

Name _____ Class _____ Date _____
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Chapter 01: The Core Principles of Economics

1. The cost-benefit principle states that _____ are the incentives that shape decisions.

- a. costs and benefits
- b. incomes
- c. opportunity costs
- d. framing effects

ANSWER:

a

2. The cost-benefit principle states that a decision should be pursued only if the

- a. benefits are greater than the costs.
- b. costs are greater than the benefits.
- c. benefits are positive.
- d. costs are negative.

ANSWER:

a

3. The cost-benefit principle states that the full set of _____ should be evaluated when making any choice.

- a. opportunity costs
- b. economic surpluses
- c. costs and benefits
- d. interdependencies

ANSWER:

c

4. Economists convert costs and benefits into money equivalents by evaluating an individual's

- a. sunk costs.
- b. marginal benefits.
- c. opportunity costs.
- d. willingness to pay.

ANSWER:

d

5. Estimating willingness to pay quantifies _____ costs or benefits associated with a choice.

- a. financial
- b. nonfinancial
- c. opportunity
- d. marginal

ANSWER:

b

6. _____ is estimated by asking: "What is the _____ I am willing to pay to get this benefit (or avoid that cost)?"

- a. Willingness to pay; least
- b. Willingness to pay; most
- c. Opportunity cost; least
- d. Opportunity cost; most

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ANSWER:

b

7. Economists use money equivalents to compare costs and benefits because money is

- a. critical to keeping an economy working smoothly.
- b. what is used to measure opportunity costs.
- c. a common measuring stick.
- d. what economic agents are trying to maximize.

ANSWER:

c

8. The key to using the cost-benefit principle is to think about _____ aspects of a decision.

- a. both financial and nonfinancial
- b. only financial
- c. only nonfinancial
- d. neither financial nor nonfinancial

ANSWER:

a

9. The cost-benefit principle evaluates _____ costs and benefits, and willingness-to-pay considerations evaluate _____ costs and benefits.

- a. both monetary and nonmonetary; only nonmonetary
- b. only monetary; both monetary and nonmonetary
- c. only nonmonetary; only monetary
- d. both monetary and nonmonetary; only monetary

ANSWER:

a

10. Nerida Kyle could either commute to work via Uber or purchase a new car. The average cost of her one-way Uber trip is \$15. Nerida works five days a week for 50 weeks a year. Based solely on avoiding the cost of an Uber, Nerida should purchase a car if the cost of the car is _____ than _____ per week.

- a. less; \$150
- b. less; \$75
- c. greater; \$150
- d. greater; \$75

ANSWER:

a

11. Nerida Kyle can either commute to work using a bus or purchase a new car. The bus fare each way is \$2. Nerida works five days a week for 50 weeks a year. Based solely on the benefit of avoiding the cost of her bus tickets, Nerida should purchase a car if the cost of the car is _____ than _____ per week.

- a. less; \$20
- b. less; \$10
- c. greater; \$20
- d. greater; \$10

ANSWER:

a

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12. Nerida Kyle is thinking of buying a new car to avoid taking the bus to work. Each of the following is a cost she should consider when using the cost-benefit principle to evaluate this decision EXCEPT

- a. parking.
- b. car insurance.
- c. bus fare.
- d. repairs.

ANSWER:

c

13. Nerida Kyle is thinking of buying a car to avoid taking Lyft to work. She is using the cost-benefit principle to evaluate this decision and is calculating the costs and benefits to owning the car over the next year. She's gathered the following information to help her make her decision:

- The car costs \$15,000 to purchase, but she can resell it after a year of use for \$13,500.
- She thinks gas will cost her about \$1,200 for the year.
- The annual insurance premium for her car is \$800.
- Maintenance and repairs will cost about \$300 for the year.
- Using Lyft to get to work would cost her \$4,000 for the year.

The cost of the car for the year is:

- a. \$1,500.
- b. \$4,000.
- c. \$3,800.
- d. \$7,800.

ANSWER:

c

14. The cost-benefit principle will lead you to make unselfish decisions if you

- a. account for unselfish motivations.
- b. maximize monetary costs and benefits.
- c. pursue only decisions for which the benefits outweigh the costs.
- d. maximize economic surplus.

ANSWER:

a

15. How is the economic surplus generated by a decision calculated?

- a. It is the total benefits minus total costs arising from the decision.
- b. It is the total benefits plus total costs arising from the decision.
- c. It is the sum of benefits arising from the decision.
- d. It is the sum of costs arising from the decision.

ANSWER:

a

16. _____ is a measure of how much your decision has _____ your well-being.

- a. Willingness to pay; improved

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- b. Willingness to pay; reduced
- c. Economic surplus; increased
- d. Economic surplus; decreased

ANSWER:

c

17. Kevin Williamson goes to a local coffee shop and orders a medium-sized latte. His willingness to pay for that latte is \$6. The price of the latte is \$2. The cost to the coffee shop to produce the latte is \$1. How much economic surplus does Kevin gain when he purchases the latte?

- a. \$6
- b. \$4
- c. \$2
- d. \$1

ANSWER:

b

18. Kevin Williamson goes to a local coffee shop and orders a medium-sized latte. His willingness to pay for that latte is \$6. The price of the latte is \$2. The cost to the coffee shop to produce the latte is \$1. How much economic surplus does the coffee shop receive when Kevin purchases the latte?

- a. \$6
- b. \$4
- c. \$2
- d. \$1

ANSWER:

d

19. Amanda Mendez goes to a local café and orders a sandwich. Her willingness to pay for that sandwich is \$10. The price of the sandwich is \$4. The cost to the café to produce that sandwich is \$1. How much economic surplus does Amanda receive when she purchases the sandwich?

- a. \$10
- b. \$6
- c. \$4
- d. \$3

ANSWER:

b

20. Amanda Mendez goes to a local café and orders a sandwich. Her willingness to pay for that sandwich is \$10. The price of the sandwich is \$4. The cost to the café to produce that sandwich is \$1. How much economic surplus does the café receive when Amanda purchases the sandwich?

- a. \$6
- b. \$4
- c. \$3
- d. \$1

ANSWER:

c

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21. Gary Parker is willing to pay \$700 for a new iPad. Apple (the producer of iPads) is selling a new iPad for \$600. It costs Apple \$400 to produce this iPad. How much economic surplus does Gary receive if he purchases this iPad?

- a. \$700
- b. \$600
- c. \$200
- d. \$100

ANSWER: d

22. Gary Parker is willing to pay \$700 for a new iPad. Apple (the producer of iPads) is selling a new iPad for \$600. It costs Apple \$400 to produce this iPad. How much economic surplus does Apple receive if Gary purchases this iPad?

- a. \$700
- b. \$600
- c. \$200
- d. \$100

ANSWER: c

23. In a voluntary economic transaction between a buyer and a seller, _____ can earn economic surplus from the transaction.

- a. only the buyer
- b. only the seller
- c. both the buyer and the seller
- d. neither the buyer nor the seller

ANSWER: c

24. Juan McDonald is willing to pay \$600 for a new iPad. Apple (the producer of iPads) is selling a new iPad for \$700. It costs Apple \$400 to produce this iPad. A voluntary economic transaction between Juan and Apple _____ occur because _____ would be better off due to the transaction.

- a. will; neither Juan nor Apple
- b. will; both Juan and Apple
- c. will not; only Juan
- d. will not; only Apple

ANSWER: d

25. Juan McDonald is willing to pay \$800 for a new iPad. Apple (the producer of iPads) is selling a new iPad for \$700. It costs Apple \$400 to produce this iPad. A voluntary economic transaction between Juan and Apple _____ occur because _____ would be better off due to the transaction.

