

**Test Bank for Economics 3rd Edition by Hubbard O'Brien ISBN 013602176X 9780136021766**

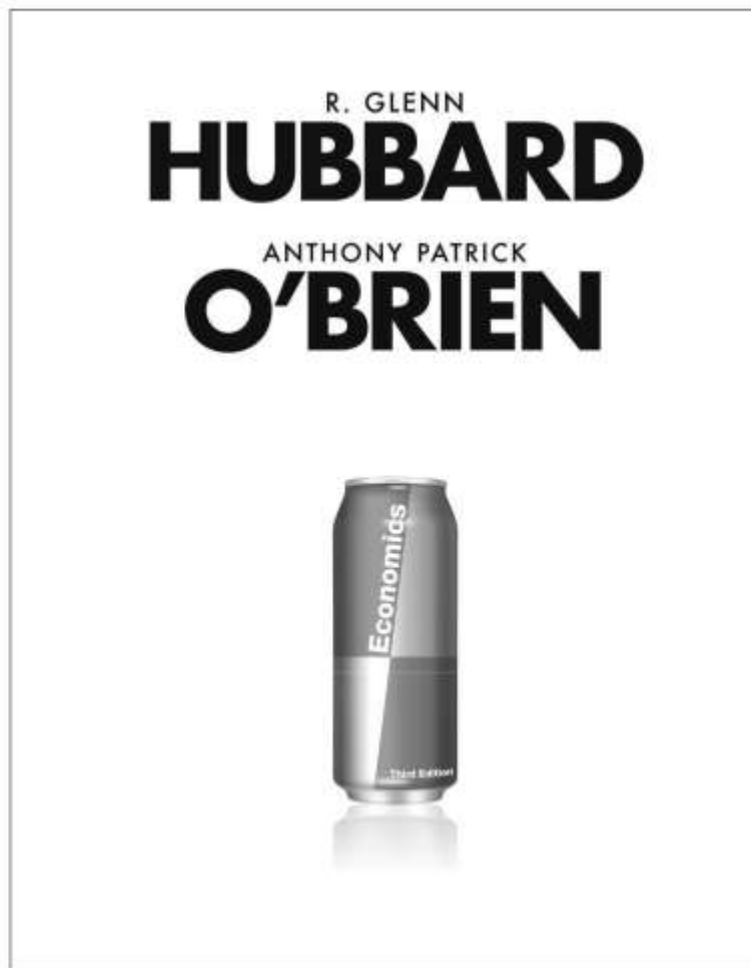
**Full link download:**

**Test Bank:**

<https://testbankpack.com/p/test-bank-for-economics-3rd-edition-by-hubbard-obrien-isbn-013602176x-9780136021766/>

**Solution Manual:**

<https://testbankpack.com/p/solution-manual-for-economics-3rd-edition-by-hubbard-obrien-isbn-013602176x-9780136021766/>

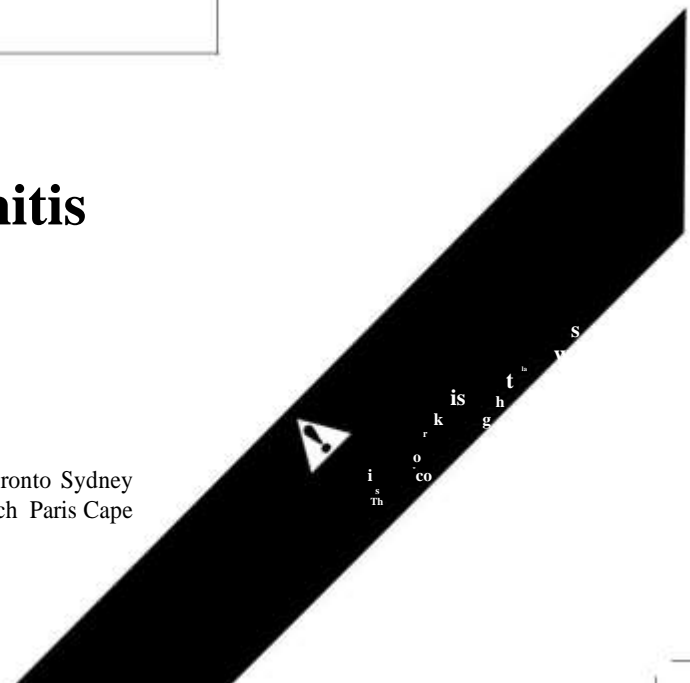


**Randy Methenitis**

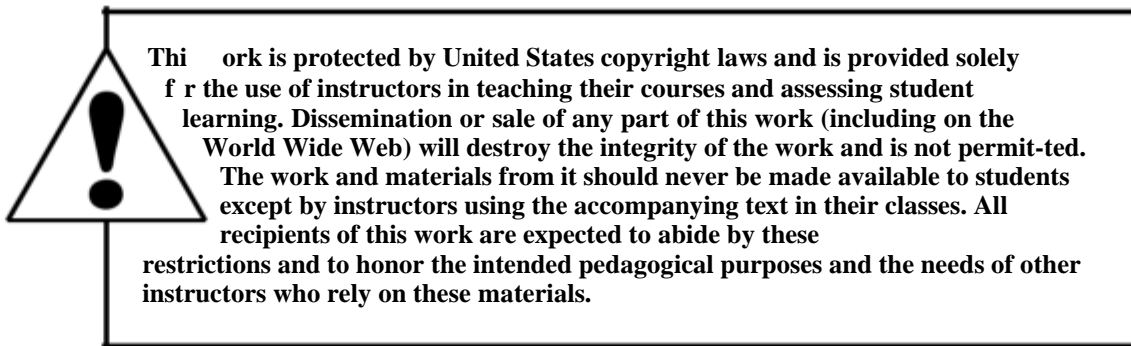
*Richland College*

**Pearson Prentice Hall**

Boston San Francisco New York London Toronto Sydney  
Tokyo Singapore Madrid Mexico City Munich Paris Cape  
Town Hong Kong Montreal







Executive Editor: David Alexander  
Senior Developmental Editor: Lena Buonanno  
Production Editor: Alison Eusden  
Manufacturing Buyer: Linda Cox

---

Copyright© 2010, 2008, 2006 Pearson Education, Inc., 75 Arlington Street, Boston, MA 02116. Pearson Prentice Hall. All rights reserved. Printed in the United States of America. This publication is protected by copyright and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or likewise. For information regarding permission(s), write to: Rights and Permissions Department.

This work is protected by United States copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning. Dissemination or sale of any part of this work (including on the World Wide Web) will destroy the integrity of the work and is not permitted. The work and materials from it should never be made available to students except by instructors using the accompanying text in their classes. All recipients of this work are expected to abide by these restrictions and to honor the intended pedagogical purposes and the needs of other instructors who rely on these materials. **Pearson Prentice Hall™ is a trademark of Pearson Education, Inc.**

**Prentice Hall**  
is an imprint of



[www.pearsonhighered.com](http://www.pearsonhighered.com)

123456OPM12111009

ISBN-13: 978-0-13-215318-8

ISBN-10: 0-13-215318-1

# Contents

|            |  |     |
|------------|--|-----|
| Chapter 1  | Economics: Foundations and Models.....   | 1   |
| Chapter 2  | Trade-offs, Comparative Advantage, and the Market System.....                  | 51  |
| Chapter 3  | Where Prices Come From: The Interaction of Demand and Supply .....             | 110 |
| Chapter 4  | Economic Efficiency, Government Price Setting, and Taxes .....                 | 166 |
| Chapter 5  | Externalities, Environmental Policy, and Public Goods .....                    | 221 |
| Chapter 6  | Elasticity: The Responsiveness of Demand and Supply .....                      | 277 |
| Chapter 7  | Firms, the Stock Market, and Corporate Governance .....                        | 332 |
| Chapter 8  | Comparative Advantage and the Gains from International Trade .....             | 375 |
| Chapter 9  | Consumer Choice and Behavioral Economics.....                                  | 427 |
| Chapter 10 | Technology, Production, and Costs .....  | 484 |
| Chapter 11 | Firms in Perfectly Competitive Markets .....                                   | 548 |
| Chapter 12 | Monopolistic Competition: The Competitive Model in a<br>More Realistic Setting | 612 |
| Chapter 13 | Oligopoly: Firms in Less Competitive Markets.....                              | 669 |
| Chapter 14 | Monopoly and Antitrust Policy.....   | 718 |
| Chapter 15 | Pricing Strategy.....  | 774 |

# Preface

This Test Item File (TIF) was prepared by Randy Methenitis of Richland College. The TIF includes approximately 4,000 multiple-choice questions, true/false, short-answer, and graphing questions. There are questions to support each key feature in the book. Test questions are annotated with the following information:

- **Difficulty:** 1 for straight recall; 2 for some analysis; 3 for complex analysis
- **Type:** multiple-choice, true/false, short-answer, essay
- **Topic:** the term or concept the question supports
- **Learning objective**
- **AACSB** (see description that follows)
- **Page number**
- **Special feature in the main book:** chapter-opening business example, *Economics in Your Life*, *Solved Problem*, *Making the Connection*, *Don't Let this Happen to You!* and *An Inside Look*.

