

Name _____ Class _____ Date _____
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1. Resources are

- a. scarce for households but plentiful for economies.
- b. plentiful for households but scarce for economies.
- c. scarce for households and scarce for economies.
- d. plentiful for households and plentiful for economies.

ANSWER:

c

2. Fundamentally, economics deals with

- a. scarcity.
- b. money.
- c. poverty.
- d. banking.

ANSWER:

a

3. The overriding reason why households and societies face many decisions is that

- a. resources are scarce.
- b. goods and services are not scarce.
- c. incomes fluctuate with business cycles.
- d. people, by nature, tend to disagree.

ANSWER:

a

4. The phenomenon of *scarcity* stems from the fact that

- a. most economies' production methods are not very good.
- b. in most economies, wealthy people consume disproportionate quantities of goods and services.
- c. governments restrict production of too many goods and services.
- d. resources are limited.

ANSWER:

d

5. In most societies, resources are allocated by

- a. a single central planner.
- b. a small number of central planners.
- c. those firms that use resources to provide goods and services.
- d. the combined actions of millions of households and firms.

ANSWER:

d

6. Economics is the study of how society manages its

- a. limited wants and unlimited resources.
- b. unlimited wants and unlimited resources.
- c. limited wants and limited resources.
- d. unlimited wants and limited resources.

ANSWER:

d

7. Fossil fuels are considered to be nonrenewable energy sources. Which of the following statements is correct?

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- a. Fossil fuels are unlimited resources.
- b. Fossil fuels are scarce resources.
- c. Fossil fuels are nonscarce resources.
- d. Fossil fuels are not resources.

ANSWER:

b

8. What term refers to the idea that society has limited resources and therefore cannot produce all the goods and services people wish to have?

- a. inefficiency
- b. inequality
- c. scarcity
- d. market failure

ANSWER:

c

9. The adage, "There ain't no such thing as a free lunch," means

- a. even people on welfare have to pay for food.
- b. the cost of living is always increasing.
- c. people face tradeoffs.
- d. all costs are included in the price of a product.

ANSWER:

c

10. Which of the following statements best represents the principle represented by the adage, "There ain't no such thing as a free lunch"?

- a. Bo can go swimming only if he takes his brother with him.
- b. Jada is starving and homeless.
- c. Alivia must put gas in her truck before she can drive it to school.
- d. Benjamin must decide between going to Florida or Brazil for summer vacation.

ANSWER:

d

11. Candice is planning her activities for a hot summer day. She would like to go to the local swimming pool and see the latest blockbuster movie, but because she can only get tickets to the movie for the same time that the pool is open she can only choose one activity. This illustrates the basic principle that

- a. people respond to incentives.
- b. rational people think at the margin.
- c. people face tradeoffs.
- d. improvements in efficiency sometimes come at the expense of equality.

ANSWER:

c

12. While pollution regulations yield the benefit of a cleaner environment and the improved health that comes with it, the regulations come at the cost of reducing the incomes of the regulated firms' owners, workers, and customers. This statement illustrates the principle that

- a. trade can make everyone better off.
- b. rational people think at the margin.
- c. people face tradeoffs.

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- d. people respond to incentives.

ANSWER:

c

13. When society requires that firms reduce pollution, there is
- a. a tradeoff because of reduced incomes to the firms' owners and workers.
 - b. a tradeoff only if some firms are forced to close.
 - c. no tradeoff, since the cost of reducing pollution falls only on the firms affected by the requirements.
 - d. no tradeoff, since everyone benefits from reduced pollution.

ANSWER:

a

14. Efficiency means that
- a. society is conserving resources in order to save them for the future.
 - b. society's goods and services are distributed equally among society's members.
 - c. society's goods and services are distributed fairly, though not necessarily equally, among society's members.
 - d. society is getting the most it can from its scarce resources.

ANSWER:

d

15. The property of society getting the most it can from its scarce resources is called
- a. efficiency.
 - b. equality.
 - c. externality.
 - d. productivity.

ANSWER:

a

16. Efficiency
- a. and equality both refer to how much a society can produce with its resources.
 - b. and equality both refer to how fairly the benefits from using resources are distributed between members of a society.
 - c. refers to how much a society can produce with its resources. Equality refers to how evenly the benefits from using resources are distributed among members of society.
 - d. refers to how evenly the benefits from using resources are distributed between members of society. Equality refers to how much a society can produce with its resources.