- a. will; neither Juan nor Apple
- b. will; both Juan and Apple
- c. will not; only Juan

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- d. will not; only Apple

ANSWER:

b

26. Juan McDonald is willing to pay \$650 for a new iPad. He offers to pay \$600 for an iPad at the Apple store. It costs Apple \$700 to produce this iPad. A voluntary economic transaction between Juan and Apple _____ occur because _____ would be better off due to the transaction.

- a. will; neither Juan nor Apple
- b. will; both Juan and Apple
- c. will not; only Juan
- d. will not; only Apple

ANSWER:

c

27. Juan McDonald is willing to pay \$900 for a new iPad. He offers to pay \$800 for an iPad at the Apple store. It costs Apple \$700 to produce this iPad. A voluntary economic transaction between Juan and Apple _____ occur because _____ would be better off due to the transaction.

- a. will; neither Juan nor Apple
- b. will; both Juan and Apple
- c. will not; only Juan
- d. will not; only Apple

ANSWER:

b

28. Ivan has inherited his grandmother's 1963 Chevrolet Corvette, which he values at \$50,000. He decides that he might be willing to sell it, so he posts it on Craigslist for \$55,000. Samantha is interested and willing to pay up to \$72,000 for such a car. A voluntary economic exchange _____ between Ivan and Samantha because _____ positive economic surplus from the transaction.

- a. occurs; both Ivan and Samantha receive
- b. occurs; only Samantha receives
- c. does not occur; only Ivan receives
- d. does not occur; neither Ivan nor Samantha receives

ANSWER:

a

29. Ivan has inherited his grandmother's 1963 Chevrolet Corvette, which he values at \$60,000. Samantha is interested in buying the car and offers Ivan \$55,000 for the car. Samantha is willing to pay up to \$60,000 for such a car. A voluntary economic exchange _____ between Ivan and Samantha because _____ positive economic surplus from the transaction.

- a. occurs; both Ivan and Samantha receive
- b. occurs; only Ivan receives
- c. does not occur; only Samantha receives
- d. does not occur; neither Ivan nor Samantha receives

ANSWER:

c

30. Ivan has inherited his grandmother's 1963 Chevrolet Corvette, which he values at \$60,000. Samantha is

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interested in buying such a car and is willing to pay up to \$55,000. Ivan hears Samantha is looking for this particular car and offers to sell it to her for \$70,000. A voluntary economic exchange _____ between Ivan and Samantha because _____ positive economic surplus from the transaction.

- a. occurs; both Ivan and Samantha receive
- b. occurs; only Samantha receives
- c. does not occur; only Ivan receives
- d. does not occur; neither Ivan nor Samantha receives

ANSWER:

c

31. According to the cost-benefit principle, framing effects or how a choice is described, should

- a. affect a decision.
- b. not affect a decision.
- c. be considered costs.
- d. be considered benefits.

ANSWER:

b

32. You are considering whether you should go out to dinner at a restaurant with your friend. The meal is expected to cost you \$50, you typically leave a 20% tip, and a round-trip Uber ride will cost you \$15. You value the restaurant meal at \$30 and the time spent with your friend at \$50. You should _____ to dinner with your friend because the benefit of doing so is _____ than the cost.

- a. go; greater
- b. go; less
- c. not go; greater
- d. not go; less

ANSWER:

a

33. You are thinking of going out to dinner at a restaurant with your friends. The meal is expected to cost you \$50, you typically leave a 20% tip, and a round-trip Uber ride will cost you \$20. You value the restaurant meal at \$20, and the time spent with your friends at \$30. If you did not go out to the restaurant, you would eat at home using groceries that cost you \$10. You should _____ to dinner with your friends because the benefit of doing so is _____ than the cost.

- a. go; greater
- b. go; less
- c. not go; greater
- d. not go; less

ANSWER:

d

34. It is a rainy day, and you are considering taking an Uber one mile to meet some friends. You have decided you are willing to pay \$20 to avoid getting wet from the rain. The trip would normally cost you \$8, but because of the weather the surcharge is twice the regular cost. You should _____ because the benefit to you of taking the Uber is _____ than the cost.

- a. walk; less

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- b. walk; more
- c. take an Uber; less
- d. take an Uber; more

ANSWER:

d

35. It is a rainy day, and you are considering taking an Uber one mile to meet some friends. You have decided you are willing to pay \$20 to avoid getting wet from the rain. The trip would normally cost you \$8, but due to the weather the surcharge is triple the regular cost. You should _____ because the benefit to you of taking the Uber is _____ than the cost.

- a. walk; less
- b. walk; more
- c. take an Uber; less
- d. take an Uber; more

ANSWER:

a

36. Which principle tells you that the true cost of something is the next best alternative you have to give up to get it?

- a. The cost-benefit principle.
- b. The opportunity cost principle.
- c. The marginal principle.
- d. The interdependence principle.

ANSWER:

b

37. The opportunity cost principle states that the true cost of something is the

- a. next best alternative you have to give up to get it.
- b. least desired alternative you have to give up to get it.
- c. economic surplus you give up to get it.
- d. economic surplus you receive from getting it.

ANSWER:

a

38. Decisions should reflect the _____ costs, rather than just the _____ costs.

- a. financial; marginal
- b. opportunity; nonfinancial
- c. opportunity; financial
- d. nonfinancial; financial

ANSWER:

c

39. Opportunity cost arises from the fundamental economic problem of

- a. interdependence.
- b. marginal costs.
- c. unlimited resources.

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- d. scarcity.

ANSWER:

d

40. The opportunity costs of attending college includes the

- a. cost of tuition.
- b. cost of room and board.
- c. cost of clothes to wear at school.
- d. time spent studying.

ANSWER:

a

41. The opportunity costs of attending college include the:

- a. potential income that could be earned working.
- b. cost of room and board.
- c. cost of clothes to wear at school.
- d. effort and hard work.

ANSWER:

a

42. The opportunity costs of a decision may include each of the following types of costs EXCEPT

- a. out-of-pocket financial costs.
- b. forgone financial costs.
- c. sunk costs.
- d. nonfinancial costs.

ANSWER:

c

43. Jonathan Mendez is deciding whether to study for his economics exam at a café or go to a concert with friends tonight. The cost of dinner at the fancy restaurant on the way to the concert is ____ in the calculation of his opportunity cost and represents a ____ cost.

- a. included; financial
- b. included; nonfinancial
- c. not included; financial
- d. not included; sunk

ANSWER:

a

44. Jonathan Mendez is deciding whether to study for his economics exam at a café down the street or go to a concert a few cities over. The time spent commuting to the concert is ____ in his opportunity cost calculations and represents a ____ cost.

- a. included; financial
- b. included; nonfinancial
- c. not included; financial
- d. not included; sunk

ANSWER:

b

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45. Jonathan Mendez is deciding whether to study for his economics exam at a café or go to a concert with friends tonight. The cost of tuition for his economics course is _____ in his opportunity cost calculations for this decision and represents a _____ cost.

- a. included; financial
- b. included; nonfinancial
- c. not included; financial
- d. not included; sunk

ANSWER:

c

46. It is a beautiful afternoon, and you are considering taking a leisurely stroll through the park. Your alternatives to walking are streaming a movie that you value at \$5, taking a nap that you value at \$7, or reading a new book that you value at \$12. What is the opportunity cost to you of taking the stroll through the park?

- a. \$0
- b. \$5
- c. \$7
- d. \$12

ANSWER:

d

47. Sunk costs are costs that are incurred

- a. regardless of which decision is made.
- b. if a particular decision is made.
- c. if a particular decision is not made.
- d. only for some decisions.

