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Principles of Economics, 12e **(Case/Fair/Oster)**
Chapter 2 The Economic Problem: Scarcity and Choice

2.1 Scarcity, Choice, and Opportunity Cost

1) The process by which resources are transformed into useful forms is
A) capitalization.
B) consumption.
C) production.
D) allocation.
Answer: C
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

2) Outputs in the production process are
A) pollution.
B) money.
C) goods and services of value to households.
D) resources.
Answer: C
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

3) Which of the following is *not* a resource as the term is used by economists?
A) land
B) labor
C) buildings
D) money
Answer: D
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

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4) Which of the following would an economist classify as capital?
A) a $50 bill
B) a corporate bond
C) a post office employee
D) a guitar used by a musician
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

5) Capital, as economists use the term
A) is the money the firm spends to hire resources.
B) is money the firm raises from selling stock.
C) refers to the process by which resources are transformed into useful forms.
D) refers to things that have already been produced that are in turn used to produce other goods and services.
Answer: D
Diff: 3
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

6) The concept of opportunity cost is based on the principle of
A) need.
B) consumption.
C) scarcity.
D) profit.
Answer: C
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

7) The concept of trade-offs would become irrelevant if
A) we were dealing with a very simple, one-person economy.
B) poverty were eliminated.
C) scarcity were eliminated.
D) capital were eliminated.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-4

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8) Suppose you are deciding whether to spend your tax rebate check on a new iPod or a new digital camera. You are dealing with the concept of
A) equity.
B) comparative advantage.
C) opportunity costs.
D) the fallacy of composition.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

9) According to the theory of comparative advantage, specialization and free trade will benefit
A) only that trading party that has both an absolute advantage and a comparative advantage in the production of all goods.
B) all trading parties, even when some are absolutely more efficient producers than others.
C) only that trading party that has an absolute advantage in the production of all goods.
D) only that trading party that has a comparative advantage in the production of all goods.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-3

Refer to the information provided in Table 2.1 below to answer the following question(s).

Table 2.1

	Krystal	Mark
Writing Poems	8	12
Writing TV Commercials	2	4

10) Refer to Table 2.1. For Krystal, the opportunity cost of writing one TV commercial is
A) 1/4 of a poem.
B) 2 poems.
C) 4 poems.
D) 6 poems.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

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11) Refer to Table 2.1. For Mark, the opportunity cost of writing one TV commercial is
A) 1/3 of a poem.
B) 2 poems.
C) 3 poems.
D) 8 poems.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

12) Refer to Table 2.1. Which of the following statements is *true*?
A) Krystal has a comparative advantage in both writing TV commercials and writing poems.
B) Mark has a comparative advantage in both writing TV commercials and writing poems.
C) Krystal has a comparative advantage in writing TV commercials, and Mark has a comparative advantage in writing poems.
D) Mark has a comparative advantage in writing TV commercials, and Krystal has a comparative advantage in writing poems.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

13) Refer to Table 2.1. To maximize total production
A) Krystal should specialize in writing TV commercials, and Mark should specialize in writing poems.
B) Mark should specialize in writing TV commercials, and Krystal should specialize in writing poems.
C) Krystal and Mark should both split their time between writing poems and writing TV commercials.
D) Krystal should write poems and write TV commercials, but Mark should only write poems.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

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14) Refer to Table 2.1. For Mark, the opportunity cost of writing six TV commercials is _____ poems.
A) 2
B) 18
C) 24
D) an indeterminate number of
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

15) Refer to Table 2.1. For Krystal, the opportunity cost of writing four TV commercials is _____ poems.
A) 2
B) 8
C) 16
D) 32
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

16) According to the theory of comparative advantage, _____ raise(s) productivity by lowering opportunity costs.
A) trade and specialization
B) investment in capital goods
C) economic growth
D) exchange and consumption
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-3

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17) When two people trade
A) both of them expect to be made worse off by the exchange.
B) they are trying to help out each other.
C) they know one of them will get the better of the other.
D) they both expect to be made better off by the exchange.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

