is a simplified version of reality used to analyse real-world economic situations.

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Economic models

AACSB 3. Analytic thinking

55) What is a marginal benefit?

Answer Marginal benefit is the additional benefit received from continuing with an activity.

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

56) What is a marginal cost?

Answer Marginal cost is the additional cost associated with continuing with an activity.

Diff 1

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

57) Suppose a doctor can earn an additional \$25 000 in revenue per year by keeping her office open on Sundays. At what additional cost would keeping the office open on Sundays not be considered economically rational?

Answer If the additional cost of keeping the office open on Sundays exceeds \$25 000 per year, the decision would not be economically rational.

Diff 2

Learning Obj. 1 Explain these three important economic ideas people are rational; people respond to incentives; optimal decisions are made at the margin.

Topic Optimal decisions are made at the margin

AACSB 3. Analytic thinking

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

58) The three fundamental questions that any economy must address are

- A) What will be the prices of goods and services; how will these goods and services be produced; and who will receive them?
- B) What goods and services will be produced; how will these goods and services be produced; and who receives them?
- C) Who gets jobs; what wages do workers earn; and who owns what property?
- D) How much will be saved; what will be produced; and how can these goods and services be fairly distributed?

Answer B

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Trade-offs

AACSB 3. Analytic thinking

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

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

Answer C

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Trade-offs

AACSB 3. Analytic thinking

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

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

Answer D

Diff 2

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Trade-offs

AACSB 3. Analytic thinking

61) Which of the following statements is *true*?

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

Answer C

Diff 2

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Trade-offs

AACSB 3. Analytic thinking

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

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

Answer C

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Trade-offs

AACSB 3. Analytic thinking

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

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

Answer C

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Opportunity cost

AACSB 3. Analytic thinking

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

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

Answer A

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Opportunity cost

AACSB 3. Analytic thinking

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

- A) 2 1/2 cappuccinos

B) 2/5 of a cappuccino

C) \$2.50

D) \$1.00

Answer B

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Opportunity cost

AACSB 3. Analytic thinking

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

A) Zero, since she will no longer be earning a salary.

B) It depends on the 'going rate' for home-care providers.

C) At least \$125 000.

D) The value she attributes to the satisfaction she receives from taking care of her parents.

Answer C

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Opportunity cost

AACSB 3. Analytic thinking

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

A) What goods and services are to be produced?

B) How are the goods and services to be produced?

C) Who will receive the goods and services produced?

D) How will the economy be planned?

Answer C

Diff 2

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Who will receive the goods and services produced?

AACSB 3. Analytic thinking

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

A) How will goods that consumers want be produced?

B) Why should a variety of automobiles be produced?

C) What will be produced?

D) For whom will automobiles be produced?

Answer C

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic What goods and services will be produced?

AACSB 3. Analytic thinking

69) Consider the following economic agents

a. the government

b. consumers

c. producers

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

A) The government.

B) Producers.

C) Consumers.

D) Consumers and producers.

Answer A

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic What goods and services will be produced?

AACSB 3. Analytic thinking

- 70) The decision about what goods and services will be produced in a market economy is made by
- A) lawmakers in the government voting on what will be produced.
 - B) workers deciding to produce only what the boss says must be produced.
 - C) producers deciding what society wants most.
 - D) consumers and firms choosing which goods and services to buy or produce.

Answer D

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic What goods and services will be produced?

AACSB 3. Analytic thinking

- 71) Which of the following statements about the economic decisions consumers, firms, and the government have to make is *false*?
- A) Governments face the problem of scarcity in making economic decisions.
 - B) Only individuals face scarcity; firms and the government do not.
 - C) Both firms and individuals face scarcity.
 - D) Each faces the problem of scarcity which necessitates trade-offs in making economic decisions.

Answer B

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic What goods and services will be produced?