ANSWER:

a

48. Sunk costs should _____ be considered as part of the opportunity costs of a decision.

- a. always
- b. never
- c. sometimes
- d. rarely

ANSWER:

b

49. Sunk costs are costs that

- a. are potential costs associated with a particular decision.
- b. are part of the opportunity costs of a decision.
- c. are incurred in the past and cannot be reversed.
- d. should be considered in any decision.

ANSWER:

c

50. Jonathan Mendez is deciding whether to study for his economics exam at a café or go to a concert with

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friends tonight. The cost of the concert ticket that he purchased yesterday is ____ in his opportunity cost and represents a ____ cost.

- a. included; financial
- b. included; nonfinancial
- c. not included; financial
- d. not included; sunk

ANSWER:

d

51. Rose Riley's parents have booked and paid for a family trip to Aspen, Colorado, during her spring break. Rose's friends recently decided to drive to Destin, Florida, for spring break. Rose needs to decide whether to join her parents in Aspen or drive to the beach with her friends. The opportunity costs of joining her friends on the trip to Destin include each of the following EXCEPT

- a. her parents' anger if she skips the family trip to Aspen.
- b. her contribution to gas money for the drive to Destin.
- c. the ski lift ticket her parents have already purchased for her.
- d. the hotel costs she will split with her friends in Destin.

ANSWER:

c

52. Rose Riley's parents have booked a family trip to Aspen, Colorado, during her spring break. They have agreed to pay for everything except her plane ticket. Rose's friends recently decided to drive to Destin, Florida, for spring break. Rose must now decide whether to join her parents in Aspen or drive to the beach with her friends. The opportunity costs of joining her parents in Aspen include each of the following EXCEPT

- a. the cost of her plane ticket to Aspen.
- b. memories she will miss with her friends.
- c. the stress of traveling via plane and navigating airports.
- d. the nonrefundable deposit her friends paid for the beach house in Destin.

ANSWER:

d

53. Carolyn Bates is a junior in college studying economics. She has created a new software application that applies the four principles of economic decision making to any potential decision that a user faces. She is considering leaving school after this academic year to pursue further development of her app. Carolyn should consider all of the following costs when calculating the opportunity costs of leaving college EXCEPT the

- a. potential future job security from her college degree.
- b. 90 credit hours she has already completed for her degree.
- c. potential memories from her senior year of college.
- d. skills she may gain from her final year of economics courses.

ANSWER:

b

54. Carolyn Bates is a junior in college studying economics. She has created a new software application that applies the four principles of economic decision making to any potential decision that a user faces. She is considering leaving school after this academic year to pursue further development of her app. Carolyn should ignore all of the following costs when calculating the opportunity costs of leaving college EXCEPT the

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- a. time she will spend working on the app instead of studying.
- b. 90 credit hours she has already completed for her degree.
- c. tuition costs she has already paid to her college.
- d. skills she may gain from her final year of economics courses.

ANSWER:

d

55. Carolyn Bates is a junior in college studying economics. She has created a new software application that applies the four principles of economic decision making to any potential decision that a user faces. She is considering leaving school after this academic year to pursue further development of her app. Carolyn should consider all of the following costs when calculating the opportunity costs of staying in college EXCEPT the

- a. time she will spend studying instead of working on the app.
- b. potential forgone profits from selling her app.
- c. potential fame that could come from creating a useful app.
- d. cost of supplies and the technology fees she paid during the first three years of college.

ANSWER:

d

56. Alan Patel is a college student living alone in a campus apartment. He finished cooking dinner when his friends text him to join them at the dining hall on campus for dinner. He now has to decide whether to eat the dinner he prepared or walk to campus to meet his friends at the dining hall. Alan should consider all the following costs when making this decision EXCEPT the

- a. time he spent cooking the dinner.
- b. time it will take to walk, meet his friends, and walk back.
- c. amount of money he will spend at the dining hall.
- d. value he places on eating dinner with his friends.

ANSWER:

a

57. Alan Patel is a college student living alone in a campus apartment. He finished cooking dinner when his friends text him to join them at the dining hall on campus for dinner. He now has to decide whether to eat the dinner he prepared or walk to campus to meet his friends at the dining hall. Alan should consider all the following costs when making this decision EXCEPT the

- a. time it will take to go meet his friends and walk back.
- b. amount of money he will spend at the dining hall.
- c. money spent on the groceries he used to cook dinner.
- d. value he places on not eating dinner alone.

ANSWER:

c

58. You are thinking of starting a tutoring service. You already have a part-time job on campus that pays \$10 per hour. You think you can tutor fellow students for five hours each Saturday at \$25 per hour. If you were not tutoring, you could work another five hours at your campus job. How much economic surplus will you generate each week if you start tutoring?

- a. \$125
- b. \$75

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- c. \$65
- d. \$50

ANSWER:

b

59. You are thinking of starting a tutoring service. You already have a part-time job on campus that pays \$20 per hour. You think you can tutor fellow students for five hours each Saturday at \$25 per hour, and you have already printed \$10 worth of flyers to hang on campus for advertising. If you were not tutoring, you could work another five hours at your campus job. How much economic surplus will you generate each week if you start tutoring?

- a. \$125
- b. \$100
- c. \$25
- d. \$15

ANSWER:

c

60. You have paid \$100 for student season tickets to the football games at your university. It is halfway through the season, and the team has not won any games. You are considering whether you will attend any future games this season. All of the following are costs or benefits you should consider when making this decision EXCEPT the

- a. cost of a hotdog and soda you will inevitably buy at a future game.
- b. time spent at the game rather than studying.
- c. frustration experienced from watching the team lose in previous games.
- d. \$5 you will earn per game by selling the remaining tickets.

ANSWER:

c

61. You have paid \$100 for student season tickets to the football games at your university. It is halfway through the season, and the team has not won any games. You are considering whether you will attend any future games this season. All of the following are costs or benefits you should consider when making this decision EXCEPT the

- a. \$100 you spent on the season tickets.
- b. time spent to go to the game instead of studying.
- c. satisfaction you will get if your team wins a game.
- d. \$5 you can make per game by selling your remaining tickets.

ANSWER:

a

62. The _____ suggests, decisions about quantities are best made incrementally.

- a. cost-benefit principle
- b. opportunity cost principle
- c. marginal principle
- d. interdependence principle

ANSWER:

c

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63. The marginal principle says that decisions about quantities are best made

- a. incrementally.
- b. arbitrarily.
- c. all at once.
- d. in total.

ANSWER:

a

64. The marginal benefit from an additional worker is

- a. the additional benefit from hiring one more worker.
- b. the total benefit from all workers hired.
- c. always equal to the benefit from the first worker hired.
- d. always equal to the cost of hiring the additional worker.

ANSWER:

a

65. The marginal cost of an additional worker is

- a. always equal to the cost from the first worker hired.
- b. always equal to the benefit of hiring the additional worker.
- c. the total cost of all workers hired.
- d. the additional cost of hiring one more worker.

ANSWER:

d

66. Joshua Murphy is planning on studying late into the night for his economics exam. How many cups of coffee should he buy tonight? Joshua should keep buying coffee throughout the evening until the marginal:

- a. benefit of purchasing one more coffee equals the marginal cost.
- b. benefit of purchasing one more coffee is less than the marginal cost.
- c. benefit of purchasing one more coffee is positive.
- d. cost of purchasing one more coffee is positive.

ANSWER:

a

67. Joshua Murphy is planning on studying late into the night for his economics exam. He is contemplating how many coffees to buy tonight. Joshua should not buy an additional coffee during the evening if the marginal

- a. benefit of purchasing one more coffee exceeds the marginal cost.
- b. benefit of purchasing one more coffee is less than the marginal cost.
- c. benefit of purchasing one more coffee is positive.
- d. cost of purchasing one more coffee is positive.