18) Someone has a comparative advantage in producing a good if she can produce that good
A) in greater quantities.
B) at a lower opportunity cost.
C) using more capital and less labor.
D) using more labor and less capital.
Answer: B
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

19) If someone has a comparative advantage in growing pineapples
A) she can grow pineapples at a lower opportunity cost than other pineapple growers.
B) she also has an absolute advantage in growing pineapples.
C) she can grow more pineapples using the same resources than other pineapple growers.
D) pineapples are the only product she can grow.
Answer: A
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

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20) Which of the following does *not* constitute an act of "investment" as economists use the term?
A) The city council authorizes the construction of a new fire station.
B) A retiree buys 50 shares of stock at $10 a share and then sells the stock at a profit for $20 a share.
C) An accountant attends a seminar on changes in the federal tax code.
D) A department store increases its inventory of football jerseys before the Super Bowl.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

21) In economics, investment always refers to
A) the act of buying stocks or bonds.
B) the creation of capital.
C) increasing the quantity of labor.
D) an increase in per capita output.
Answer: B
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-18

22) The process of using resources to produce new capital is
A) research and development.
B) investment.
C) consumption.
D) economic growth.
Answer: B
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-18

23) An example of forgoing present benefits in order to receive future benefits is
A) production.
B) saving.
C) consumption.
D) growth.
Answer: B
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-18

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24) Because resources are scarce, the opportunity cost of investment in capital is
A) zero.
B) forgone future consumption.
C) forgone present consumption.
D) infinite.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

25) An example of an investment is
A) the purchase of a share of Google stock.
B) the purchase of an Exxon Mobil bond.
C) the purchase of a Hewlett Packard laser printer for use by a business.
D) all of the above.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-18

26) The opportunity cost of investment in capital is forgone present consumption because
A) capital takes a long time to produce.
B) capital increases the productivity of labor.
C) resources are scarce.
D) capital is an intangible good.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

27) If the unemployment rate increases from 10% to 14%, the economy will
A) move closer to a point on the ppf.
B) move away from the ppf toward the origin.
C) remain on the ppf.
D) remain on the origin.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Macro-14

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28) Periods of less than full employment correspond to
A) points outside the ppf.
B) points underneath the ppf.
C) points on the ppf.
D) either points inside or outside the ppf.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

Refer to the information provided in Figure 2.1 below for the economy of Macroland to answer the question(s) that follow.

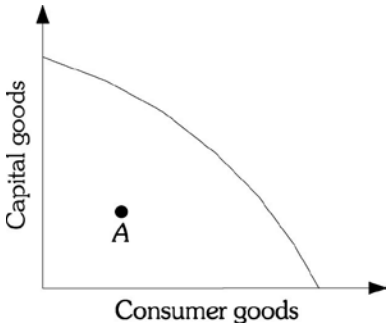


Figure 2.1

29) Refer to Figure 2.1. Macroland is currently operating at Point *A*. The best explanation for this is that
A) the economy has very poor technology.
B) the economy's resources are being used inefficiently.
C) the economy has very few resources.
D) the economy operates as an efficient market.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-19

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30) Refer to Figure 2.1. Macroland's production possibility frontier is bowed out from the origin due to
A) decreasing opportunity costs.
B) trade.
C) unemployment.
D) specialized resources.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

31) Refer to Figure 2.1. The shape of Macroland's production possibility frontier shows
A) increasing opportunity costs.
B) constant opportunity costs.
C) decreasing opportunity costs.
D) random opportunity costs.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

32) Refer to Figure 2.1. If Macroland's economy is at Point A, it could produce more consumer goods
A) without sacrificing any capital goods.
B) only by sacrificing some capital goods.
C) only with technological improvements.
D) only with additional resources.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

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33) Refer to Figure 2.1. If Macroland's economy is at Point A, it could produce more capital goods
A) without sacrificing any consumer goods.
B) only by sacrificing some consumer goods.
C) only with technological improvements.
D) only with additional resources.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

34) The production possibility frontier is used to illustrate the concept of
A) the laissez-faire economy.
B) opportunity costs.
C) equilibrium.
D) aggregate demand.
Answer: B
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

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Refer to the information provided in Figure 2.2 below for the economy of Microland to answer the question(s) that follow.