The test bank was checked for accuracy by Fatma Abdel-Raouf of Goldey-Beacom College and Brian Rosario of the University of California, Davis.

## The Association to Advance Collegiate Schools of Business (AACSB)

The test bank author has connected select test bank questions to the general knowledge and skill guidelines found in the AACSB standards.

### What is the AACSB?

AACSB is a not-for-profit corporation of educational institutions, corporations, and other organizations devoted to the promotion and improvement of higher education in business administration and accounting. A collegiate institution offering degrees in business administration or accounting may volunteer for AACSB accreditation review. The AACSB makes initial accreditation decisions and conducts periodic reviews to promote continuous quality improvement in management education. Pearson Education is a proud member of the AACSB and is pleased to provide advice to help you apply AACSB Learning Standards.

### What are AACSB Learning Standards?

One of the criteria for AACSB accreditation is the quality of the curricula. Although no specific courses are required, the AACSB expects a curriculum to include learning experiences in such areas as:

- Communication
- Ethical Reasoning
- Analytic Skills
- Use of Information Technology
- Multicultural and Diversity
- Reflective Thinking

These six categories are AACSB Learning Standards. Questions that test skills relevant to these standards are tagged with the appropriate standard. For example, a question testing the moral questions associated with externalities would receive the Ethical Reasoning tag.

### How Can Instructors Use the AACSB Tags?

Tagged questions help you measure whether students are grasping the course content that aligns with the AACSB guidelines noted above. In addition, the tagged questions may help

instructors identify potential applications of these skills. This in turn may suggest enrichment activities or other educational experiences to help students achieve these skills.

## TestGen

The computerized TestGen package allows instructors to customize, save, and generate classroom tests. The test program permits instructors to edit, add, or delete questions from the test banks; edit existing graphics and create new graphics; analyze test results; and organize a database of tests and student results. This software allows for extensive flexibility and ease of use. It provides many options for organizing and displaying tests, along with search and sort features. The software and the test banks can be downloaded from the Instructor's Resource Center ([www.pearsonhighered.com/hubbard](http://www.pearsonhighered.com/hubbard)).

## Other Supplements Available to You



**MyEconLab** is a unique online course management, testing, and tutorial resource. Visit [www.myeconlab.com](http://www.myeconlab.com) for more information.

The **Instructor's Manual** includes chapter-by-chapter summaries, new examples and class exercises, teaching outlines, and teaching tips. Download this supplement from the Instructor's Resource Center ([www.pearsonhighered.com/hubbard](http://www.pearsonhighered.com/hubbard)).

### Three Sets of PowerPoint® Slides

1. A comprehensive set of PowerPoint® slides can be used by instructors for class presentations or by students for lecture preview or review.
2. A comprehensive set of PowerPoint® slides have Classroom Response Systems (CRS) questions built in so that instructors can incorporate CRS “clickers” into their classroom lectures.
3. A student version of the PowerPoint® slides is available as .pdf files.

The **Instructor's Resource CD-ROM** contains the *Test Item Files*, *Instructor's Manual*, and *PowerPoint presentations*.

**Blackboard and WebCT Course Management Systems** allow you to fully customize your course content.

**Classroom Response Systems (CRS)** is an exciting new wireless polling technology that makes large and small classrooms even more interactive because it enables instructors to pose questions to their students, record results, and display the results instantly. Learn more at [www.pearsonhighered.com/crs](http://www.pearsonhighered.com/crs).

**CourseSmart** goes beyond traditional expectations providing instant, online access to the textbooks and course materials you need at a lower cost to students. And, even as students save money, you can save time and hassle with a digital textbook that allows you to search the most relevant content at the very moment you need it. Whether it's evaluating textbooks or creating lecture notes to help students with difficult concepts, CourseSmart can make life a little easier. See how when you visit [www.coursesmart.com/instructors](http://www.coursesmart.com/instructors).

# Chapter 1

## Economics: Foundations and Models

### 1.1 Three Key Economic Ideas

- 1) U.S. law restricts the number of foreign "specialty workers" who may enter the United States under the H-1B visa program to just 65,000 per year. As part of the 2009 Recovery and Reinvestment Act, Congress tightened restrictions on the immigration of technical workers to the United States by
- A) eliminating the H-1B visa program.
  - B) putting strict limits on the ability of firms receiving government aid to hire foreign workers.
  - C) only allowing foreign workers from English-speaking countries to apply for H-1B visas.
  - D) restricting H-1B visas to college students who agreed to remain in the United States after graduation.

Answer: B

Diff: 2 Page Ref: 3/3

Topic: Scarcity

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

Special Feature: Chapter Opener: Microsoft Versus the U.S. Congress on Worker Visas

- 2) In economics, choices must be made because we live in a world of
- A) unemployment.
  - B) scarcity.
  - C) greed.
  - D) unlimited resources.

Answer: B

Comment: Recurring

Diff: 1 Page Ref: 4/4

Topic: Scarcity

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 3) 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

Comment: Recurring

Diff: 1 Page Ref: 4/4

Topic: Scarcity

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 4) The basic economic problem of \_\_\_\_\_ has always existed and will continue to exist.
- A) scarcity
  - B) efficiency
  - C) inflation
  - D) recession

Answer: A

Comment: Recurring

Diff: 1 Page Ref: 4/4

Topic: Scarcity

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 5) 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

Comment: Recurring

Diff: 1 Page Ref: 4/4

Topic: Scarcity

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

Special Feature: None

- 6) An economic \_\_\_\_\_ is a simplified version of some aspect of economic life used to analyze an economic issue.
- A) market
  - B) trade-off
  - C) variable
  - D) model

Answer: D

Comment: Recurring

Diff: 1 Page Ref: 4/4

Topic: Economic Models

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None



- 7) 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 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

Comment: Recurring

Diff: 1 Page Ref: 4/4

Topic: Markets

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 8) 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

Comment: Recurring

Diff: 1 Page Ref: 4/4

Topic: Markets

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 9) Economists assume that individuals
- A) behave in unpredictable ways.
  - B) will never take actions 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

Comment: Recurring

Diff: 1 Page Ref: 5/5

Topic: People Are Rational

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 10) Economists assume that rational behavior 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

Comment: Recurring

Diff: 2 Page Ref: 5/5

Topic: People Are Rational

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 11) 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

Comment: Recurring

Diff: 2 Page Ref: 5/5

Topic: People Are Rational

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 12) Economics does not study correct or incorrect behaviors 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

Comment: Recurring

Diff: 2 Page Ref: 5/5

Topic: People Are Rational

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

13) Consider the following statements:

- a. Car owners purchase more gasoline from a gas station that sells gasoline at a lower price than other rival gas 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) a only.
- B) b only.
- C) c only.
- D) a and b.
- E) a, b, and c.

Answer: E

Comment: Recurring

Diff: 3 Page Ref: 5/5

Topic: People Respond to Economic Incentives

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Analytic Skills

Special Feature: None

14) Over the past decade, health plans have sought to contain rising health care costs by raising premiums and encouraging the use of lower-cost generic drugs. Recently, some health insurers have implemented plans that involve lowering or eliminating co-payments on medications for chronic illnesses.