ANSWER:

c

17. The terms *equality* and *efficiency* are similar in that they both refer to benefits to society. However, they are different in that
- a. equality refers to uniform distribution of those benefits and efficiency refers to maximizing benefits from scarce resources.
 - b. equality refers to maximizing benefits from scarce resources and efficiency refers to uniform distribution of those benefits.
 - c. equality refers to everyone facing identical tradeoffs and efficiency refers to the opportunity cost of the benefits.
 - d. equality refers to the opportunity cost of the benefits and efficiency refers to everyone facing identical tradeoffs.

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ANSWER:

a

18. When society gets the most it can from its scarce resources, then the outcome is called

- a. equitable.
- b. efficient.
- c. normal.
- d. marginal.

ANSWER:

b

19. A typical society strives to get the most it can from its scarce resources. At the same time, the society attempts to distribute the benefits of those resources to the members of the society in a fair manner. However, redistributing income from rich to poor reduces the reward for working hard. Therefore, society faces a tradeoff between

- a. guns and butter.
- b. efficiency and equality.
- c. inflation and unemployment.
- d. work and leisure.

ANSWER:

b

20. Which of the following is true?

- a. Efficiency refers to the size of the economic pie; equality refers to how the pie is divided.
- b. Government policies usually improve upon both equality and efficiency.
- c. As long as the economic pie continually gets larger, no one will have to go hungry.
- d. Efficiency and equality can both be achieved if the economic pie is cut into equal pieces.

ANSWER:

a

21. When the government redistributes income from the wealthy to the poor,

- a. efficiency is improved, but equality is not.
- b. both wealthy people and poor people benefit directly.
- c. people work less and produce fewer goods and services.
- d. the government collects more revenue in total.

ANSWER:

c

22. When the government implements programs such as progressive income tax rates, which of the following is likely to occur?

- a. Equality is increased and efficiency is increased.
- b. Equality is increased and efficiency is decreased.
- c. Equality is decreased and efficiency is increased.
- d. Equality is decreased and efficiency is decreased.

ANSWER:

b

23. Senator Fujita argues that replacing the federal income tax with a national sales tax would increase the level of output. Senator Watson objects that this policy would benefit the rich at the expense of the poor.

- a. Both senators' arguments are primarily about equality.
- b. Both senators' arguments are primarily about efficiency.

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- c. Senator Fujita's argument is primarily about equality, while Senator Watson's argument is primarily about efficiency.
- d. Senator Fujita's argument is primarily about efficiency, while Senator Watson's argument is primarily about equality.

ANSWER: d

24. Suppose the government taxes the wealthy at a higher rate than it taxes the poor and then develops programs to redistribute the tax revenue from the wealthy to the poor. This redistribution of wealth

- a. is more efficient and more equal for society.
- b. is more efficient but less equal for society.
- c. is more equal but less efficient for society.
- d. is less equal and less efficient for society.

ANSWER: c

25. The opportunity cost of an item is

- a. the number of hours needed to earn money to buy the item.
- b. what you give up to get that item.
- c. usually less than the dollar value of the item.
- d. the dollar value of the item.

ANSWER: b

26. Suppose that you have received \$650 as a birthday gift. You can spend it today or you can put the money in a savings account for a year and earn 2 percent interest. The opportunity cost of spending the money today, in terms of what you could have after one year, is

- a. \$0.
- b. \$13.00.
- c. \$652.00.
- d. \$663.00.

ANSWER: d

27. When computing the opportunity cost of attending a professional football game as a spectator, you should include

- a. the price you pay for the ticket and the value of your time.
- b. the price you pay for the ticket, but not the value of your time.
- c. the value of your time, but not the price you pay for the ticket.
- d. neither the price of the ticket nor the value of your time.

ANSWER: a

28. Alana decides to spend 2 hours working overtime rather than going shopping with her friends. She earns \$11 per hour for overtime work. Her opportunity cost of working is

- a. the \$22 she earns working.
- b. the \$22 minus the enjoyment she would have received from going shopping.
- c. the enjoyment she would have received had she gone shopping.
- d. nothing, since she would have received less than \$22 worth of enjoyment from going shopping.

ANSWER: c