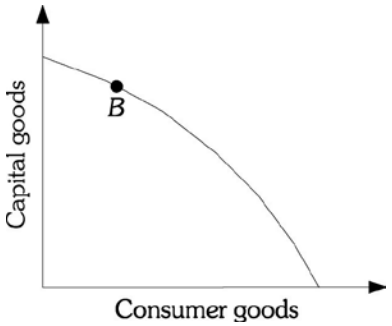


Figure 2.2

35) Refer to Figure 2.2. Point *B* represents a situation of
A) full employment but production inefficiency.
B) less than full employment but production efficiency.
C) both full resource employment and production efficiency.
D) less than full employment and production inefficiency.
Answer: C
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-19

36) Refer to Figure 2.2. Microland is currently operating at Point *B*. You correctly deduce that
A) in Microland, all resources are fully employed and there are no production inefficiencies.
B) Microland has achieved a position of inefficiency.
C) Microland has recently experienced some type of technological breakthrough.
D) Microland has overcome the problem of scarcity.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-19

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37) Refer to Figure 2.2. If Microland's economy is at Point A, it could produce more consumer goods
A) without sacrificing any capital goods.
B) by sacrificing some capital goods.
C) only with technological improvements.
D) only with additional resources.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

38) Refer to Figure 2.2. If Microland's economy is at Point A, it could produce more capital goods
A) without sacrificing any consumer goods.
B) by sacrificing some consumer goods.
C) only with technological improvements.
D) only with additional resources.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

39) Refer to Figure 2.2. Full resource employment and production efficiency is represented by a point
A) inside the production possibility frontier.
B) along the production possibility frontier.
C) outside the production possibility frontier.
D) either inside or along the production possibility frontier.
Answer: B
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-19

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40) Refer to Figure 2.2. You correctly deduce that all resources are fully employed and there are no production inefficiencies if this economy is currently operating at a point
A) inside the production possibility frontier.
B) along the production possibility frontier.
C) outside the production possibility frontier.
D) either inside or along the production possibility frontier.
Answer: B
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-19

41) The production possibility frontier is a graph that shows
A) all the combinations of goods and services that are consumed over time if all of society's resources are used efficiently.
B) the amount of goods and services consumed at various average price levels.
C) the rate at which an economy's output will grow over time if all resources are used efficiently.
D) all the combinations of goods and services that can be produced if all of society's resources are used efficiently.
Answer: D
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-19

42) Production inefficiency occurs
A) only when an economy produces underneath its production possibility frontier.
B) only when an economy produces at the wrong point on the production possibility frontier.
C) either when an economy produces underneath the production possibility frontier or when the economy is producing the wrong combination of goods on the production possibility frontier.
D) only when the economy produces outside the production possibility frontier.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-19

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43) An economy that is producing on the production possibility frontier at some point other than the output of efficient allocation is
A) efficient, as it is on the production possibility frontier.
B) inefficient, as the combination of goods and services produced is not what people want.
C) efficient, as the economy is producing goods at the lowest possible cost.
D) inefficient, as that combination of goods could be produced at a lower cost if more efficient technology were employed.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-19

44) If resources are combined efficiently in production, then the society
A) is producing at the most-desirable point on the production possibility frontier.
B) is producing at a point on the production possibility frontier but not necessarily at the most-desirable point.
C) is producing at a point outside the production possibility frontier.
D) is experiencing economic growth.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-19

45) If an economy begins to use its resources more efficiently, it will move
A) closer to its ppf.
B) farther away from its ppf.
C) from a point along its ppf to a point outside its ppf.
D) from one point to another point along its ppf.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-19

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46) The value of the slope of a society's production possibility frontier is called its
A) marginal rate of substitution.
B) inflation rate.
C) unemployment rate.
D) marginal rate of transformation.
Answer: D
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-19

47) The marginal rate of transformation is the
A) slope of the production possibility frontier.
B) dollar value of the best forgone alternative.
C) process of using resources to produce new capital.
D) transformation of resources into a form that is useful to people.
Answer: A
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-19

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Refer to the information provided in Figure 2.3 below to answer the question(s) that follow.