ANSWER:

b

68. Kathleen Alvarado is binge-watching her favorite show on Netflix. She is attempting to decide how many more episodes to watch. Kathleen should continue watching episodes as long as the marginal:

- a. benefit of watching another episode exceeds the marginal cost.
- b. benefit of watching another episode is less than the marginal cost.

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- c. benefit of watching another episode is positive.
- d. cost of watching another episode is positive.

ANSWER:

a

69. Kathleen Alvarado is binge-watching her favorite show on Netflix. She is trying to decide how many more episodes to watch. Kathleen should continue watching episodes unless the marginal

- a. benefit of watching another episode exceeds the marginal cost.
- b. benefit of watching another episode is equal to the marginal cost.
- c. benefit of watching another episode is positive.
- d. cost of watching another episode is positive.

ANSWER:

b

70. According to the marginal principle, keep increasing quantity until the marginal benefit of an additional item is _____ the marginal cost of an additional item.

- a. greater than
- b. equal to
- c. less than
- d. greater than or less than

ANSWER:

b

71. When evaluating how much to produce, increase the quantity produced if the marginal benefit of an additional item is _____ the marginal cost of the additional item.

- a. greater than or equal to
- b. equal to
- c. less than or equal to
- d. less than

ANSWER:

a

72. The marginal principle breaks quantity decisions into iterative decisions that use the

- a. cost-benefit principle.
- b. opportunity cost principle.
- c. interdependence principle.
- d. sunk cost evaluation.

ANSWER:

a

73. The rational rule summarizes the marginal principle. It says that if something is worth doing, keep doing it until your marginal

- a. benefits equal your marginal costs.
- b. benefits exceed your marginal costs.
- c. benefits are zero.
- d. costs are less than your marginal benefits.

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ANSWER:

a

74. The rational rule suggests you should continue with an activity until your _____ benefit _____ your marginal cost.

- a. total; equals
- b. total; exceeds
- c. marginal; equals
- d. marginal; is less than

ANSWER:

c

75. Ron is buying jeans online and has to decide how many to buy. He should buy an additional pair if the

- a. marginal benefit of the next pair is less than the price of the jeans.
- b. marginal benefit of the next pair is at least as high as the price of the jeans.
- c. total benefit when purchasing one more pair is less than the total cost of the jeans.
- d. total benefit when purchasing one more pair is at least as high as the total cost of the jeans.

ANSWER:

b

76. Taryn is buying shirts online and has to decide how many shirts to buy. She should buy another shirt if the

- a. marginal benefit of the next shirt is less than the price of the shirt.
- b. marginal benefit of the next shirt is at least as high as the price of the shirt.
- c. total benefit when purchasing one more shirt is less than the total cost of the shirts.
- d. total benefit when purchasing one more shirt is at least as high as the total cost of the shirts.

ANSWER:

b

77. Following the rational rule, the economic surplus is maximized when

- a. total benefits equal total costs.
- b. total benefits exceed total costs.
- c. marginal benefits equal marginal costs.
- d. marginal benefits exceed marginal costs.

ANSWER:

c

78. To maximize economic surplus, keep increasing output as long as

- a. total benefits equal total costs.
- b. total benefits exceed total costs.
- c. marginal benefits equal marginal costs.
- d. marginal benefits exceed marginal costs.

ANSWER:

d

79. When faced with a quantity decision, the economic surplus stops increasing when

- a. total benefits equal to total costs.
- b. total benefits exceed total costs.

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- c. marginal benefits equal marginal costs.
- d. marginal benefits exceed marginal costs.

ANSWER:

c

80. When faced with a quantity decision, the economic surplus is always maximized by following the

- a. Rational Rule.
- b. framing effect.
- c. opportunity cost principle.
- d. interdependence principle.

ANSWER:

a

81. The cost of your favorite coffee is \$6.50 per cup at the coffee shop. The marginal cost of each cup you drink is _____. The first cup of coffee you drink gives you a marginal benefit of \$8. The marginal benefit from the second cup is \$6, \$4 from the third, \$2 from the fourth, and \$0 from the fifth. You should drink _____ cups of coffee.

- a. \$6.50; one
- b. \$0; five
- c. \$1; six
- d. \$6.50; five

ANSWER:

a

82. The cost of your favorite coffee is \$5 per cup at the coffee shop. The marginal cost of each cup you drink is _____. The first cup of coffee you drink gives you a marginal benefit of \$8. The marginal benefit from the second cup is \$6, \$4 from the third, \$2 from the fourth, and \$0 from the fifth. You should drink _____ cups of coffee.

- a. \$5; two
- b. \$0; three
- c. \$2; five
- d. \$5; three

ANSWER:

a

83. Marie Johnston is a manager at an electronics store and has to decide how many workers to hire. If she hires one worker, her revenue is \$500 per day. If she hires another worker, she can make another \$400 per day. The marginal benefit of hiring another worker decreases by \$100 with each additional hire. Assuming that workers are paid \$15 per hour and work eight hours, how many employees should Marie hire, and what will be the total revenue of her store?

- a. She will hire three workers and the revenue of the store will be \$1,200.
- b. She will hire four workers and the revenue of the store will be \$1,400.
- c. She will hire four workers and the revenue of the store will be \$1,400.
- d. She will hire six workers and the revenue of the store will be \$1,500.

ANSWER:

b

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84. Marie Johnston is a manager at an electronics store, and she has to decide how many workers to hire. If she hires one worker, her revenue is \$400 per day. If she hires another worker, she can make another \$350 per day. The marginal benefit of hiring another worker decreases by \$50 with each additional hire. Assuming that workers are paid \$20 per hour and work eight hours, how many employees should Marie hire, and what will be the total revenue of her store?

- a. She will hire four workers and the revenue of the store will be \$1,300.
- b. She will hire five workers and the revenue of the store will be \$1,500.
- c. She will hire six workers and the revenue of the store will be \$1,650.
- d. She will hire seven workers and the revenue of the store will be \$1,750.

ANSWER:

b

85. Marie Johnston is a manager at an electronics store and has to decide how many workers to hire. If she hires one worker, her revenue is \$800 per day. If she hires another worker, she can make another \$600 per day. The marginal benefit of hiring another worker decreases by \$200 with each additional hire. Assuming that workers are paid \$20 per hour and work eight hours, how many employees should Marie hire, and what will be the total revenue of her store?

- a. She will hire two workers and the revenue of the store will be \$1,400.
- b. She will hire three workers and the revenue of the store will be \$1,800.
- c. She will hire four workers and the revenue of the store will be \$2,000.
- d. She will hire five workers and the revenue of the store will be \$2,000.

ANSWER:

c

86. Marie Johnston is a manager at an electronics store and has to decide how many workers to hire. If she hires one worker, her revenue is \$800 per day. If she hires another worker, she can make another \$600 per day. The marginal benefit of hiring another worker decreases by \$200 with each additional hire. Assuming that workers are paid \$20 per hour and work eight hours, how many employees should Marie hire, and what will be her total cost for labor?

- a. She will hire two workers at a total cost of \$160.
- b. She will hire three workers at a total cost of \$480.
- c. She will hire four workers at a total cost of \$640.
- d. She will hire five workers at a total cost of \$2000.

ANSWER:

c

87. Charles McCoy is a manager at a coffee shop, and he has to decide how many workers to hire. One worker can make 25 drinks that sell for \$5 on average in one hour. A second worker can make another 20 drinks in one hour. The marginal benefit of each additional worker decreases by five drinks, with each additional hire. Given that workers are paid \$15 per hour and have eight-hour shifts, how many employees should Charles hire for each hour?