AACSB 3. Analytic thinking

- 72) Why is it necessary for all economic systems to not only provide people with goods and services, but also restrict them from getting as much of these goods and services as they wish?
- A) Failure to do this could reduce the efficiency of the system by producing some goods and services that are not as highly valued as others.
 - B) Failure to do this could lead to an inequitable allocation of goods and services produced.
 - C) Failure to do this could lead to drastic shortages of good and services.
 - D) Failure to do this could reduces efficiency and leads to an inequitable allocation of output.

Answer A

Diff 3

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Who will receive the goods and services produced?

AACSB 3. Analytic thinking

- 73) Who receives the most of what is produced in a market economy?
- A) Lawmakers and other politically favoured groups.
 - B) Those who are willing and able to buy them.
 - C) People who earn the highest incomes.
 - D) Everyone receives an equal amount.

Answer B

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Who will receive the goods and services produced?

AACSB 3. Analytic thinking

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

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

Answer C

Diff 2

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Market economies

AACSB 3. Analytic thinking

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

Answer B

Diff 2

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Centrally planned economies

AACSB 3. Analytic thinking

- 76) _____ is a situation in which a good or service is produced at the lowest possible cost.
- A) Allocative efficiency
 - B) Productive efficiency
 - C) Equity
 - D) Optimal marginalism

Answer B

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Efficiency

AACSB 3. Analytic thinking

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

Answer C

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Efficiency

AACSB 3. Analytic thinking

- 78) When production reflects consumer preferences, _____ occurs.
- A) allocative efficiency
 - B) productive efficiency
 - C) equity
 - D) efficient central planning

Answer A

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Efficiency

AACSB 3. Analytic thinking

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

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

Answer B

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Efficiency

AACSB 3. Analytic thinking

80) Markets promote

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

Answer D

Diff 2

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Market economies

AACSB 3. Analytic thinking

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

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

Answer C

Diff 2

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Market economies

AACSB 3. Analytic thinking

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

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

Answer A

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Market economies

AACSB 3. Analytic thinking

83) Which of the following generates productive efficiency?

- A) Competition among sellers.
- B) Competition among buyers.
- C) Government inspectors.
- D) Government production rules and regulations.

Answer A

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Efficiency

AACSB 3. Analytic thinking

- 84) Voluntary exchange between buyers and sellers generates _____ in a market economy.
- A) scarcity
 - B) allocative efficiency
 - C) productive efficiency
 - D) equity

Answer B

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Efficiency

AACSB 3. Analytic thinking

- 85) Which of the following is a result of a market economy?
- A) Environmental protection.
 - B) An equal income distribution.
 - C) Agreement on equity.
 - D) Voluntary exchange.

Answer D

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Market economies

AACSB 3. Analytic thinking

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

Answer D

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Equity

AACSB 3. Analytic thinking

- 87) Which of the following correctly describes the relationship between economic efficiency and economic equity?
- A) They are both automatically achieved in a free market economy.
 - B) They always call for opposite outcomes.
 - C) There is no conflict between the two goals.
 - D) There is often a trade-off between the two.

Answer D

Diff 2

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Efficiency

AACSB 3. Analytic thinking

- 88) Allocative efficiency best explains _____, and productive efficiency best explains _____.
- A) how something will be produced; when something will be produced
 - B) when something will be produced; why something will be produced
 - C) why something will be produced; what will be produced
 - D) what will be produced; how something will be produced

Answer D

Diff 2

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Efficiency

AACSB 3. Analytic thinking

- 89) Trina's Tropical Fish Store sells goldfish for \$2 each and angelfish for \$10 each. What is the opportunity cost of buying a goldfish?
- A) 5 angelfish
 - B) 1/5 of an angelfish
 - C) \$10
 - D) \$2

Answer A

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Opportunity cost

AACSB 3. Analytic thinking

- 90) Trinh quits his \$80 000-a-year job to become a full-time volunteer at a museum. What is the opportunity cost of his decision?
- A) Zero since he will no longer be earning a salary.
 - B) Depends on the 'going rate' of museum employees.
 - C) At least \$80 000.
 - D) The value he attributes to the joy of working at a museum.