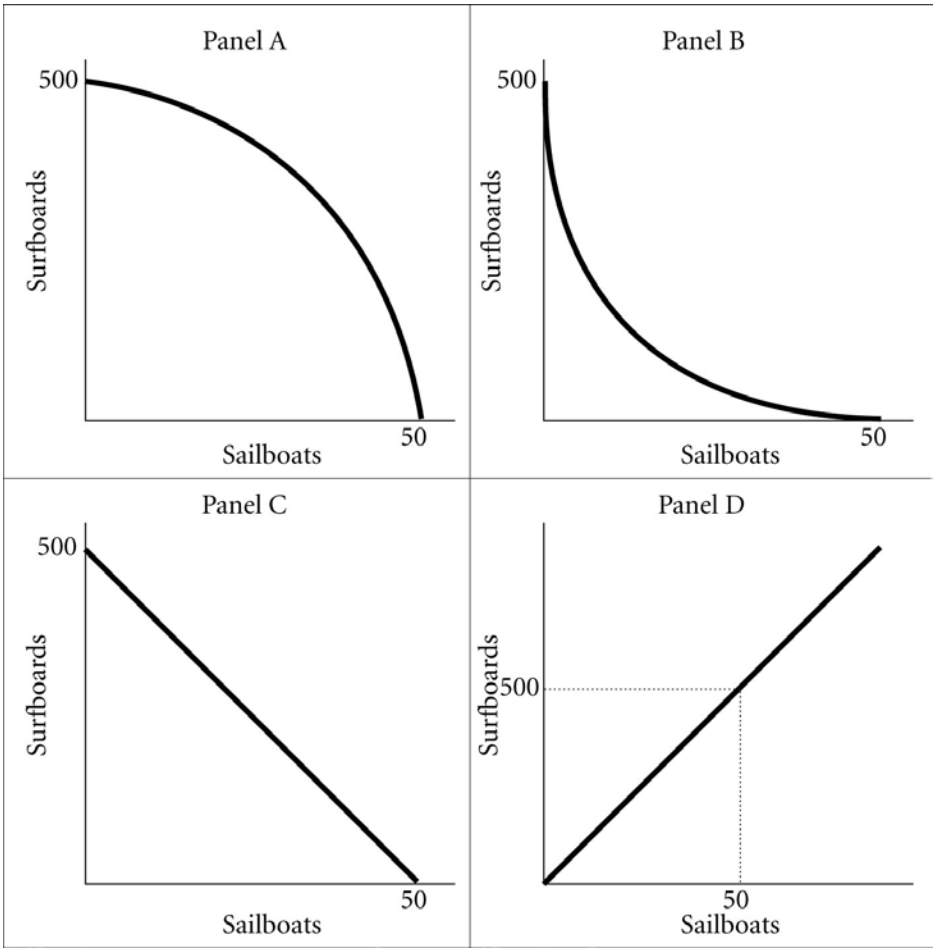


Figure 2.3

48) Refer to Figure 2.3. Assume that in this society the marginal rate of transformation of sailboats for surfboards is constant and equal to -10. A graph of this society's production possibility frontier will be represented by Panel
A) A.
B) B.
C) C.
D) D.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-19

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49) Refer to Figure 2.3. Assume that in this society the opportunity cost of sailboats in terms of surfboards is increasing. A graph of this society's production possibility frontier will be represented by Panel
A) A.
B) B.
C) C.
D) D.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

50) Refer to Figure 2.3. The law of _____ opportunity costs is best depicted by the production possibilities frontier in Panel A.
A) increasing
B) constant
C) decreasing
D) zero
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