Source: Vanessa Fuhrmans, "New Tack on Copays: Cutting Them", Wall Street Journal, Tuesday, May 8 2007, Page D1.

Which of the following best explains why employers and health insurers might choose to adopt this radical approach?

- A) These health plans are trying to persuade employers and consumers to bear a greater share of rising health care costs.
- B) They believe that this will give consumers incentives to take better care of their health which in turn, will enable health plans to save even more money by preventing costly health crises down the road.
- C) Health insurers have an incentive to institute plans that promote equity.
- D) Health insurers are finally recognizing that many, especially the elderly, are not getting the care they need.

Answer: B

Diff: 2 Page Ref: 5/5

Topic: People Respond to Economic Incentives

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Analytic Skills

Special Feature: None

- 15) In Estonia, the government pays working women who take time off after having a baby their entire salary for up to 15 months, and women who do not work receive \$200 per month after having a baby. How will these benefits affect a woman's decision to have children?
- A) These incentives will have no effect on having children; the decision to have children is a social and psychological decision, not an economic decision.
  - B) These incentives will encourage women to have children and increase the birth rate.
  - C) These incentives will encourage only women with high opportunity costs to have more children.
  - D) These incentives will encourage only less educated women to have more children.

Answer: B

Diff: 2 Page Ref: 5/5

Topic: People Respond to Economic Incentives

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Analytic Skills

Special Feature: Making the Connection: Will Women Have More Babies if the Government Pays Them To?

- 16) In the United States and in most European countries, aging populations and declining birthrates threaten public finances. As the population ages, there are fewer workers paying taxes relative to the number of retired people receiving government benefits. Which of the following government policies would *not* help reduce the pressure on public finances?
- A) offer financial incentives to increase the birthrate
  - B) reduce taxes paid by current workers so that they can save for their future
  - C) reduce retiree benefit payments
  - D) raise the retirement age

Answer: B

Diff: 2 Page Ref: 5/5

Topic: People Respond to Economic Incentives

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Analytic Skills

Special Feature: Making the Connection: Will Women Have More Babies if the Government Pays Them To?

- 17) In economics, the term \_\_\_\_\_ means "additional" or "extra".
- A) allocative
  - B) marginal
  - C) equity
  - D) optimal

Answer: B

Comment: Recurring

Diff: 1 Page Ref: 6/6

Topic: Optimal Decisions Are Made at the Margin

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 18) 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
  - E) net benefit

Answer: A

Comment: Recurring

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 19) 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

Comment: Recurring

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 20) 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

Comment: Recurring

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 21) 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

Comment: Recurring

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 22) 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

Comment: Recurring

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 23) If the marginal cost of producing an iPhone is constant at \$75, then Apple should produce this item
- A) only if the marginal benefit it receives is greater than \$75 plus an acceptable profit margin.
  - B) as long as the marginal benefit it receives is just equal to or greater than \$75.
  - C) as long as its marginal cost does not rise.
  - D) until the marginal benefit it receives reaches zero.

Answer: B

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: Solved Problem: Apple Computer Makes a Decision at the Margin

- 24) Making "how much" decisions involve
- 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

Comment: Recurring

Diff: 2 Page Ref: 6/6

Topic: Optimal Decisions Are Made at the Margin

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

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

Answer: B

Comment: Recurring

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 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. What is DeShawn's marginal benefit if he sells a basic detailing package?
- A) \$35
  - B) \$75
  - C) He makes a marginal loss of \$15, not a marginal benefit.
  - D) The marginal benefit cannot be determined.

Answer: B

Comment: Recurring

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Analytic Skills

Special Feature: None

27) 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

Comment: Recurring

Diff: 2 Page Ref: 7/7

Topic: *Optimal Decisions Are Made at the Margin*

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Analytic Skills

Special Feature: None

28) 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

Comment: Recurring

Diff: 3 Page Ref: 7/7

Topic: *Optimal Decisions Are Made at the Margin*

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Analytic Skills

Special Feature: None



**Scenario 1-1**

Suppose a cell phone manufacturer currently sells 20,000 cell phones per week and makes a profit of \$5,000 per week. A manager at the plant observes, "Although the last 3,000 cell phones we produced and sold increased our revenue by \$6,000 and our costs by \$6,700, we are still making an overall profit of \$5,000 per week so I think we're on the right track. We are producing the optimal number of cell phones."

- 29) **Refer to Scenario 1-1.** Using marginal analysis terminology, what is another economic term for the incremental revenue received from the sale of the last 3,000 cell phones?

- A) gross earnings
- B) marginal revenue
- C) sales revenue
- D) gross profit

Answer: B

Comment: Recurring

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 30) **Refer to Scenario 1-1.** Using marginal analysis terminology, what is another economic term for the incremental cost of producing the last 3,000 cell phones?

- A) marginal cost
- B) operating cost
- C) explicit cost
- D) Any of the above terms are correct.

Answer: A

Comment: Recurring

Diff: 1 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Reflective Thinking

Special Feature: None

- 31) **Refer to Scenario 1-1.** Had the firm not produced and sold the last 3,000 cell phones, would its profit be higher or lower, and if so by how much?

- A) Its profit will be \$6,700 higher.
- B) Its profit will be \$700 higher.
- C) Its profit will be \$700 lower.
- D) Its profit will be \$6,000 lower.

Answer: B

Comment: Recurring

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Analytic Skills

Special Feature: None

Table 1-1

| Hours<br>Open | Total<br>Revenue<br>(dollars) |
|---------------|-------------------------------|
| 1             | \$50                          |
| 2             | 75                            |
| 3             | 95                            |
| 4             | 110                           |
| 5             | 120                           |
| 6             | 125                           |

Lydia runs a small nail salon in the town of New Hope. She is debating whether she should extend her hours of operation. Lydia figures that her sales revenue will depend on the number of hours the nail salon is open as shown in the table above. She would have to hire a worker for those hours at a wage rate of \$10 per hour.

32) *Refer to Table 1-1.* Using marginal analysis, determine how many hours should Lydia extend her nail salon's hours of operations?

- A) 2 hours
- B) 3 hours
- C) 4 hours
- D) 5 hours
- E) 6 hours

Answer: D

Comment: Recurring

Diff: 3 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Analytic Skills

Special Feature: None

33) *Refer to Table 1-1.* What is Lydia's marginal benefit if she decides to stay open for two hours instead of one hour?

- A) \$25
- B) \$50
- C) \$75
- D) \$125

Answer: A

Comment: Recurring

Diff: 2 Page Ref: 7/7

Topic: Optimal Decisions Are Made at the Margin

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Analytic Skills

Special Feature: None

34) *Refer to Table 1-1.* What is Lydia's marginal cost if she decides to stay open for two hours instead of one hour?

- A) \$10
- B) \$20
- C) \$25
- D) \$40

Answer: A

Comment: Recurring

Diff: 2 Page Ref: 7/7

Topic: *Optimal Decisions Are Made at the Margin*

Objective: LO1: *Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.*

AACSB: *Analytic Skills*

Special Feature: *None*

35) 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

Comment: Recurring

Diff: 2 Page Ref: 7/7

Topic: *Optimal Decisions Are Made at the Margin*

Objective: LO1: *Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.*

AACSB: *Analytic Skills*

Special Feature: *None*

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

Answer: TRUE

Comment: Recurring

Diff: 1 Page Ref: 4/4

Topic: *Scarcity*

Objective: LO1: *Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.*

AACSB: *Reflective Thinking*

Special Feature: *None*

- 37) Scarcity is a problem that will eventually disappear as technology advances. Answer: FALSE  
Comment: Recurring  
Diff: 1 Page Ref: 4/4  
Topic: Scarcity  
Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.  
AACSB: Reflective Thinking  
Special Feature: None
- 38) An economic model is a simplified version of reality used to analyze real-world economic situations.  
Answer: TRUE  
Comment: Recurring  
Diff: 1 Page Ref: 4/4  
Topic: Economic Models  
Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.  
AACSB: Reflective Thinking  
Special Feature: None
- 39) The sales revenue a seller receives from the sale of an additional unit of goods is called the marginal benefit.  
Answer: TRUE  
Comment: Recurring  
Diff: 1 Page Ref: 7/7  
Topic: Optimal Decisions Are Made at the Margin  
Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.  
AACSB: Reflective Thinking  
Special Feature: None
- 40) Optimal decisions are made at the point where marginal cost equals zero. Answer: FALSE  
Comment: Recurring  
Diff: 1 Page Ref: 7/7  
Topic: Optimal Decisions Are Made at the Margin  
Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.  
AACSB: Reflective Thinking  
Special Feature: None
- 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  
Comment: Recurring  
Diff: 1 Page Ref: 7/7  
Topic: Optimal Decisions Are Made at the Margin  
Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.  
AACSB: Reflective Thinking  
Special Feature: None

- 42) Suppose the extra cost to Apple of producing another iPhone is \$75. Then, Apple should produce this unit even if it can only sell it for \$75.