Answer C

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Opportunity cost

AACSB 3. Analytic thinking

- 91) Jewelry manufacturers produce a range of products such as rings, necklaces, bracelets, and brooches. What fundamental economic question are they addressing by offering this range of items?
- A) How to produce goods that consumers want?
 - B) Why produce a variety of items?
 - C) What to produce?
 - D) Who to produce the items for?

Answer C

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic What goods and services will be produced?

AACSB 3. Analytic thinking

- 92) Consider the following economic agents
- a. the government
 - b. consumers
 - c. producers

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

- A) The government.
- B) Producers.
- C) Consumers.
- D) Consumers and producers.

Answer D

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic What goods and services will be produced?

AACSB 3. Analytic thinking

93) In a modern mixed economy, who decides what goods and services will be produced?

- A) Only the producers.
- B) Only consumers.
- C) Only the government.
- D) All of the above.

Answer D

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic What goods and services will be produced?

AACSB 3. Analytic thinking

94) When every good or service is produced up to the point where the last unit provides _____, allocative efficiency occurs.

- A) a marginal benefit to society equal to the marginal cost of producing it
- B) a marginal benefit to society greater than the marginal cost of producing it
- C) a marginal benefit to society less than the marginal cost of producing it
- D) a marginal benefit to society equal to zero

Answer A

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Efficiency

AACSB 3. Analytic thinking

95) Voluntary exchange _____ economic efficiency because neither the buyer nor the seller would agree to a trade unless _____.

- A) increases; they both benefit
- B) increases; only one party benefits
- C) decreases; neither benefit
- D) decreases; they both benefit

Answer A

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Efficiency

AACSB 3. Analytic thinking

96) All centrally planned economies

- A) have been political dictatorships.
- B) started out as market economies.
- C) began as mixed economies.
- D) have become mixed economies.

Answer A

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Centrally planned economies

AACSB 3. Analytic thinking

97) Mr. Peabody chooses to invest in companies that produce goods and services at the lowest possible cost. Mr. Peabody is investing in companies that are

- A) allocatively efficient.
- B) productively efficient.

C) guaranteed to make a profit.

D) all of the above.

Answer B

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Efficiency

AACSB 3. Analytic thinking

98) Mr. Peabody chooses to invest in companies that produce goods and services based on consumer preferences. Mr. Peabody is investing in companies that are attempting to be

A) allocatively efficient.

B) productively efficient.

C) guaranteed to make a profit.

D) all of the above.

Answer A

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Efficiency

AACSB 3. Analytic thinking

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

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

Answer True ☒

False

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Mixed economies

AACSB 3. Analytic thinking

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

Answer ☒

True False

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Market economies

AACSB 3. Analytic thinking

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

Answer ☒

True False

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic What goods and services will be produced?

AACSB 3. Analytic thinking

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

Answer True ☒

False

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Market economies

AACSB 3. Analytic thinking

103) The government makes all economic decisions in a market economy.

Answer True ☒

False

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Centrally planned economies

AACSB 3. Analytic thinking

104) When voluntary exchange takes place, neither party gains from the exchange.

Answer True ☒

False

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Market economies

AACSB 3. Analytic thinking

105) A university must decide if it wants to offer more adult literacy classes. This decision involves answering the economic question of 'for whom to produce.'

Answer ☒

True False

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic What goods and services will be produced?

AACSB 3. Analytic thinking

106) In a centrally planned economy, the households and firms decide how economic resources will be allocated.

Answer True ☒

False

Diff 1

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Centrally planned economies

AACSB 3. Analytic thinking

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

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

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

Diff 2

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Equity

AACSB 3. Analytic thinking

108) What is opportunity cost?