51) Refer to Figure 2.3. Assume that this society's production possibility frontier is represented by Panel C. The marginal rate of transformation of sailboats for surfboards is
A) 1/10.
B) -1/10.
C) 10.
D) -10.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-19

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52) Refer to Figure 2.3. Assume that this society's production possibility frontier is represented by Panel C. The opportunity cost of sailboats in terms of surfboards is
A) constant.
B) increasing.
C) decreasing.
D) infinite.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

53) Refer to Figure 2.3. Increasing opportunity costs are best depicted by the production possibility frontier in Panel
A) A.
B) B.
C) C.
D) D.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

54) A society can produce two goods: donuts and beer. The society's production possibility frontier is negatively sloped and "bowed outward" from the origin. As this society moves up its production possibility frontier, producing more and more units of donuts, the opportunity cost of producing beer
A) decreases.
B) remains constant.
C) increases.
D) could decrease or increase depending on the technology.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

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Refer to the information provided in Figure 2.4 below to answer the question(s) that follow.

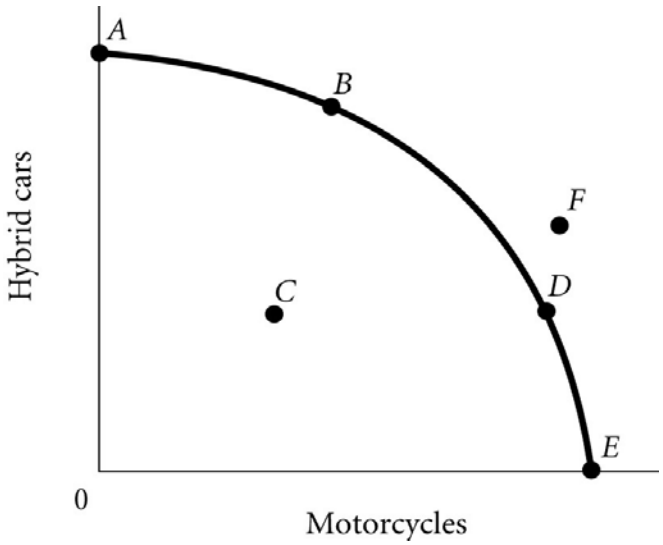


Figure 2.4

55) According to Figure 2.4, the point where only motorcycles are produced is
A) *A*.
B) *B*.
C) *C*.
D) *E*.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

56) According to Figure 2.4, the optimal point for the economy is
A) *A*.
B) *B*.
C) *F*.
D) indeterminate from the information given.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

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57) According to Figure 2.4, which point cannot be produced with the current state of technology?
A) *A*
B) *B*
C) *C*
D) *F*
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

58) According to Figure 2.4, the point where only hybrid cars are produced is
A) *A*.
B) *B*.
C) *C*.
D) *D*.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

59) According to Figure 2.4, a decrease in unemployment may be represented by the movement from
A) *B* to *A*.
B) *B* to *D*.
C) *C* to *D*.
D) *A* to *C*.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

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60) According to Figure 2.4, as the economy moves from Point *A* to Point *E*, the opportunity cost of motorcycles, measured in terms of hybrid cars
A) decreases.
B) increases.
C) remains constant.
D) initially increases, then decreases.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

61) According to Figure 2.4, as the economy moves from Point *E* to Point *A*, the opportunity cost of hybrid cars, measured in terms of motorcycles
A) increases.
B) decreases.
C) remains constant.
D) initially increases, then decreases.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

62) Refer to Figure 2.4. The economy moves from Point *A* to Point *D*. This could be explained by
A) a reduction in unemployment.
B) an improvement in technology.
C) an increase in economic growth.
D) a change in society's preferences for motorcycles versus hybrid cars.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-10

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63) According to Figure 2.4, Point *A* necessarily represents
A) an unattainable production point.
B) only hybrid cars being produced.
C) the economy's optimal production point.
D) what society wants.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