- a. Three
- b. Four
- c. Five
- d. Six

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ANSWER:

c

88. Charles McCoy is a manager at a coffee shop and is making hiring decisions. With one worker, he can make 15 drinks that sell for \$3 on average in a single hour. With a second worker, he can make an additional 12 drinks in a single hour. The marginal benefit of each additional worker decreases by three drinks with each additional hire. Assuming that workers are paid \$12 per hour and work eight hours, how many employees should Charles hire for each hour?

- a. Three
- b. Four
- c. Five
- d. Six

ANSWER:

b

89. Charles McCoy is a manager at a coffee shop, and he has to decide how many workers to hire. One worker can make 20 drinks that sell for \$4 on average in one hour. A second worker can make another 16 drinks in one hour. The marginal benefit of each additional worker decreases by four drinks, with each additional hire. Given that workers are paid \$15 per hour and have eight-hour shifts, how many employees should Charles hire for each hour?

- a. Four
- b. Five
- c. Six
- d. Seven

ANSWER:

b

90. Sarah Sandoval is a coffee farmer trying to decide how many tons of coffee to produce. She can sell each ton of coffee for \$2,500. The cost of producing the first ton of coffee is \$500, for the second ton, it's \$1000. For each additional ton of coffee produced, the marginal cost increases by \$500. How many tons of coffee should Sarah produce, and what is the total cost of her coffee production?

- a. She will produce four tons at a total cost of \$5,000.
- b. She will produce five tons at a total cost of \$7,500.
- c. She will produce six tons at a total cost of \$10,500.
- d. She will produce seven tons at a total cost of \$14,000.

ANSWER:

b

91. Sarah Sandoval is a coffee farmer trying to decide how many tons of coffee to produce. She can sell each ton of coffee for \$3,000. The cost of producing her first ton of coffee is \$600, and the second ton costs \$1,200. Each additional ton of coffee costs \$600 more to produce. How many tons of coffee should Sarah produce, and what is the total cost of her coffee production?

- a. She will produce three tons at a total cost of \$3,600.
- b. She will produce four tons at a total cost of \$6,000.
- c. She will produce five tons at a total cost of \$9,000.
- d. She will produce six tons at a total cost of \$12,600.

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ANSWER:

c

92. Sarah Sandoval is a coffee farmer trying to decide how many tons of coffee to produce. She can sell each ton of coffee for \$1,500. The cost of producing her first ton of coffee is \$300, and the second ton costs \$500. Each additional ton of coffee costs \$200 more to produce. How many tons of coffee should Sarah produce, and what is the total cost of her coffee production?

- a. She will produce six tons at a total cost of \$4,800.
- b. She will produce seven tons at a total cost of \$6,300.
- c. She will produce eight tons at a total cost of \$8,000.
- d. She will produce nine tons at a total cost of \$9,900.

ANSWER:

b

93. Vincent makes dining tables, and he is trying to decide how many tables to produce. He can sell each dining table for \$2,000. The cost of the first table is \$750, and for the second it's \$1,000. For each additional table he produces, the marginal cost of each table increases by \$250. How many dining tables should Vincent produce, and what is the total cost of his production?

- a. He will produce four tables at a cost of \$4,500.
- b. He will produce five tables at a cost of \$6,250.
- c. He will produce six tables at a cost of \$8,250.
- d. He will produce seven tables at a cost of \$10,500.

ANSWER:

c

94. Vincent Pearson makes dining tables, and he is trying to decide how many tables to produce. He can sell each dining table for \$3,000. The cost of the first table is \$1,000, for the second it's \$1,500. For each additional table he produces, the marginal cost of each table increases by \$500. How many dining tables should Vincent produce, and what is the total cost of his production?

- a. He will produce four tables at a cost of \$12,000.
- b. He will produce five tables at a cost of \$10,000.
- c. He will produce six tables at a cost of \$13,500.
- d. He will produce seven tables at a cost of \$17,500.

ANSWER:

b

95. Vincent Pearson makes dining tables, and he is trying to decide how many tables to produce. He can sell each dining table for \$1,000. The cost of the first table is \$900, for the second it's \$1,100. For each additional table he produces, the marginal cost of each table increases by \$200. How many dining tables should Vincent produce, and what is the total cost of his production?

- a. Vincent will not make any tables.
- b. He will produce one table at a cost of \$900.
- c. He will produce two tables at a cost of \$2,000.
- d. He will produce three tables at a cost of \$3,300.

ANSWER:

b

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96. The price of coffee at a local coffee shop is \$3. Cheryl is willing to pay \$6 for her first cup of coffee each day. The marginal benefit to her of each additional cup of coffee falls by \$2. How many cups of coffee should Cheryl purchase?

- a. One
- b. Two
- c. Three
- d. Four

ANSWER:

b

97. The price of coffee at a local coffee shop is \$2.50. Cheryl is willing to pay \$8 for her first cup of coffee each day. The marginal benefit to her of each additional cup of coffee falls by \$2. How many cups of coffee should Cheryl purchase?

- a. One
- b. Two
- c. Three
- d. Four

ANSWER:

c

98. The principle that your best choice depends on your other choices, the choices others make, developments in other markets, and expectations about the future is known as the _____ principle.

- a. cost-benefit
- b. opportunity cost
- c. marginal
- d. interdependence

ANSWER:

d

99. The interdependence principle states that your best choice today depends on all of the following EXCEPT

- a. past decisions you have made.
- b. expectations about the future.
- c. other decisions you are currently making.
- d. decisions others are currently making.

ANSWER:

a

100. Diane Jacobs is a student studying economics and currently working on her class schedule for next semester. When she considers taking another economics course rather than taking a math class in the same time slot, she is acknowledging that dependencies exist

- a. between her own choices.
- b. between people or businesses in the same market.
- c. between markets.
- d. through time.

ANSWER:

a

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101. Diane Jacobs is a student studying economics and currently working on her class schedule for next semester. When she considers taking another economics course and how to meet prerequisites for future economics courses, she is acknowledging dependencies that exist

- a. between her own choices.
- b. between people or businesses in the same market.
- c. between markets.
- d. through time.

ANSWER: d

102. Diane Jacobs is a student studying economics and is currently working on her class schedule for next semester. She considers the fact that a popular class may fill up if she does not act quickly, she is acknowledging the dependencies that exist

- a. between her own choices.
- b. between people or businesses in the same market.
- c. between markets.
- d. over time.

ANSWER: b

103. Diane Jacobs is a student studying economics and currently working on her class schedule for next semester. She considers the fact that more and more data is available every day and that data interpretation skills are learned by taking additional economics courses in her course selection. This acknowledgment highlights the dependencies that exist:

- a. between her own individual choices.
- b. between people or businesses in the same market.
- c. between markets.
- d. through time.

ANSWER: c

104. Harry Watson is an engineering student taking an economics elective in his senior year. He has the option after college to work as a petroleum engineer or design rollercoasters. He is using concepts learned in his economics course to help with this decision. By considering that he cannot be both a petroleum engineer and a rollercoaster designer, he is acknowledging the dependencies that exist

- a. between his own choices.
- b. between people or businesses in the same market.
- c. between markets.
- d. through time.

ANSWER: a

105. Harry Watson is an engineering student taking an economics elective in his senior year. He has the option to work as a petroleum engineer or to design rollercoasters after college. He uses concepts learned from his economics course to help with this decision. When he considers the increasing popularity of electronic vehicles

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and a decrease in demand for petroleum in the future, he is acknowledging the dependencies that exist

- a. between his own choices.
- b. between people or businesses in the same market.
- c. between markets.
- d. over time.