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

Diff 2

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Opportunity cost

AACSB 3. Analytic thinking

109) Define productive efficiency. Does productive efficiency imply allocative efficiency? Explain.

Answer Productive efficiency is an efficiency criterion that describes a situation in which goods and services are produced at the lowest possible cost. It does not imply allocative efficiency which is a criterion associated with producing goods and services that consumers value most. For example, a manufacturer may be able to produce typewriters at the

lowest possible cost of say, \$200 but this does not necessarily mean that consumers are willing to pay \$200 for a typewriter.

Diff 3

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Efficiency

AACSB 3. Analytic thinking

110) What is a centrally planned economy?

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

Diff 3

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Centrally planned economies

AACSB 3. Analytic thinking

111) What is voluntary exchange?

Answer Voluntary exchange is a situation that occurs in markets when both the buyer and seller of a product are made better off by the transaction.

Diff 2

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Trade-offs

AACSB 3. Analytic thinking

112) What is a mixed economy?

Answer A mixed economy is an economy in which most economic decisions result from the interaction of buyers and sellers in markets but in which the government plays a significant role in the allocation of resources.

Diff 3

Learning Obj. 2 Understand the issues of scarcity and trade-offs, and how the market makes decisions on these issues.

Topic Market economies

AACSB 3. Analytic thinking

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

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

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

Answer B

Diff 1

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Economic models

AACSB 3. Analytic thinking

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

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

Answer D

Diff 1

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Economic models

AACSB 3. Analytic thinking

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

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

Answer C

Diff 2

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Positive and normative analysis

AACSB 3. Analytic thinking

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

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

Answer A

Diff 2

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Positive and normative analysis

AACSB 3. Analytic thinking

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

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

Answer B

Diff 2

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Positive and normative analysis

AACSB 3. Analytic thinking

118) Which of the following is part of an economic model?

- A) Norms.
- B) Hypotheses.
- C) Opinions.
- D) Preferences of economic agents.

Answer B

Diff 1

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Economic models

AACSB 3. Analytic thinking

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

- A) Rising corn prices have increased the price of corn-based ethanol.
- B) With rising home prices and falling mortgage interest rates, the amount of home foreclosures has decreased.
- C) The federal government is considering increasing regulations on the use of fossil fuels to promote the use of wind power.
- D) Farmers should not be allowed to grow and sell genetically-modified crops.

Answer D

Diff 2

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Positive and normative analysis

AACSB 3. Analytic thinking

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

- A) The price of wheat is too low.
- B) The current low price of wheat is the result of increased worldwide supply.
- C) When the price of wheat falls, the quantity of wheat purchased rises.
- D) When the price of wheat falls, the cost of wheat-based products falls.

Answer A

Diff 2

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Positive and normative analysis

AACSB 3. Analytic thinking

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

121) 'An increase in the price of petrol will increase the demand for hybrid vehicles.' This statement is an example of a positive economic statement.

Answer ☒

True False

Diff 1

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Positive and normative analysis

AACSB 3. Analytic thinking

122) 'The distribution of income should be left to the market' is an example of a positive economic statement.

Answer True ☒

False

Diff 1

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Positive and normative analysis

AACSB 3. Analytic thinking

123) Positive analysis is concerned with 'what ought to be,' while normative analysis is concerned with 'what is.'

Answer True ☒

False

Diff 2

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Positive and normative analysis

AACSB 3. Analytic thinking

124) 'A decrease in the price of tablet computers will decrease the demand for desktop computers.' This statement is an example of a normative economic statement.

Answer True ☒

False

Diff 1

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Positive and normative analysis

AACSB 3. Analytic thinking

125) 'The distribution of income should be determined by the government' is an example of a positive economic statement.

Answer True ☒

False

Diff 1

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Positive and normative analysis

AACSB 3. Analytic thinking

126) Policies based on positive economic ideas tend to decrease economic efficiency and reduce equity.