Answer: TRUE

Diff: 2 Page Ref: 7/7

Topic: *Optimal Decisions Are Made at the Margin*

Objective: LO1: *Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.*

AACSB: *Analytic Skills*

Special Feature: *Solved Problem: Apple Computer Makes a Decision at the Margin*

- 43) 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.

Comment: Recurring

Diff: 2 Page Ref: 5/5

Topic: *People Are Rational*

Objective: LO1: *Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.*

AACSB: *Reflective Thinking*

Special Feature: *None*

- 44) 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.

Comment: Recurring

Diff: 2 Page Ref: 5/5

Topic: *People Respond to Economic Incentives*

Objective: LO1: *Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.*

AACSB: *Reflective Thinking*

Special Feature: *None*

- 45) 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.

Comment: Recurring

Diff: 2 Page Ref: 6/6

Topic: *Optimal Decisions Are Made at the Margin*

Objective: LO1: *Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.*

AACSB: *Reflective Thinking*

Special Feature: *None*

- 46) Assume that Apple computer can earn an additional \$81 million of revenue from making 300,000 more iPods. What must the additional cost of producing these 300,000 be to make the additional output economically rational?

Answer: The additional cost of the 300,000 extra iPods must be no more than \$81 million to make the production of these extra units economically rational.

Diff: 2 Page Ref: 7/7

Topic: People Are Rational

Objective: LO1: Explain these three key economic ideas: People are rational. People respond to incentives. Optimal decisions are made at the margin.

AACSB: Analytic Skills

Special Feature: Solved Problem: Apple Computer Makes a Decision at the Margin

## 1.2 The Economic Problem That Every Society Must Solve

- 1) 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 to produce; 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

Comment: Recurring

Diff: 1 Page Ref: 8/8

Topic: Trade-offs

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 2) 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

Comment: Recurring

Diff: 1 Page Ref: 8/8

Topic: Trade-offs

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 3) 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

Comment: Recurring

Diff: 2 Page Ref: 8/8

Topic: Trade-offs

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 4) 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

Comment: Recurring

Diff: 2 Page Ref: 8/8

Topic: Trade-offs

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 5) 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 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

Comment: Recurring

Diff: 1 Page Ref: 8/8

Topic: Trade-offs

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 6) 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

Comment: Recurring

Diff: 1 Page Ref: 8/8

Topic: Opportunity Cost

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 7) 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

Comment: Recurring

Diff: 1 Page Ref: 8/8

Topic: Opportunity Cost

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Analytic Skills

Special Feature: None

- 8) 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

Comment: Recurring

Diff: 1 Page Ref: 8/8

Topic: Opportunity Cost

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Analytic Skills

Special Feature: None



- 9) The distribution of income primarily determines which of the fundamental economic questions?
- What goods and services are to be produced?
  - How the goods and services are to be produced?
  - Who will receive the goods and services produced?
  - How to plan the economy?

Answer: C

Comment: Recurring

Diff: 2 Page Ref: 8/8

Topic: Who Will Receive the Goods and Services Produced?

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 10) 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?
- How to produce goods that consumers want?
  - Why produce a variety of automobiles?
  - What to produce?
  - Who to produce automobiles for?

Answer: C

Comment: Recurring

Diff: 1 Page Ref: 8/8

Topic: What Goods and Services Will Be Produced?

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 11) Consider the following economic agents:
- the government
  - consumers
  - producers

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

- the government
- producers
- consumers
- consumers and producers
- the government, consumers and producers

Answer: A

Comment: Recurring

Diff: 1 Page Ref: 9/9

Topic: What Goods and Services Will Be Produced?

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 12) The decision about what goods and services will be produced made 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.
  - E) consumers dictating to firms what they need most.

Answer: D

Comment: Recurring

Diff: 1 Page Ref: 9/9

Topic: What Goods and Services Will Be Produced?

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 13) 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

Comment: Recurring

Diff: 1 Page Ref: 9/9

Topic: What Goods and Services Will Be Produced?

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 14) 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 reduce efficiency and leads to an inequitable allocation of output.

Answer: A

Comment: Recurring

Diff: 3 Page Ref: 10/10

Topic: Who Will Receive the Goods and Services Produced?

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Analytic Skills

Special Feature: None

15) Who receives the most of what is produced in a market economy?

- A) lawmakers and other politically favored groups
- B) those who are willing and able to buy them
- C) everyone receives an equal amount
- D) people who earn the highest incomes

Answer: B

Comment: Recurring

Diff: 1 Page Ref: 10/10

Topic: *Who Will Receive the Goods and Services Produced?*

Objective: LO2: *Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?*

AACSB: *Reflective Thinking*

Special Feature: *None*

16) How are the fundamental economic decisions determined in North Korea?

- A) Individuals, firms, and the government interact in a market to make these economic decisions.
- B) These decisions are made by the country's elders who have had much experience in answering these questions.
- C) The government decides because North Korea is a centrally planned economy.
- D) The United Nations decides because North Korea is a developing economy.

Answer: C

Comment: Recurring

Diff: 1 Page Ref: 9/9

Topic: *Centrally Planned Economies*

Objective: LO2: *Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?*

AACSB: *Reflective Thinking*

Special Feature: *None*

17) 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

Comment: Recurring

Diff: 2 Page Ref: 9/9

Topic: *Market Economies*

Objective: LO2: *Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?*

AACSB: *Reflective Thinking*

Special Feature: *None*

- 18) 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

Comment: Recurring

Diff: 2 Page Ref: 9/9

Topic: Centrally Planned Economies

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 19) All of the following contributed to the downfall of the Soviet Union in 1991 *except*
- A) public dissatisfaction with low living standards and political repression.
  - B) an inability to produce low-cost consumer goods that households wanted.
  - C) lack of high-quality goods and services.
  - D) lack of a strong dictator who can coordinate economic activities.

Answer: D

Comment: Recurring

Diff: 2 Page Ref: 9/9

Topic: Centrally Planned Economies

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 20) \_\_\_\_\_ 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

Comment: Recurring

Diff: 1 Page Ref: 10/10

Topic: Efficiency

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 21) 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

Comment: Recurring

Diff: 1 Page Ref: 10/10

Topic: Efficiency

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

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

Answer: A

Comment: Recurring

Diff: 1 Page Ref: 10/10

Topic: Efficiency

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 23) 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

Comment: Recurring

Diff: 1 Page Ref: 10/10

Topic: Efficiency

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

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

Answer: D

Comment: Recurring

Diff: 2 Page Ref: 9/9

Topic: Market Economies

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 25) Which of the following statements is true about competition in a market?
- A) Competition forces firms to outsource the production of their labor-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

Comment: Recurring

Diff: 2 Page Ref: 9/9

Topic: Market Economies

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 26) \_\_\_\_\_ 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

Comment: Recurring

Diff: 1 Page Ref: 9/9

Topic: Market Economies

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

27) 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

Comment: Recurring

Diff: 1 Page Ref: 10/10

Topic: Efficiency

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

28) Voluntary exchange between buyers and sellers generates \_\_\_\_\_ in a market economy.