64) According to Figure 2.4, Point *F*
A) is efficient and attainable.
B) represents underallocation of resources.
C) represents what the people want.
D) cannot be produced with the current state of technology.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

65) According to Figure 2.4, Point *E* necessarily represents
A) an impossible production point.
B) technological advancement.
C) overallocation of resources.
D) only motorcycles being produced.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

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66) According to Figure 2.4, an increase in unemployment may be represented by the movement from
A) *B* to *A*.
B) *B* to *D*.
C) *C* to *D*.
D) *A* to *C*.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

67) According to Figure 2.4, as the economy moves from Point *B* to Point *D*, the opportunity cost of motorcycles, measured in terms of hybrid cars
A) remains constant.
B) decreases.
C) increases
D) initially increases, then decreases.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

68) According to Figure 2.4, as the economy moves from Point *D* to Point *B*, the opportunity cost of hybrid cars, measured in terms of motorcycles
A) remains constant.
B) decreases.
C) increases.
D) initially increases, then decreases.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

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69) Refer to Figure 2.4. The economy moves from Point *E* to Point *B*. This could be explained by
A) an increase in unemployment.
B) a reduction in unemployment.
C) a change in society's preferences for hybrid cars versus motorcycles.
D) an increase in economic growth.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-10

Refer to the information provided in Figure 2.5 below to answer the question(s) that follow.

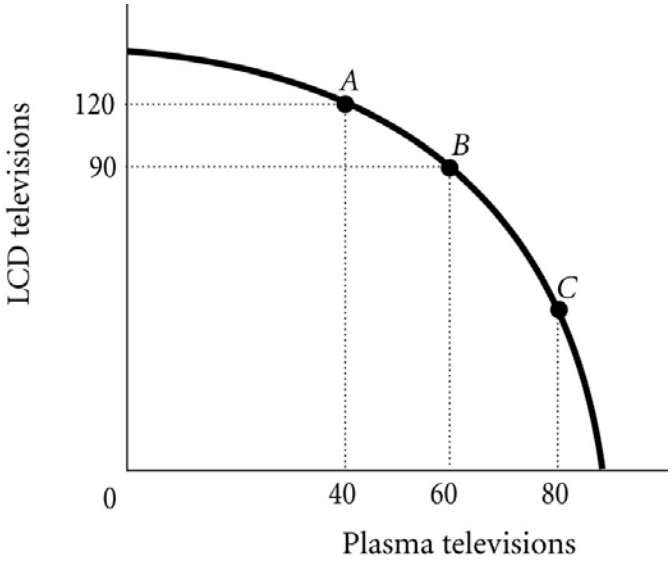


Figure 2.5

70) Refer to Figure 2.5. The economy is currently at Point *A*. The opportunity cost of moving from Point *A* to Point *B* is the
A) 90 LCD televisions that must be forgone to produce 20 additional plasma televisions.
B) 30 LCD televisions that must be forgone to produce 60 additional plasma televisions.
C) 120 LCD televisions that must be forgone to produce 40 additional plasma televisions.
D) 30 LCD televisions that must be forgone to produce 20 additional plasma televisions.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

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71) Refer to Figure 2.5. The marginal rate of transformation in moving from Point *A* to Point *B* is
A) -2/3.
B) -1.5.
C) -3.
D) -30.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

72) Refer to Figure 2.5. For this economy to move from Point *B* to Point *C* so that an additional 20 plasma televisions could be produced, production of LCD televisions would have to be reduced by
A) exactly 30.
B) fewer than 30.
C) more than 30.
D) exactly 60.
Answer: C
Diff: 3
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

73) Refer to Figure 2.5. The best point for society would be
A) Point *C*, as at this point there are approximately equal amounts of LCD and plasma televisions being produced.
B) either Point *B* or Point *C*, as the total amount being produced at either of these points is approximately the same.
C) at any of the labeled points, as all of the points represent an efficient allocation of resources.
D) indeterminate from this information, as we don't have any information about the society's desires.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