Answer True 

False

Diff 2

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Positive and normative analysis

AACSB 3. Analytic thinking

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

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

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

Diff 2

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Positive and normative analysis

AACSB 3. Analytic thinking

128) Explain why economics is considered a social science.

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

Diff 2

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Economics as a social science

AACSB 3. Analytic thinking

129) What is an economic variable?

Answer An economic variable is something measurable that can have different values, such as the wages of software programmers.

Diff 1

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Economic models

AACSB 3. Analytic thinking

130) Which of the following are positive economic statements and which are normative economic statements?

- a. An increase in the price of petrol will decrease the quantity of petrol purchased.
- b. The government should eliminate the minimum wage.
- c. All states should raise the minimum wage to at least \$10 per hour.
- d. The government should scrap its current income tax structure in favour of a flat tax.
- e. Unemployment has increased since the onset of the recession.
- f. The government should not bail out investment banks during a financial crisis.

Answer Statements a and e are positive economic statements. Statements b, c, d, and f are normative economic statements.

Diff 2

Learning Obj. 3 Understand the role of models in economic analysis.

Topic Positive and normative analysis

AACSB 3. Analytic thinking

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

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

Answer C

Diff 2

Learning Obj. 4 Distinguish between microeconomics and macroeconomics .

Topic Microeconomics

AACSB 3. Analytic thinking

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

Answer A

Diff 1

Learning Obj. 4 Distinguish between microeconomics and macroeconomics .

Topic Microeconomics

AACSB 3. Analytic thinking

- 133) Which of the following is a macroeconomics question?
- A) What determines the inflation rate?
 - B) What determines the production of DVDs?
 - C) What factors determine the price of carrots?
 - D) What determines the wage of auto workers?

Answer A

Diff 2

Learning Obj. 4 Distinguish between microeconomics and macroeconomics .

Topic Macroeconomics

AACSB 3. Analytic thinking

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

Answer D

Diff 1

Learning Obj. 4 Distinguish between microeconomics and macroeconomics .

Topic Macroeconomics

AACSB 3. Analytic thinking

- 135) The branch of economics which studies how households and firms interact in markets is called
- A) macroeconomics.
 - B) microeconomics.
 - C) positive economics.
 - D) normative economics.

Answer B

Diff 1

Learning Obj. 4 Distinguish between microeconomics and macroeconomics .

Topic Microeconomics

AACSB 3. Analytic thinking

- 136) The branch of economics which studies the behaviour of entire economies is called
- A) public economics.
 - B) microeconomics.
 - C) macroeconomics.
 - D) normative economics.

Answer C

Diff 1

Learning Obj. 4 Distinguish between microeconomics and macroeconomics .

Topic Macroeconomics

AACSB 3. Analytic thinking

- 137) When Mr. Peabody decides on the companies to which he will donate his time and money, a _____ issue is being addressed.
- A) microeconomic
 - B) macroeconomic
 - C) positive economic
 - D) normative economic

Answer A

Diff 1

Learning Obj. 4 Distinguish between microeconomics and macroeconomics .

Topic Microeconomics

AACSB 3. Analytic thinking

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

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

Answer ☒

True False

Diff 1

Learning Obj. 4 Distinguish between microeconomics and macroeconomics .

Topic Macroeconomics

AACSB 3. Analytic thinking

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

Answer ☒

True False

Diff 1

Learning Obj. 4 Distinguish between microeconomics and macroeconomics .

Topic Microeconomics

AACSB 3. Analytic thinking

- 140) Examining the conditions that could lead to unemployment in an economy is an example of a microeconomics topic.

Answer True ☒

False

Diff 1

Learning Obj. 4 Distinguish between microeconomics and macroeconomics .

Topic Macroeconomics

AACSB 3. Analytic thinking

- 141) Suppose that to increase sales of hybrid vehicles, auto manufacturers are offering large cash incentives. This is an example of a macroeconomics topic.

Answer True ☒

False

Diff 1

Learning Obj. 4 Distinguish between microeconomics and macroeconomics .