- A) scarcity
- B) allocative efficiency
- C) productive efficiency
- D) equity

Answer: B

Comment: Recurring

Diff: 1 Page Ref: 10/10

Topic: Efficiency

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

29) 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

Comment: Recurring

Diff: 1 Page Ref: 9/9

Topic: Market Economies

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 30) Political candidates often hold fund raisers by charging "per plate" for dinner. Wendy purchased four tickets to a \$1,000 per plate dinner for a local city council candidate. Is this transaction economically efficient?
- A) No, political candidates should never be allowed to overcharge for a fund raising dinner.
  - B) Yes, it was a voluntary exchange that benefited both parties.
  - C) No, Wendy paid too much for four dinners.
  - D) Yes, it is efficient only from the perspective of the candidate but not from the perspective of Wendy.

Answer: B

Comment: Recurring

Diff: 2 Page Ref: 9/9

Topic: Market Economies

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Analytic Skills

Special Feature: None

- 31) 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

Comment: Recurring

Diff: 1 Page Ref: 10/10

Topic: Equity

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 32) Which of the following is motivated by an equity concern?
- A) Some states have transferred funds to food bank programs in order to increase benefits to lower-income families.
  - B) Following the implementation of subsidies for energy conservation, household demand for rooftop solar panels increased quite significantly in California.
  - C) The United Network for Organ Sharing advocates a system of rationing scarce kidneys that would favor young patients over old in an effort to wring more life out of donated organs.
  - D) The United States offers patent protection to pharmaceutical manufacturers to prevent others from duplicating their products.

Answer: A

Comment: Recurring

Diff: 3 Page Ref: 10/10

Topic: Equity

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking, Ethical Reasoning

Special Feature: None



- 33) Which of the following is motivated by an efficiency concern?
- A) In December 2006, the Bush administration restarted a short-term housing assistance program for victims of Hurricane Katrina.
  - B) Each year, the University of Notre Dame conducts a lottery to parcel out the 30,000 seats available to contributors, former athletes and parents in the 80,000-seat stadium.
  - C) The United Network for Organ Sharing advocates a system of rationing scarce kidneys that would favor young patients over old in an effort to wring more life out of donated organs.
  - D) The federal government's housing choice voucher program assists very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market.

Answer: C

Comment: Recurring

Diff: 3 Page Ref: 10/10

Topic: Efficiency

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking, Ethical Reasoning

Special Feature: None

- 34) Which of the following is an example of an efficiency-equity trade-off faced by economic agents?
- A) According to an article by in the American Journal of Public Health by Edward Kaplan and Michael Merson of Yale University School of Medicine, the federal government's current method of allocating HIV-prevention resources is not cost-effective. Instead of allocating resources to states in proportion to reported AIDS cases, resources should flow first to those activities that prevent more infections per dollar and then to less and less effective combinations of programs and populations until funds are exhausted, even if it means that some populations would be left without any prevention services.
  - B) Concerned about the falling birth rate, the French government has pledged more money for families with three children, in an effort to encourage working women to have more babies.
  - C) Some U.S. colleges are actively recruiting foreign students for their technology - based programs.
  - D) All New York City art museums are considering adopting a free -admission policy for local residents one weekend per month.

Answer: A

Comment: Recurring

Diff: 3 Page Ref: 10/10

Topic: Efficiency

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Analytic Skills, Ethical Reasoning

Special Feature: None

- 35) 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

Comment: Recurring

Diff: 2 Page Ref: 10/10

Topic: Efficiency

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

### *Article Summary*

In a policy report issued in February, 2009 the NAACP called on Washington to ensure that the federal stimulus package, designed to help the economy climb out of the recession, is distributed equitably. They are insisting that lawmakers guarantee fair hiring practices for new jobs since black unemployment is consistently higher than white unemployment. The report also requests legislation which protects black homeowners from predatory lending practices. Many black mortgage customers were issued high-cost loans, and approximately 10 percent of black families will be subject to foreclosure.

Source: Ian Urbina, "N.A.A.C.P. Calls for Economic Equity," *New York Times*, February 12, 2009.

- 36) *Refer to the Article Summary.* What does the NAACP mean when they say they want the federal stimulus package to be distributed equitably?
- A) They want a fair distribution of the economic benefits associated with the stimulus package.
  - B) They want the most allocatively efficient distribution of the economic benefits associated with the stimulus package.
  - C) They want the most productively efficient distribution of the economic benefits associated with the stimulus package.
  - D) They want the stimulus package to be distributed based on income levels, with the highest percentage of the stimulus going to the highest income earners.

Answer: A

Diff: 2 Page Ref: 10/10

Topic: Equity

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: Making the Connection: N.A.A.C.P. Calls for Economic Equity

- 37) **Refer to the Article Summary.** Would an equitable distribution of the stimulus package necessarily be the most efficient distribution of the stimulus package?
- A) Yes, equitable and efficient are two different words which have the same definition.
  - B) Yes, in order for the distribution to be equitable, it must also be efficient.
  - C) No, an economically efficient distribution of the stimulus package would not necessarily be equitable.
  - D) No, it is impossible to have an economically efficient distribution which is also an equitable distribution.

Answer: C

Diff: 2 Page Ref: 10/10

Topic: Efficiency

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: Making the Connection: N.A.A.C.P. Calls for Economic Equity

- 38) **Refer to the Article Summary.** Assume that the NAACP is successful with their desire for the distribution of the stimulus package, but this distribution is not in accordance with consumer preferences. This would exemplify a trade-off between
- A) productive efficiency and allocative efficiency.
  - B) efficiency and equity.
  - C) rational decision making and responding to incentives.
  - D) what goods and services will be produced and how the goods and services will be produced.

Answer: B

Diff: 2 Page Ref: 10/10

Topic: Efficiency

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: Making the Connection: N.A.A.C.P. Calls for Economic Equity

- 39) The government makes all economic decisions in a mixed economy. Answer: FALSE

Comment: Recurring

Diff: 1 Page Ref: 9/9

Topic: Mixed Economies

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

- 40) When voluntary exchange takes place, both parties gain from the exchange. Answer: TRUE

Comment: Recurring

Diff: 1 Page Ref: 9/9

Topic: Market Economies

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

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

Answer: TRUE

Comment: Recurring

Diff: 1 Page Ref: 9/9

Topic: *What Goods and Services Will Be Produced?*

Objective: LO2: *Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?*

AACSB: *Reflective Thinking*

Special Feature: *None*

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

Answer: FALSE

Comment: Recurring

Diff: 1 Page Ref: 9/9

Topic: *Market Economies*

Objective: LO2: *Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?*

AACSB: *Reflective Thinking*

Special Feature: *None*

43) 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).

Comment: Recurring

Diff: 2 Page Ref: 10/10

Topic: *Equity*

Objective: LO2: *Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?*

AACSB: *Reflective Thinking*

Special Feature: *None*

44) 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).

Comment: Recurring

Diff: 2 Page Ref: 10/10

Topic: *Opportunity Cost*

Objective: LO2: *Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?*

AACSB: *Reflective Thinking*

Special Feature: *None*

- 45) 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.

Comment: Recurring

Diff: 3 Page Ref: 10/10

Topic: Efficiency

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Analytic Skills

Special Feature: None

- 46) 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.

Comment: Recurring

Diff: 3 Page Ref: 9/9

Topic: Centrally Planned Economies

Objective: LO2: Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services?

AACSB: Reflective Thinking

Special Feature: None

### 1.3 Economic Models

- 1) 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

Comment: Recurring

Diff: 1 Page Ref: 11/11

Topic: Economic Models

Objective: LO3: Understand the role of models in economic analysis

AACSB: Reflective Thinking

Special Feature: None

- 2) All of the following are part of an economic model *except*
- A) assumptions.
  - B) hypotheses.
  - C) data.
  - D) opinions.