ANSWER:

d

106. Harry Watson is an engineering student taking an economics elective in his senior year. He has the option after college to work as a petroleum engineer or design rollercoasters. He is using concepts learned in his economics course to help with this decision. By considering the effects that reduced financial investments in petroleum companies will have on his expected salary, he is acknowledging the dependencies that exist

- a. between his own choices.
- b. between people or businesses in the same market.
- c. between markets.
- d. through time.

ANSWER:

c

107. Harry Watson is an engineering student taking an economics elective in his senior year. He has the option after college to work as a petroleum engineer or to design rollercoasters. He is using concepts he learned in his economics course to help with this decision. He thinks many engineers would prefer to design rollercoasters and expects a lower salary in this field. With this analysis, he is acknowledging the dependencies that exist

- a. between his own choices.
- b. between people or businesses in the same market.
- c. between markets.
- d. through time.

ANSWER:

b

108. Dependencies between your own choices reflect the fact that:

- a. you have limited resources.
- b. society has limited resources.
- c. resources are spread across varying markets.
- d. resources can be spread across time.

ANSWER:

a

109. Dependencies between various people's choices reflect the fact that

- a. you have limited resources.
- b. society has limited resources.
- c. resources are spread across different markets.
- d. resources can be used across time.

ANSWER:

b

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110. Dependencies between markets reflect the fact that

- a. you have limited resources.
- b. society has limited resources.
- c. resources are spread across different markets.
- d. resources can be used across time.

ANSWER:

c

111. Dependencies over time reflect the fact that

- a. you have limited resources.
- b. society has limited resources.
- c. resources are spread across varying markets.
- d. resources can be spread across time.

ANSWER:

d

112. According to the interdependence principle, when faced with a decision, you should ask what

- a. else might my decision affect?
- b. else might affect my decision?
- c. else might my decision affect and what else might affect my decision?
- d. past decisions might my decision affect?

ANSWER:

c

113. The order in which you should apply the four core principles of economics is:

- a. the cost-benefit principle, the opportunity cost principle, the marginal principle, the interdependence principle.
- b. the interdependence principle, the opportunity cost principle, the cost-benefit principle, the interdependence principle.
- c. the opportunity cost principle, the marginal principle, the cost-benefit principle, the interdependence principle.
- d. the marginal principle, the cost-benefit principle, the opportunity cost principle, the interdependence principle.

ANSWER:

d

114. Asking "One more?" allows the _____ principle to be analyzed as a simple question.

- a. cost-benefit
- b. opportunity cost
- c. marginal
- d. interdependence

ANSWER:

c

115. Asking "Benefit beat cost?" allows the _____ principle to be boiled down to a simple question.

- a. cost-benefit

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- b. opportunity cost
- c. marginal
- d. interdependence

ANSWER:

a

116. Asking "Or what?" allows the _____ principle to be analyzed as a simple question.

- a. cost-benefit
- b. opportunity cost
- c. marginal
- d. interdependence

ANSWER:

b

117. Asking "What else?" allows the _____ principle to be boiled down to a simple question.

- a. cost-benefit
- b. opportunity cost
- c. marginal
- d. interdependence

ANSWER:

d

118. Consider the decision to read your economics textbook. Which of the four core principles of economics applies to the notion that reading this textbook will help you to establish a solid foundation of understanding economics, which will be beneficial for future courses?

- a. Cost-benefit principle
- b. Opportunity cost principle
- c. Marginal principle
- d. Interdependence principle

ANSWER:

d

119. Consider the decision to read your economics textbook regularly. Which of the four core principles of economics applies to the notion that reading this textbook will require time and effort but that doing so will improve your grade in this course?

- a. Cost-benefit principle
- b. Opportunity cost principle
- c. Marginal principle
- d. Interdependence principle

ANSWER:

a

120. Consider the decision to read your economics textbook. Which of the four core principles of economics applies to the notion that instead of reading this textbook you could be studying for your upcoming exam in a different course?

- a. Cost-benefit principle

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- b. Opportunity cost principle
- c. Marginal principle
- d. Interdependence principle

ANSWER:

b

121. Consider the decision to read your textbook on economics regularly. Which of the four core principles of economics applies to the notion that each extra page you read and each extra problem you complete will help you increase your understanding of the material?

- a. Cost-benefit principle
- b. Opportunity cost principle
- c. Marginal principle
- d. Interdependence principle

ANSWER:

c

122. Consider your decision to attend class each day or skip it. Which of the four core principles of economics applies to the notion that attending class will most likely help you understand the material better and perform well on future exams?

- a. Cost-benefit principle
- b. Opportunity cost principle
- c. Marginal principle
- d. Interdependence principle

ANSWER:

d

123. Consider your decision to attend class each day or skip it. Which of the four core principles of economics applies to the notion that by attending class you are not doing the next best activity you would prefer to do, such as napping or going to the gym?

- a. Cost-benefit principle
- b. Opportunity cost principle
- c. Marginal principle
- d. Interdependence principle

ANSWER:

b

124. Consider your decision to attend class in college or skip it. Which of the four core principles of economics applies to the notion that attending class today will require you to give up time and energy to pay attention, but in doing so you will gain a better understanding of the material?

- a. Cost-benefit principle
- b. Opportunity cost principle
- c. Marginal principle
- d. Interdependence principle

ANSWER:

a

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125. Consider your decision to attend class in college or skip it. Which of the four core principles of economics applies to the notion that each additional class you attend helps increase your likelihood of mastering the material?

- a. Cost-benefit principle
- b. Opportunity cost principle
- c. Marginal principle
- d. Interdependence principle

ANSWER:

c

126. Roger has inherited his grandmother's home, which he values at \$150,000. He decides that he might be willing to sell it, so he lists it on Zillow as for sale by owner for \$185,000. Donna is interested in the home and willing to pay \$200,000 for it. Would Roger and Donna want to voluntarily engage in this exchange? How much economic surplus is created for each of them as a result of this exchange? What is the total surplus?

ANSWER: Roger and Donna will engage in a voluntary economic exchange in this situation. Roger will receive a \$35,000 economic surplus from the exchange, and Donna will receive an economic surplus of \$15,000. The total economic surplus for the exchange is \$50,000.

127. Roger has inherited his grandmother's home, which he values at \$150,000. He decides that he might be willing to sell it, so he lists it on Zillow as for sale by owner for \$185,000. Donna is interested in the home and willing to pay \$175,000 for it. Would Roger and Donna want to voluntarily engage in this exchange? How much economic surplus is created for each of them as a result of this exchange? What is the total surplus?

ANSWER: Roger and Donna will not engage in a voluntary economic exchange in this situation. Although Roger would receive a \$35,000 economic surplus from the exchange, Donna would receive a negative economic surplus of \$10,000. Thus, Donna does not want to engage in the exchange even though there would be a total economic surplus of \$25,000.

128. Bruce has midterm exams tomorrow in economics and chemistry. He only has four hours left to study tonight. The accompanying table provides the combinations of time spent studying economics and chemistry and his expected exam scores.

Hours spent studying economics	Economics exam score	Hours spent studying chemistry	Chemistry exam score
0	55	0	70
1	75	1	80
2	85	2	88
3	90	3	94
4	94	4	98

Suppose that Bruce spends the first three hours studying economics. What is the opportunity cost of spending a fourth hour? If Bruce's goal is to maximize his combined scores, how many hours should he spend studying economics, and how many hours should he spend studying astronomy?

ANSWER: The opportunity cost to Bruce of spending a fourth hour studying economics is 10 points on his chemistry exam. That is, if he spends the fourth hour studying chemistry, he will improve his chemistry grade by 10 points. If Bruce wants to maximize his combined score of the two exams, he

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should study two hours for each exam.

129. Bruce has midterms tomorrow in economics and chemistry. He has only four hours left to study tonight. The accompanying table provides the combinations of time spent studying economics and chemistry and his expected exam scores.