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74) Refer to Figure 2.5. The economy is currently at Point *B*. The opportunity cost of moving from Point *B* to Point *A* is the
A) 40 plasma TVs that must be forgone to produce 120 additional LCD TVs.
B) 20 plasma TVs that must be forgone to produce 30 additional LCD TVs.
C) 30 LCD TVs that must be forgone to produce 40 additional plasma TVs.
D) 120 LCD TVs that must be forgone to produce 20 additional plasma TVs.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

75) Refer to Figure 2.5. The marginal rate of transformation in moving from Point *B* to Point *A* is
A) -2/3.
B) -3/4.
C) -1.5.
D) -20.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

76) Refer to Figure 2.5. For this economy to move from Point *A* to Point *B*, _____ additional plasma TVs could be produced when the production of LCD TVs is reduced by 30.
A) exactly 20
B) fewer than 20
C) more than 20
D) exactly 90
Answer: A
Diff: 3
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

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77) Refer to Figure 2.5. For this economy to move from Point *C* to Point *B*, _____ additional LCD TVs could be produced when the production of plasma TVs is reduced by 20.
A) exactly 30
B) fewer than 30
C) more than 30
D) exactly 60
Answer: B
Diff: 3
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

78) If the opportunity costs of producing a good increase as more of that good is produced, the economy's production possibility frontier will be
A) negatively sloped and "bowed inward" toward the origin.
B) negatively sloped and "bowed outward" from the origin.
C) a negatively sloped straight line.
D) a positively sloped straight line.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

79) As you move down the production possibility frontier, the absolute value of the marginal rate of transformation
A) increases.
B) decreases.
C) initially increases, then decreases.
D) initially decreases, then increases.
Answer: A
Diff: 3
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

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80) As more of a good, such as television sets, is produced, the opportunity costs of producing it increases. This most likely occurs because
A) as more of a good is produced, the inputs used to produce that good will increase in price.
B) consumers would be willing to pay higher prices for the good as more of the good is produced.
C) resources are not equally well suited to producing all goods, and as more of a good is produced, it is necessary to use resources less well suited to the production of that good.
D) as more of a good is produced, the quality of that good declines, and therefore the costs of production increase.
Answer: C
Diff: 3
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

81) Economic growth most likely occurs when
A) a society moves inside its production possibility frontier.
B) a society learns to produce more using existing resources.
C) the society begins to produce the combination of goods society wants most.
D) a society moves along its production possibilities frontier.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

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Refer to the information provided in Figure 2.6 below to answer the question(s) that follow.

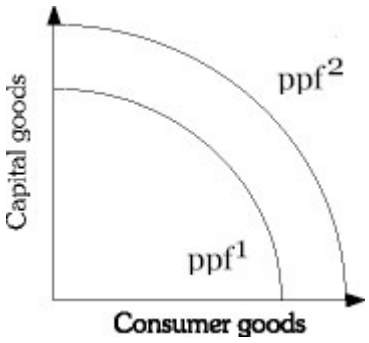


Figure 2.6

82) Refer to Figure 2.6. Economic growth is represented by a
A) shift from *ppf*2 to *ppf*1.
B) shift from *ppf*1 to *ppf*2.
C) movement along *ppf*1.
D) movement along *ppf*2.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-2

83) Refer to Figure 2.6. An improvement in technology may be represented by a
A) shift from *ppf*2 to *ppf*1.
B) shift from *ppf*1 to *ppf*2.
C) movement along *ppf*2.
D) movement along *ppf*1.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-2

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84) Refer to Figure 2.6. Which of the following will shift an economy's production possibility frontier from ppf_1 to ppf_2?
A) a decrease in unemployment
B) an increase in production efficiency
C) a change in consumers' tastes
D) an increase in the economy's capital stock
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-2

85) Refer to Figure 2.6. Which of the following will *not* cause the production possibility frontier to shift from ppf_1 to ppf_2?
A) the discovery of previously unknown oil fields
B) an improvement in technology
C) an increase in the stock of capital
D) a decrease in the unemployment rate
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