Answer: D

Comment: Recurring

Diff: 1 Page Ref: 11/11

Topic: Economic Models

Objective: LO3: Understand the role of models in economic analysis

AACSB: Reflective Thinking

Special Feature: None

- 3) 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 course of actions.
  - 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

Comment: Recurring

Diff: 2 Page Ref: 14/14

Topic: Normative and Positive Analysis

Objective: LO3: Understand the role of models in economic analysis

AACSB: Reflective Thinking

Special Feature: None

- 4) Which of the following is a positive economic statement?
- A) The standard of living in the United States should be higher.
  - B) If the price of iPhones falls, a larger quantity of iPhones will be purchased.
  - C) The government should revamp the health care system.
  - D) The U.S. government should not have bailed out U.S. auto manufacturers.

Answer: B

Comment: Recurring

Diff: 2 Page Ref: 14/14

Topic: Normative and Positive Analysis

Objective: LO3: Understand the role of models in economic analysis

AACSB: Reflective Thinking

Special Feature: None

- 5) Which of the following is a positive economic statement?
- A) People should not buy SUVs.
  - B) The government should mandate electric automobiles.
  - C) Scarcity necessitates that people make trade-offs.
  - D) Foreign workers should not be allowed to work for lower wages than the citizens of a country.

Answer: C

Comment: Recurring

Diff: 2 Page Ref: 14/14

Topic: Normative and Positive Analysis

Objective: LO3: Understand the role of models in economic analysis

AACSB: Reflective Thinking

Special Feature: None

- 6) Which of the following is a normative economic statement?
- A) Rising global demand for coal has led to increases in the price of coal.
  - B) With rising mortgage rates and rising unemployment rates, the number of unsold homes has increased.
  - C) The state of Texas is considering increasing funds for light-rail development to promote the use of public transportation.
  - D) Pharmaceutical manufacturers should not be allowed to patent their products so prescription drugs would be more affordable.

Answer: D

Comment: Recurring

Diff: 2 Page Ref: 14/14

Topic: Normative and Positive Analysis

Objective: LO3: Understand the role of models in economic analysis

AACSB: Ethical Reasoning

Special Feature: None

- 7) Which of the following is a normative economic statement?
- A) The price of gasoline is too high.
  - B) The current high price of gasoline is the result of strong worldwide demand.
  - C) When the price of gasoline rises, the quantity of gasoline purchased falls.
  - D) When the price of gasoline rises, transportation costs rise.

Answer: A

Comment: Recurring

Diff: 2 Page Ref: 14/14

Topic: Normative and Positive Analysis

Objective: LO3: Understand the role of models in economic analysis

AACSB: Reflective Thinking

Special Feature: None

- 8) What is an argument used by opponents of limits to H-1B visas?
- A) The foreign workers entering the country under the H-1B visa program are filling jobs no one else wants.
  - B) The limits undermine the ability of U.S. firms to recruit the best available workers.
  - C) The goodwill generated by the H-1B visa program will encourage other countries to hire U.S. workers for foreign-based jobs.
  - D) The H-1B visa program only allows workers to enter the United States for two years, at which time they must return home.

Answer: B

Diff: 2 Page Ref: 13/13

Topic: Normative and Positive Analysis

Objective: LO3: Understand the role of models in economic analysis

AACSB: Reflective Thinking

Special Feature: Making the Connection: Should the Federal Government Have Increased Restrictions on the Immigration of Skilled Workers?

- 9) The economic analysis of minimum wage involves both normative and positive analysis. Consider the following consequences of a minimum wage:
- a. The minimum wage law causes unemployment.
  - b. A minimum wage law benefits some groups and hurts others.
  - c. In some cities such as San Francisco and New York, it would be impossible for low-skilled workers to live in the city without minimum wage laws.
  - d. The gains to winners of a minimum wage law should be valued more highly than the losses to losers because the latter primarily comprises businesses.

Which of the consequences above are positive statements and which are normative statements?

- A) a, b, and c are positive statements and d is a normative statement.
- B) a and b are positive statements, c and d are normative statement.
- C) Only a is a positive statement, b, c and d are normative statements.
- D) a and c are positive statements, b and d are normative statements.

Answer: B

Diff: 2 Page Ref: 13/13

Topic: Normative and Positive Analysis

Objective: LO3: Understand the role of models in economic analysis

AACSB: Analytic Skills

Special Feature: Don't Let This Happen to YOU!: Don't Confuse Positive Analysis with Normative Analysis

- 10) "An increase in the price of gasoline will increase the demand for hybrid vehicles."  
This statement is an example of a positive economic statement.

Answer: TRUE

Comment: Recurring

Diff: 1 Page Ref: 14/14

Topic: Normative and Positive Analysis

Objective: LO3: Understand the role of models in economic analysis

AACSB: Reflective Thinking

Special Feature: None



- 11) "The distribution of income should be left to the market" is an example of a positive economic statement.

Answer: FALSE

Comment: Recurring

Diff: 1 Page Ref: 14/14

Topic: Normative and Positive Analysis

Objective: LO3: Understand the role of models in economic analysis

AACSB: Reflective Thinking

Special Feature: None

- 12) Positive analysis is concerned with "what ought to be", while normative analysis is concerned with "what is".

Answer: FALSE

Comment: Recurring

Diff: 2 Page Ref: 14/14

Topic: Normative and Positive Analysis

Objective: LO3: Understand the role of models in economic analysis

AACSB: Reflective Thinking

Special Feature: None

- 13) 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.)

Comment: Recurring

Diff: 2 Page Ref: 12/12

Topic: Normative and Positive Analysis

Objective: LO3: Understand the role of models in economic analysis

AACSB: Reflective Thinking

Special Feature: None

- 14) 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 behavior, particularly decision-making behavior, in every context.

Comment: Recurring

Diff: 2 Page Ref: 13/13

Topic: Economics as a Social Science

Objective: LO3: Understand the role of models in economic analysis

AACSB: Reflective Thinking

Special Feature: None

## 1.4 Microeconomics and Macroeconomics

1) 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

Comment: Recurring

Diff: 2 Page Ref: 14/14

Topic: Microeconomics

Objective: LO4: Distinguish between microeconomics and macroeconomics

AACSB: Reflective Thinking

Special Feature: None

2) 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

Comment: Recurring

Diff: 1 Page Ref: 14/14

Topic: Microeconomics

Objective: LO4: Distinguish between microeconomics and macroeconomics

AACSB: Reflective Thinking

Special Feature: None

3) 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

Comment: Recurring

Diff: 2 Page Ref: 14/14

Topic: Macroeconomics

Objective: LO4: Distinguish between microeconomics and macroeconomics

AACSB: Reflective Thinking

Special Feature: None

- 4) 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

Comment: Recurring

Diff: 1 Page Ref: 14/14

Topic: Macroeconomics

Objective: LO4: Distinguish between microeconomics and macroeconomics

AACSB: Reflective Thinking

Special Feature: None

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

Answer: TRUE

Comment: Recurring

Diff: 1 Page Ref: 14/14

Topic: Macroeconomics

Objective: LO4: Distinguish between microeconomics and macroeconomics

AACSB: Reflective Thinking

Special Feature: None

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

Answer: TRUE

Comment: Recurring

Diff: 1 Page Ref: 14/14

Topic: Microeconomics

Objective: LO4: Distinguish between microeconomics and macroeconomics

AACSB: Reflective Thinking

Special Feature: None

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

- a. gasoline 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.

Comment: Recurring

Diff: 2 Page Ref: 14/14

Topic: Microeconomics

Objective: LO4: Distinguish between microeconomics and macroeconomics

AACSB: Reflective Thinking

Special Feature: None

## 1.5 A Preview of Important Economic Terms

- 1) Which of the following statements is true about profit?
- A) Profit refers to the revenue received from the sale of a quantity of goods.
  - B) Profit is calculated by multiplying price and quantity sold.
  - C) The terms "accounting profit" and "economic profit" can be used interchangeably.
  - D) Profit is the difference between revenue and cost.

Answer: D

Comment: Recurring

Diff: 2 Page Ref: 16/16

Topic: Profit

Objective: LO5: Become familiar with important economic terms

AACSB: Reflective Thinking

Special Feature: None

- 2) In economics, the accumulated skills and training that workers have is known as
- A) human capital.
  - B) entrepreneurship.
  - C) physical capital.
  - D) innovation.