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

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

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

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

a, d, and e are primarily microeconomic topics.

Diff 2

Learning Obj. 4 Distinguish between microeconomics and macroeconomics .

Topic Microeconomics

AACSB 3. Analytic thinking

143) Define microeconomics.

Answer Microeconomics is the study of how household and firms make choices, how they interact in markets, and how the government attempts to influence their choices.

Diff 2

Learning Obj. 4 Distinguish between microeconomics and macroeconomics .

Topic Microeconomics

AACSB 3. Analytic thinking

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

144) If a graph has a line that shows the amount of outsourcing in the last ten years, it is known as

- A) a pie chart.
- B) a time-series graph.
- C) a demand curve for outsourcing.
- D) a supply curve of outsourcing.

Answer B

Diff 1

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Graphs

AACSB 3. Analytic thinking

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

- A) Two-dimensional graphs
- B) One-dimensional graphs
- C) Pie Charts
- D) Bar graphs

Answer A

Diff 1

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Graphs

AACSB 3. Analytic thinking

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

- A) negative 11 divided by 6.
- B) seven tenths.

- C) negative seven tenths.
D) 6 divided by 11.

Answer C

Diff 2

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Slope

AACSB 3. Analytic thinking

- 147) On a two-dimensional graph, _____ allows for the effects of additional variables.
- A) moving along a curve
 - B) shifting curves
 - C) eliminating a curve
 - D) adding an additional curve

Answer B

Diff 2

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Graphs

AACSB 3. Analytic thinking

- 148) Which of the following statements is *false*?
- A) An inverse relationship has a negative slope value.
 - B) A direct relationship has a positive slope value.
 - C) A curved line has slope values that change at every point.
 - D) A straight line has a slope of zero.

Answer D

Diff 2

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Slope

AACSB 3. Analytic thinking

- 149) The relationship between consumer spending and disposable personal income is
- A) an inverse relationship.
 - B) a direct relationship.
 - C) a negative relationship.
 - D) independent.

Answer B

Diff 1

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Positive and negative relationships

AACSB 3. Analytic thinking

- 150) Suppose when the price of laptops falls, university students buy more laptops. This implies that
- A) there is a positive relationship between laptop prices and quantities purchased by university students.
 - B) there is a negative relationship between laptop prices and quantities purchased by university students.
 - C) there is a direct relationship between laptop prices and quantities purchased by university students.
 - D) there is a one-to-one relationship between laptop prices and quantities purchased by university students.

Answer B

Diff 1

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Positive and negative relationships

AACSB 3. Analytic thinking

- 151) If the price of milk was \$2.50 a litre and it is now \$3.25 a litre, what is the percentage change in price?
- A) 13 per cent

- B) 30 per cent
- C) 75 per cent
- D) 77 per cent

Answer B

Diff 2

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Formulas

AACSB 3. Analytic thinking

Figure 1-1



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

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

Answer D

Diff 1

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Formulas

AACSB 3. Analytic thinking

153) Refer to Figure 1-1. Using the information in the figure above, calculate the percentage change in sales of alcoholic beverages between 2007 and 2011.

- A) 30%
- B) 50%
- C) 66.7%
- D) 100%

Answer D

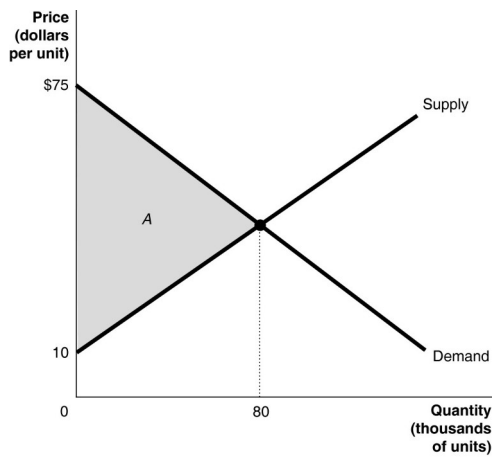
Diff 1

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Formulas

AACSB 3. Analytic thinking

Figure 1-2



- 154) Refer to Figure 1-2. Calculate the area of the triangle A.
- A) \$1.3 million
 - B) \$2.6 million
 - C) \$3.4 million
 - D) \$5.2 million