Hours spent studying economics	Economics exam score	Hours spent studying chemistry	Chemistry exam score
0	55	0	65
1	75	1	80
2	89	2	88
3	96	3	93
4	100	4	96

Suppose that Bruce spends the first two hours studying economics. What is the opportunity cost of spending a third hour? If Bruce's goal is to maximize his combined scores, how many hours should he spend studying economics, and how many hours should he spend studying astronomy?

ANSWER: The opportunity cost to Bruce of spending a third hour studying economics is eight points on his chemistry exam. That is, if he spends three hours studying economics, he can study chemistry for only one hour. The marginal benefit to him of studying chemistry for a second hour is eight points. If Bruce wants to maximize his combined score of the two exams, he should study two hours for each exam.

130. Marie Johnston is a manager at a cell phone store and is making hiring decisions. The number of cell phones her store sells per day depends on the number of workers she hires, as shown in the accompanying table. She sells each cell phone for \$300. Assuming that workers are paid \$20 per hour and work eight hours, how many employees should Marie hire? What will be the total revenue of her store per day?

Number of workers	Units sold (per day)
0	8
1	13
2	17
3	20
4	22
5	23
6	23

ANSWER: Marie should hire five workers. Each additional worker she hires will be paid \$160 per day, and the marginal benefit of the fifth worker is \$300. The total revenue for her store each day will be \$6,900.

131. Marie Johnston is a manager at a cell phone store and is making hiring decisions. The number of cell phones her store sells per day depends on the number of workers she hires, as shown in the accompanying table. She sells each cell phone for \$200. Assuming that workers are paid \$20 per hour and work eight hours, how many employees should Marie hire? What will be the total revenue of her store per day?

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Number of workers	Units sold (per day)
0	8
1	13
2	17
3	20
4	22
5	23
6	23

ANSWER: Marie should hire five workers. Each additional worker she hires will be paid \$200 per day, and the marginal benefit of the fifth worker is \$200. The total revenue for her store each day will be \$4,600.

132. Albert grows coffee beans and faces a decision about how many tons to produce. He can sell each ton of coffee for \$2,000. The total cost of production depends on the number of tons he decides to produce, as shown in the accompanying table. How many tons of coffee beans should Albert produce?

Number of tons produced	Total cost (\$)
0	0
1	1,000
2	2,200
3	3,600
4	5,200
5	7,000
6	9,000
7	10,200

ANSWER: Albert should produce six tons of coffee beans. The marginal benefit to him of each ton of coffee beans is \$2,000. The marginal cost of the sixth ton of coffee is \$2,000. According to the Rational Rule, Albert should produce six tons of coffee beans.

133. Albert grows coffee beans and faces a decision about how many tons to produce. He can sell each ton of coffee for \$1,500. The total cost of production depends on the number of tons he decides to produce, as shown in the accompanying table. How many tons of coffee beans should Albert produce?

Number of tons produced	Total cost (\$)
0	0
1	1,000
2	2,200
3	3,600
4	5,200
5	7,000
6	9,000
7	10,200

ANSWER: Albert should produce three tons of coffee beans. The marginal benefit to him of each ton of coffee

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beans is \$1,500. The marginal cost of the third ton of coffee is \$1,400. The marginal cost of the fourth ton of coffee is \$1,600. According to the Rational Rule, Albert should produce three tons of coffee beans.

134. You are an engineer working at an engineering firm but are considering returning to school to get an MBA. You know that an MBA is required for any further advancement at your current firm. Describe four types of dependencies that will affect your decision, with at least one example for each.

ANSWER: Four types of dependencies that will affect the decision include the following : dependencies between each of your individual choices (example), dependencies between people or businesses in the same market (example), dependencies between markets (example), and dependencies through time (example).

135. You are a college junior working as a summer intern at a firm. The firm is satisfied with your performance over the summer and offers you a job that does not require you to finish your degree. Describe four types of dependencies that will affect your decision to accept this job or return to school, with at least one example for each.

ANSWER: Four types of dependencies that will affect the decision include the following : dependencies between each of your individual choices (example), dependencies between people or businesses in the same market (example), dependencies between markets (example), and dependencies through time (example).

136. Scarcity occurs in everyday life because:

- a. resources are limited.
- b. the wants of individual consumers are limited.
- c. there are poor people even in rich countries.
- d. taxes keep prices higher than they would otherwise be.

ANSWER: a

137. If resources are scarce:

- a. they are insufficient to provide enough goods and services to satisfy all human material wants and needs.
- b. there are not enough of them for firms to produce goods and services.
- c. they are probably overvalued by consumers.
- d. their supply is unlimited.

ANSWER: a

138. A central and fundamental theme in economics is that:

- a. for me to have something, someone else must be willing to give it up.
- b. the United States is a rich country, but we are simply not aware of it.
- c. resources are limited and cannot satisfy all the ways a society wants to use them.
- d. we can build as much as we want, since resources are unlimited.

ANSWER: c

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139. _____ forces us to make choices.

- a. Opportunity cost
- b. Marginal decision making
- c. Scarcity
- d. Market failure

ANSWER:

c

140. There are many freshwater lakes in the United States. However, freshwater is scarce because:

- a. it has no alternative uses.
- b. there is not enough of it to meet all needs.
- c. the government limits its use through regulations.
- d. it has a high opportunity cost.

ANSWER:

b

141. The problem of determining what goods and services society should produce:

- a. exists because we can produce any amount of a good we need or want, making choice difficult.
- b. exists because there are not enough resources to provide all the goods and services that people want.
- c. would not exist if all levels of government would agree to supply goods and services to those that do not have enough.
- d. would not exist if a central planning bureau were to decide how to allocate resources.

ANSWER:

b

142. We have to make choices because:

- a. we have unlimited income and must decide what to purchase.
- b. the resources available to us are limited.
- c. the resources we would like to use in production are infinite.
- d. with good planning, trade-offs can be avoided.

ANSWER:

b

143. The opportunity cost of something is:

- a. the amount you pay to take advantage of a lucrative opportunity.
- b. a payment not made for a product.
- c. the benefit derived from a product.
- d. the next best alternative you have to give up to get it.

ANSWER:

d

144. The opportunity cost of a good is:

- a. smaller during periods of economic recession.
- b. equal to the monetary cost of the good.
- c. larger during economic booms.

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- d. the value of the next best alternative given up to acquire the good.

ANSWER:

d

145. Whenever a good is purchased:

- a. the cost of the good is its opportunity cost.
- b. the cost of the good is easy to measure in terms of the price paid for it.
- c. overall efficiency increases.
- d. scarcity will increasingly constrain the future availability of the good.

ANSWER:

a

146. You can spend \$300 on either a pair of new Air Jordan sneakers or a new skateboard. If you choose to buy the Air Jordans, the opportunity cost is:

- a. \$300.
- b. your enjoyment of the new skateboard.
- c. both the \$300 and your enjoyment of the new skateboard.
- d. impossible to determine.

ANSWER:

b

147. Emma spends \$40,000 for one year's tuition at university. The opportunity cost of one year at university for Emma is:

- a. \$40,000.
- b. whatever she would have purchased with the \$40,000 had she not attended university.
- c. whatever she would have earned had she not attended university.
- d. whatever she would have purchased with the \$40,000 plus whatever she would have earned had she not attended university.

ANSWER:

d

148. If the state of New York allocates additional spending on after-school programs for at-risk youths, then the opportunity cost of these expenditures is:

- a. zero, if the state is running a budget surplus.
- b. the dollar amount of the additional spending.
- c. relevant only if taxes must be raised to fund the spending.
- d. the value of alternative expenditures forgone in making this allocation.