Answer: A

Comment: Recurring

Diff: 1 Page Ref: 16/16

Topic: Human Capital

Objective: LO5: Become familiar with important economic terms

AACSB: Reflective Thinking

Special Feature: None

- 3) Which of the following is an example of an activity undertaken by an entrepreneur?
- A) designing your landscaping for your new home
  - B) holding a position as the president of a liberal arts college
  - C) running for the president of the United States
  - D) starting your own pet sitting business

Answer: D

Comment: Recurring

Diff: 1 Page Ref: 16/16

Topic: Entrepreneur

Objective: LO5: Become familiar with important economic terms

AACSB: Reflective Thinking

Special Feature: None

- 4) The machines workers have to work with are considered
- A) human capital.
  - B) physical capital.
  - C) entrepreneurship.
  - D) financial capital.

Answer: B

Comment: Recurring

Diff: 2 Page Ref: 16/16

Topic: Capital

Objective: LO5: Become familiar with important economic terms

AACSB: Reflective Thinking

Special Feature: None

- 5) Technology is defined as
- A) the process of developing and revising models.
  - B) new innovations and creations.
  - C) the processes used to produce goods and services.
  - D) the process of recycling products.

Answer: C

Comment: Recurring

Diff: 1 Page Ref: 15/15

Topic: Technology

Objective: LO5: Become familiar with important economic terms

AACSB: Reflective Thinking

Special Feature: None

- 6) Which of the following statements about economic resources is true?
- A) Economic resources include financial capital and money.
  - B) Economic resources are also called factors of production.
  - C) Economic resources are used only by businesses.
  - D) All economic resources are man-made.

Answer: B

Comment: Recurring

Diff: 1 Page Ref: 15/15

Topic: Resources

Objective: LO5: Become familiar with important economic terms

AACSB: Reflective Thinking

Special Feature: None

- 7) The total number of H-1B visas issued by the U.S. government is limited to 65,000 per year. What type of workers are covered under the H-1B visa program?
- A) a broad range of "skilled workers"
  - B) workers from English-speaking countries only
  - C) workers who typically fill minimum wage jobs
  - D) full-time college students who are not allowed to work while attending school

Answer: A

Diff: 1 Page Ref: 16/16

Topic: Human Capital

Objective: LO5: Become familiar with important economic terms

Special Feature: Economics in YOUR LIFE!: Will You be Competing With Immigrant Workers for Your Next Job?

8) A study by William Kerr and William Lincoln found that when the U.S. government increased the H-1B visa quota, patents acquired by immigrant scientists \_\_\_\_\_ and patents acquired by American scientists \_\_\_\_\_.

- A) increased; increased
- B) increased; decreased
- C) decreased; increased
- D) decreased; decreased

Answer: A

Diff: 2 Page Ref: 18/18

Topic: Human Capital

Objective: LO5: Become familiar with important economic terms

Special Feature: An Inside LOOK at Policy: Do Immigrants Displace or Complement Domestic Workers?

9) In the market for factors of production, firms earn income by selling goods and services to households.

Answer: FALSE

Comment: Recurring

Diff: 1 Page Ref: 16/16

Topic: Resources

Objective: LO5: Become familiar with important economic terms

AACSB: Reflective Thinking

Special Feature: None

10) One example of human capital is the amount of skills that you have. Answer: TRUE

Comment: Recurring

Diff: 1 Page Ref: 16/16

Topic: Human Capital

Objective: LO5: Become familiar with important economic terms

AACSB: Reflective Thinking

Special Feature: None

11) List the five main factors of production.

Answer: The five main factors of production are labor, capital, human capital, natural resources, and entrepreneurial ability.

Comment: Recurring

Diff: 1 Page Ref: 15/15

Topic: Resources

Objective: LO5: Become familiar with important economic terms

AACSB: Reflective Thinking

Special Feature: None

12) What is the difference between an invention and an innovation?

Answer: An invention is the development of a new good or a new process for making a good. An innovation is the practical application of an invention. Innovation could also refer to any significant improvement in a good or in the means of producing a good.

Comment: Recurring

Diff: 1 Page Ref: 15/15

Topic: Innovation

Objective: LO5: Become familiar with important economic terms

AACSB: Reflective Thinking

Special Feature: None

13) Explain the difference between a firm's revenue and its profit.

Answer: A firm's revenue is the total amount received for selling a good or service. It is calculated by multiplying the price per unit by the number of units sold. A firm's profit is the difference between its revenue and its costs.

Comment: Recurring

Diff: 1 Page Ref: 15/15

Topic: Revenue

Objective: LO5: Become familiar with important economic terms

AACSB: Reflective Thinking

Special Feature: None

14) What does the Grassley-Sanders amendment, which was included in the Obama fiscal - stimulus package, address? Why are some people in favor of this amendment and some people opposed to this amendment?

Answer: The Grassley-Sanders amendment restricts the freedom of recipients of federal bail - out money to hire high-skilled foreign workers under the H-1B visa program. People in favor of this see it as a way to prevent foreign workers from displacing skilled American workers in the workplace. Opponents fear this will restrict innovation from American companies and prevent growth for these companies.

Diff: 2 Page Ref: 18/18

Topic: Human Capital

Objective: LO5: Become familiar with important economic terms

AACSB: Reflective Thinking

Special Feature: An Inside LOOK at Policy: Do Immigrants Displace or Complement Domestic Workers?

## 1.6 Appendix: Using Graphs and Formulas

1) 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

Comment: Recurring

Diff: 1 Page Ref: 26/26

Topic: Graphs

Skill: Graphing

Objective: Appendix: Review the use of graphs and formulas

AACSB: Reflective Thinking

Special Feature: None

2) \_\_\_\_\_ 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

Comment: Recurring

Diff: 1 Page Ref: 26/26

Topic: Graphs

Skill: Graphing

Objective: Appendix: Review the use of graphs and formulas

AACSB: Reflective Thinking

Special Feature: None

3) 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

Comment: Recurring

Diff: 2 Page Ref: 27/27

Topic: Slope

Skill: Graphing

Objective: Appendix: Review the use of graphs and formulas

AACSB: Analytic Skills

Special Feature: None

4) 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

Comment: Recurring

Diff: 3 Page Ref: 28/28

Topic: Graphs

Skill: Graphing

Objective: Appendix: Review the use of graphs and formulas

AACSB: Analytic Skills

Special Feature: None



- 5) 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

Comment: Recurring

Diff: 2 Page Ref: 27/27

Topic: Slope

Skill: Graphing

Objective: Appendix: Review the use of graphs and formulas

AACSB: Reflective Thinking

Special Feature: None

- 6) 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

Comment: Recurring

Diff: 1 Page Ref: 29/29

Topic: Positive and Negative Relationships

Objective: Appendix: Review the use of graphs and formulas

AACSB: Reflective Thinking

Special Feature: None

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

Answer: B

Comment: Recurring

Diff: 1 Page Ref: 29/29

Topic: Positive and Negative Relationships

Objective: Appendix: Review the use of graphs and formulas

AACSB: Reflective Thinking

Special Feature: None

- 8) If the price of milk was \$2.50 a gallon and it is now \$3.25 a gallon, what is the percentage change in price?
- A) 13 percent
  - B) 30 percent
  - C) 75 percent
  - D) 77 percent

Answer: B

Comment: Recurring

Diff: 1 Page Ref: 32/32

Topic: Formulas

Objective: Appendix: Review the use of graphs and formulas

AACSB: Analytic Skills

Special Feature: None

- 9) In 2008, Hooverville consumed 205,000 tons of sugar. In 2009, sugar consumption rose to 245,000 tons. Calculate the percentage change in sugar consumption.
- A) 8.37%
  - B) 11.95%
  - C) 19.51%
  - D) 26.33%

Answer: C

Diff: 1 Page Ref: 32/32

Topic: Formulas

Objective: Appendix: Review the use of graphs and formulas

AACSB: Analytic Skills

Special Feature: None

- 10) At a recent faculty meeting, Lorraine Waverly, president of Skywalker College, announced that enrollment is up by 12 percent over the previous semester. If enrollment the previous semester was 3,250 students, what is the student enrollment this semester?
- A) 390
  - B) 2,860
  - C) 3,640
  - D) 4,030