Answer B

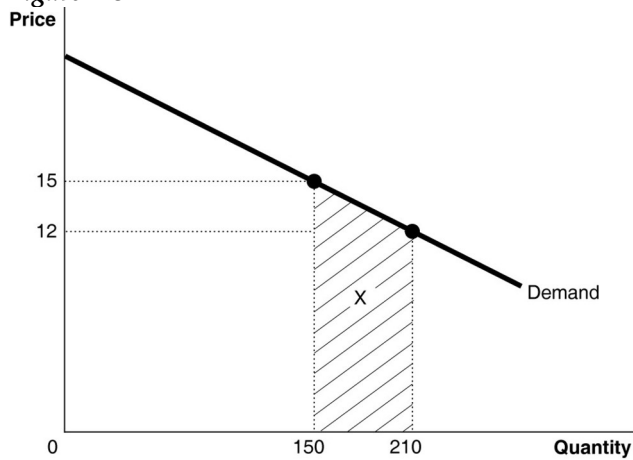
Diff 1

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Formulas

AACSB 3. Analytic thinking

Figure 1-3



- 155) Refer to Figure 1-3. Calculate the area of the trapezoid X.
- A) \$270
 - B) \$720
 - C) \$810
 - D) \$2520

Answer C

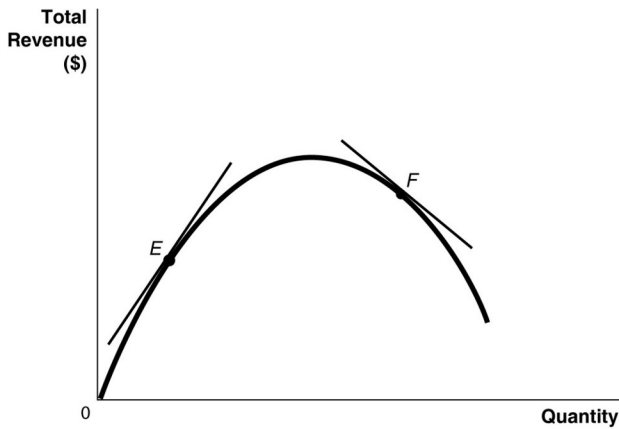
Diff 2

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Formulas

AACSB 3. Analytic thinking

Figure 1-4



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

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

Answer C

Diff 1

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Slope

AACSB 3. Analytic thinking

157) What is the 'omitted variable' problem in determining cause and effect?

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

Answer D

Diff 1

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Cause and effect

AACSB 3. Analytic thinking

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

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

Answer C

Diff 1

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Cause and effect

AACSB 3. Analytic thinking

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

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

Answer B

Diff 2

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Cause and effect

AACSB 3. Analytic thinking

160) If a straight line passes through the point $x = 24$ and $y = 8$ and also through the point $x = 8$ and $y = 16$, the slope of this line is

- A) negative 8 divided by 4.
B) seven tenths.
C) negative one half.
D) one and one half.

Answer C

Diff 2

Learning Obj. Appendix Review the use of graphs and formulae.