ANSWER:

d

149. Ralph is offered a free ticket to a Yankees game—a ticket he cannot resell. His opportunity cost of going to the baseball game is:

- a. zero—the ticket was free.
- b. the price listed on the ticket.
- c. whatever Ralph would have done had he not gone to the game.
- d. the price listed on the ticket and whatever Ralph would have done had he not gone to the game.

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ANSWER:

c

150. A new Subway location has offered a prize—a free meal (valued at \$5) each week for a year—to its first 100 customers on opening day. Isabella camped out for 48 hours before the opening to be one of the first 100 customers and successfully obtained the prize. The cost to Isabella of obtaining the "free meal a week for a year" prize was:

- a. zero, since it was free.
- b. \$260—the amount that would have to be paid if it were not free.
- c. whatever else she would have done with the 48 hours.
- d. the amount that would have to be paid if it were not free plus whatever else she would have done with the 48 hours.

ANSWER:

c

151. King Taco charges the same price for everything on its menu: \$5 will buy a taco, a burrito, or nachos. You buy the burrito and think that if you had not purchased the burrito, you would have purchased the taco. The opportunity cost of the burrito is:

- a. \$5.
- b. your forgone enjoyment of the taco.
- c. \$5 and your forgone enjoyment of the taco.
- d. \$5 and your forgone enjoyment of the taco and the nachos.

ANSWER:

b

152. For an economist, the cost of a good is:

- a. the dollar amount of money you paid to get it.
- b. what you gave up to get it.
- c. always equal to the true market value of the good.
- d. the quantity of resources used to produce it.

ANSWER:

b

153. The cost of postponing the Tokyo Olympics to 2021 in the wake of the Covid-19 virus outbreak _____ an opportunity cost of hosting the 2020 Olympic Games _____.

- a. is not; because few people attending the 2020 Olympics will spend much time outside Olympic venues
- b. is; if the costs of the Tokyo postponement are equal to a significant percentage of the total amount spent by Tokyo taxpayers to host the 2020 Olympics
- c. is; if the cost of postponing the Tokyo games would not occur unless Tokyo was hosting the 2020 Olympic games
- d. is not; because the cost of postponing the Tokyo Olympics is a necessary expense

ANSWER:

c

154. While buying refreshments for an upcoming party, you notice that a six-pack of Bud Lite Beer costs \$6 and that a six-pack of Miller Lite Beer costs \$8. You buy the six-pack of Miller Lite Beer, although you wonder

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if maybe two six-packs of Bud Lite Beer would have been a better choice. The opportunity cost of the Miller Lite Beer is:

- a. \$8.
- b. a six-pack of Bud Lite Beer.
- c. two six-packs of Bud Lite Beer.
- d. \$8 and the six-pack of Bud Lite Beer.

ANSWER:

c

155. A friend comes up to you and offers you a free ticket to a Dodgers game that night, and you decide to attend the game. The game takes five hours and costs you \$25 for transportation. If you had not attended the game, you would have worked at your part-time job for \$12 an hour. What is the cost to you of attending the game?

- a. The cost is zero—the ticket is free.
- b. \$85
- c. \$60
- d. \$55

ANSWER:

b

156. A university student faces the difficult decision of how to spend one hour tonight. She could babysit her professor's child at an hourly wage of \$10; she could work at the college library at a wage of \$12; or she could finish her economics homework assignment. If she chooses to complete her homework assignment, she has incurred an opportunity cost equal to:

- a. \$6.
- b. \$12.
- c. \$18.
- d. \$0.

ANSWER:

b

157. Decisions made about quantities are:

- a. the same as making either/or decisions.
- b. best made when comparing prices and costs.
- c. best made using the marginal principle.
- d. optimal when costs equal benefits.

ANSWER:

c

158. A choice made using the marginal principle:

- a. involves distinguishing between microeconomics and macroeconomics.
- b. is an analysis of costs, benefits, and trade-offs.
- c. is a choice regarding whether to do a little more or a little less of an activity.
- d. involves comparing the costs and benefits of an activity.

ANSWER:

c

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159. The marginal principle helps individuals decide:

- a. whether to live on the margins of society.
- b. whether to do a bit more of an activity or a bit less of it.
- c. whether to attend a university or not.
- d. how large a down payment to make when buying a new house.

ANSWER:

b

160. You are analyzing a trade-off when you compare the _____ and _____ of doing something.

- a. direct costs; opportunity costs
- b. marginal benefits; total benefits
- c. costs; benefits
- d. money costs; marginal benefits

ANSWER:

c

161. Which statement is TRUE, according to standard economic theory?

- a. Resources are scarce when they can satisfy everyone's wants.
- b. The true cost of a choice is what you must give up when choosing between alternatives.
- c. People typically do not make choices that will make them better off.
- d. Rational people use trade-off analysis when making "how much" decisions.

ANSWER:

b

162. The penthouse apartment in most high-rise apartment buildings usually costs more to rent than other apartments. This BEST illustrates the economic concept of:

- a. specialization.
- b. scarcity.
- c. equilibrium.
- d. opportunity cost.

ANSWER:

b

163. In Douglas County, Washington, apple production is limited by the number of acres available for agricultural production. Which economic concept does this statement BEST represent?

- a. scarcity
- b. marginal analysis
- c. equilibrium
- d. opportunity cost

ANSWER:

a

164. You like to read *GQ (Gentlemen's Quarterly)* and *Golf Digest*. You have only \$6 to spend and can buy only one magazine, so you buy only *Golf Digest*. Which economic concept does this statement BEST represent?

- a. scarcity

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- b. equilibrium
- c. the marginal principle
- d. specialization

ANSWER:

a

165. Samsung finds it difficult to hire enough skilled software engineers to program the popular Galaxy cell phone. Which economic concept does this statement BEST represent?

- a. scarcity
- b. specialization
- c. ceteris paribus
- d. trade-off

ANSWER:

a

166. In California, there has been a drought, and rural communities are fighting with urban areas over water. Which economic concept does this statement BEST represent?

- a. scarcity
- b. specialization
- c. incentives
- d. equilibrium

ANSWER:

a

167. The study of economics arises because of the necessity of choice, and the necessity of choice arises because of the fundamental problem of:

- a. inefficiency.
- b. equilibrium.
- c. inequity.
- d. scarcity.

ANSWER:

d

168. A trade-off involves weighing:

- a. social costs.
- b. private costs.
- c. external costs.
- d. costs and benefits.

ANSWER:

d

169. A college student stays up late writing a philosophy paper and as a result sleeps through her morning calculus class. What is the cost of sleeping through the class?

ANSWER: There is no monetary price, but there is most certainly a cost. She might have missed important information in the calculus class. Failure to be present for this information might create difficulties for her on the next calculus exam. Maybe the professor gave a pop quiz during the calculus class,

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and thus, this sleepy student failed to earn any points on the quiz. Every decision has a cost, even if there is no money actually paid.

170. A college student waits in line for hours to purchase a pair of tickets to a Justin Bieber concert, but a cardiologist does not. Rather than spend hours in line, he purchases a much more expensive ticket through a ticket broker. Why?

ANSWER: For the cardiologist, the opportunity cost of waiting in line for a ticket is time he could use seeing patients, earning perhaps several hundred (if not thousands) of dollars for each hour of specialized expertise. Because he works during those hours, he can afford the higher price. The opportunity cost of the student's time is much lower.

171. A two-year-old child is eating peanuts one at a time from a large box. Even though the child doesn't understand formal economic theory, he knows when to stop eating because he is full. Describe how this child has already mastered marginal analysis.

ANSWER: The child stops eating when he is full because he intuitively knows that the difference between the additional benefit he would receive from the next peanut and the additional cost is zero or even negative.