Answer: C

Comment: Recurring

Diff: 1 Page Ref: 32/32

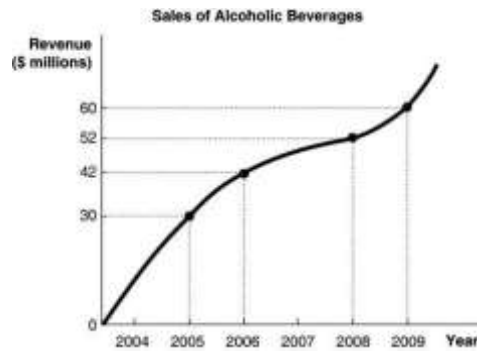
Topic: Formulas

Objective: Appendix: Review the use of graphs and formulas

AACSB: Analytic Skills

Special Feature: None

Figure 1-1



- 11) Refer to Figure 1-1. Using the information in the figure above, calculate the percentage change in sales of alcoholic beverages between 2006 and 2009.
- A) 23.1%
  - B) 23.8%
  - C) 30%
  - D) 42.9%

Answer: D

Diff: 1 Page Ref: 32/32

Topic: Formulas

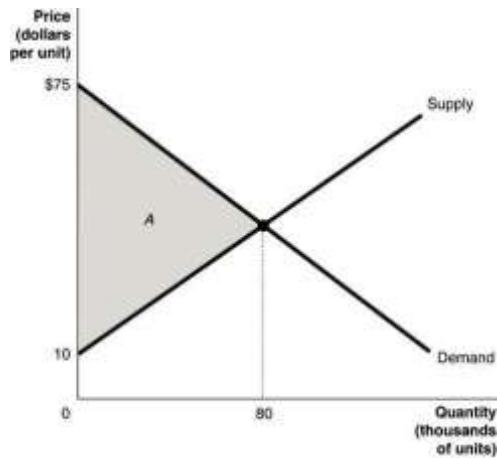
Skill: Graphing

Objective: Appendix: Review the use of graphs and formulas

AACSB: Analytic Skills

Special Feature: None

Figure 1-2



12) 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

Comment: Recurring

Diff: 1 Page Ref: 33/33

Topic: Formulas

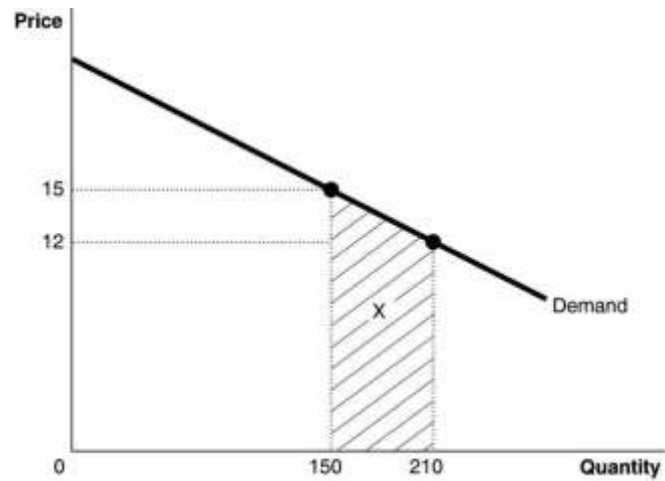
Skill: Graphing

Objective: Appendix: Review the use of graphs and formulas

AACSB: Analytic Skills

Special Feature: None

Figure 1-3



- 13) Refer to Figure 1-3. Calculate the area of the trapezoid X.
- A) \$270
  - B) \$720
  - C) \$810
  - D) \$2,520

Answer: C

Comment: Recurring

Diff: 2 Page Ref: 33/33

Topic: Formulas

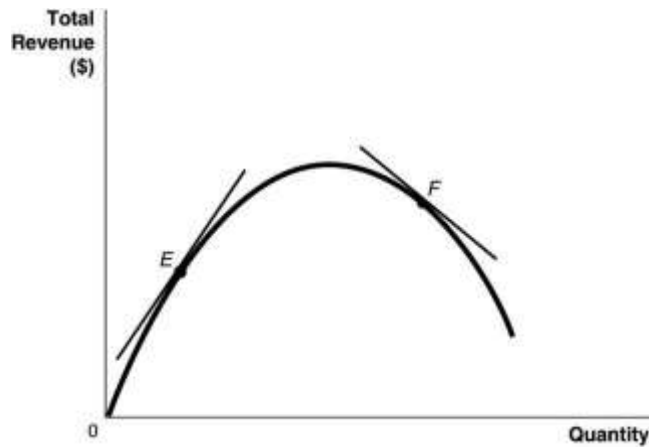
Skill: Graphing

Objective: Appendix: Review the use of graphs and formulas

AACSB: Analytic Skills

Special Feature: None

Figure 1-4



- 14) 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

Comment: Recurring

Diff: 1 Page Ref: 31/31

Topic: Slope

Skill: Graphing

Objective: Appendix: Review the use of graphs and formulas

AACSB: Analytic Skills

Special Feature: None

- 15) 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 experiment 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 experiment 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

Comment: Recurring

Diff: 1 Page Ref: 30/30

Topic: Cause and Effect

Objective: Appendix: Review the use of graphs and formulas

AACSB: Reflective Thinking

Special Feature: None

- 16) \_\_\_\_\_ 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

Comment: Recurring

Diff: 1 Page Ref: 30/30

Topic: Cause and Effect

Objective: Appendix: Review the use of graphs and formulas

AACSB: Reflective Thinking

Special Feature: None

- 17) 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 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

Comment: Recurring

Diff: 2 Page Ref: 30/30

Topic: Cause and Effect

Objective: Appendix: Review the use of graphs and formulas

AACSB: Analytic Skills

Special Feature: None

- 18) You explain to your roommate Surya, who makes beaded headbands, about an economic theory which asserts that consumers will purchase more of a product at lower prices than they will at higher prices. She contends that the theory is incorrect because over the past two years she has lowered the price of her headbands and yet has seen a decrease in sales. How would you respond to Surya?
- A) Surya is right; she has evidence to back her claim. The theory must be erroneous.
  - B) Surya is making the mistake of assuming that correlation implies causation.
  - C) I will explain to her that she is making the error of reverse causality: it is the decrease in demand that has caused her to lower her prices.
  - D) I will explain to her that there are some omitted variables that have contributed to a decrease in her sales such as changes in income.

Answer: D

Comment: Recurring

Diff: 2 Page Ref: 30/30

Topic: Cause and Effect

Objective: Appendix: Review the use of graphs and formulas

AACSB: Reflective Thinking

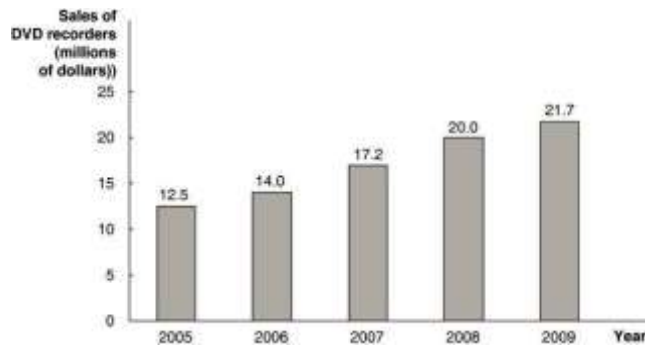
Special Feature: None

*Table 1-2*

| Year | DVD Recorders (millions) |
|------|--------------------------|
| 2005 | 12.5                     |
| 2006 | 14.0                     |
| 2007 | 17.2                     |
| 2008 | 20.0                     |
| 2009 | 21.7                     |

19) Refer to Table 1-2. The table above shows the sales of DVD recorders in North America. Present the information using a bar graph.

Answer:



Diff: 1 Page Ref: 25/25

Topic: Graphs

Skill: Graphing

Objective: Appendix: Review the use of graphs and formulas

AACSB: Analytic Skills

Special Feature: None