Topic Slope

AACSB 3. Analytic thinking

- 1) B
- 2) A
- 3) A
- 4) C
- 5) D
- 6) B
- 7) C
- 8) D
- 9) B
- 10) B
- 11) B
- 12) D
- 13) A
- 14) A
- 15) B
- 16) B
- 17) A
- 18) D
- 19) C
- 20) A
- 21) C
- 22) D
- 23) B
- 24) B
- 25) A
- 26) C
- 27) C
- 28) B
- 29) A
- 30) B
- 31) B
- 32) C
- 33) A
- 34) A
- 35) B
- 36) TRUE
- 37) FALSE
- 38) TRUE
- 39) TRUE
- 40) FALSE
- 41) TRUE
- 42) TRUE
- 43) FALSE
- 44) TRUE
- 45) TRUE
- 46) TRUE
- 47) TRUE
- 48) TRUE
- 49) TRUE

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

the benefits exceed the costs.

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

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

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

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

55) Marginal benefit is the additional benefit received from continuing with an activity.

56) Marginal cost is the additional cost associated with continuing with an activity.

57) If the additional cost of keeping the office open on Sundays exceeds \$25 000 per year, the decision would not be economically rational.

58) B

59) C

60) D

61) C

62) C

63) C

64) A

65) B

66) C

67) C

68) C

69) A

70) D

71) B

72) A

73) B

74) C

75) B

76) B

77) C

78) A

79) B

80) D

81) C

82) A

83) A

84) B

85) D

86) D

87) D

88) D

89) A

90) C

91) C

92) D

93) D

94) A

95) A

96) A

- 97) B
- 98) A
- 99) FALSE
- 100) TRUE
- 101) TRUE
- 102) FALSE
- 103) FALSE
- 104) FALSE
- 105) TRUE
- 106) FALSE
- 107) Equity refers to the fair distribution of economic benefits. In economics, efficiency refers to least cost production (productive efficiency) and producing according to human preferences (allocative efficiency).
- 108) Opportunity cost refers to the highest-valued alternative that must be given up to engage in an activity. For example, the opportunity cost of taking this economics class is what you are giving up to take the class, which may be taking another class such as accounting or psychology, working extra hours at your job, or extra sleep (whichever is your highest-valued alternative).
- 109) Productive efficiency is an efficiency criterion that describes a situation in which goods and services are produced at the lowest possible cost. It does not imply allocative efficiency which is a criterion associated with producing goods and services that consumers value most. For example, a manufacturer may be able to produce typewriters at the lowest possible cost of say, \$200 but this does not necessarily mean that consumers are willing to pay \$200 for a typewriter.
- 110) A centrally planned economy is an economy in which the government decides how economic resources will be allocated.
- 111) Voluntary exchange is a situation that occurs in markets when both the buyer and seller of a product are made better off by the transaction.
- 112) A mixed economy is an economy in which most economic decisions result from the interaction of buyers and sellers in markets but in which the government plays a significant role in the allocation of resources.
- 113) B
- 114) D
- 115) C
- 116) A
- 117) B
- 118) B
- 119) D
- 120) A
- 121) TRUE
- 122) FALSE
- 123) FALSE
- 124) FALSE
- 125) FALSE
- 126) FALSE
- 127) Positive economic analysis is concerned with what is. Positive economic analysis reaches conclusions based on verifiable statements. Normative economic analysis, on the other hand, is concerned with what ought to be. Normative analysis reaches conclusions based on opinions. (Students will give many different examples.)
- 128) Economics is a social science because it studies the actions of individuals. As a social science, economics considers human behaviour, particularly decision-making behaviour, in every context.
- 129) An economic variable is something measurable that can have different values, such as the wages of software programmers.
- 130) Statements a and e are positive economic statements. Statements b, c, d, and f are normative economic statements.
- 131) C
- 132) A
- 133) A
- 134) D

135) B

136) C

137) A

138) TRUE

139) TRUE

140) FALSE

141) FALSE

142) b, c, and f are primarily macroeconomic topics.

a, d, and e are primarily microeconomic topics.

143) Microeconomics is the study of how household and firms make choices, how they interact in markets, and how the government attempts to influence their choices.

144) B

145) A

146) C

147) B

148) D

149) B

150) B

151) B

152) D

153) D

154) B

155) C

156) C

157) D

158) C

159) B

160) C