86) Refer to Figure 2.6. Which of the following is most likely to shift the production possibility frontier from ppf_1 to ppf_2?
A) a change in consumer tastes
B) the purchase of stocks on the New York Stock Exchange
C) moving resources from capital to consumer goods
D) an increase in the general educational level of the population
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-2

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87) Refer to Figure 2.6. If the economy is at *ppf*1, a change in consumer preferences would be shown by a
A) shift from *ppf*2 to *ppf*1.
B) movement along *ppf*1.
C) movement along *ppf*2.
D) shift from *ppf*1 to *ppf*2.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-2

88) Refer to Figure 2.6. An increase in the economy's capital stock is represented by a
A) shift from *ppf*2 *to ppf*1.
B) shift from *ppf*1 *to ppf*2.
C) movement along *ppf*1.
D) movement along *ppf*2.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-2

89) Refer to Figure 2.6. A shift from *ppf*1 *to ppf*2 may be caused by
A) an increase in inflation.
B) an increased desire for consumer goods.
C) a change in consumer tastes.
D) an improvement in technology.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-2

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90) Refer to Figure 2.6. Which of the following will shift an economy's production possibility frontier from *ppf*2 to *ppf*1?
A) a decrease in the economy's capital stock
B) an increase in production efficiency
C) a change in consumer's tastes
D) economic growth
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-2

91) Refer to Figure 2.6. Which of the following is most likely to shift the production possibility frontier from *ppf*2 *to ppf*1?
A) a change in consumer tastes
B) the purchase of government Treasury bills
C) moving resources from consumer goods to capital goods
D) a decrease in the general educational level of the population
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-2

92) Refer to Figure 2.6. If the economy is at *ppf*2, a change in consumer taste would be shown by a
A) shift from *ppf*2 *to ppf*1.
B) movement along *ppf*1.
C) movement along *ppf*2.
D) shift from *ppf*1 to *ppf*2.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-2

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93) During the Iraq War, many of Iraq's oil refineries were destroyed. This would best be represented by a
A) movement down Iraq's production possibility frontier.
B) movement off Iraq's production possibility frontier to some point inside the frontier.
C) shift of Iraq's production possibility frontier toward the origin.
D) movement up Iraq's production possibility frontier.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

94) For an economy to produce at a point beyond its current ppf, the economy must
A) waste less.
B) be more efficient.
C) reduce inputs.
D) increase its resource base.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

95) In terms of the production possibility frontier, an increase in productivity attributable to new technology would best be shown by
A) a movement along the frontier.
B) the production possibility frontier shifting outward, away from the origin.
C) a movement from a point inside the frontier to a point on it.
D) a movement toward the origin.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

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96) An improvement in technology will cause the
A) production possibility frontier to shift outward.
B) production possibility frontier to shift inward.
C) economy to move down the production possibility frontier.
D) economy to move closer to its production possibility frontier.
Answer: A
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

97) Consider two countries, Japan and Malaysia. Japan devotes a smaller portion of its production to capital. All other things equal, which of the following statements is most likely *true*?
A) Japan is a poorer country than Malaysia.
B) Japan will move up its production possibility curve faster than Malaysia.
C) Malaysia is producing inside its production possibility frontier, whereas Japan is producing at a point on its production possibility frontier.
D) Malaysia's production possibility frontier will shift up and out farther and faster than Japan's.
Answer: D
Diff: 3
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

98) The gap between rich and poor countries
A) has decreased over time because poor countries can more easily devote resources to capital production.
B) has increased over time because poor countries find it difficult to devote resources to capital production.
C) has remained constant over time because technological advances can be easily shared among nations.
D) has remained constant over time because the rate of capital production has remained constant in rich and poor nations.
Answer: B
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Fact
Learning Outcome: Micro-19

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99) An economy produces capital goods and consumer goods. This economy is operating at a point on its production possibility frontier associated with a small amount of capital goods and a large amount of consumer goods. This is most likely to be a
A) "poor" country because such a nation has difficulty devoting many resources to the production of capital goods.
B) "rich" country because such a nation can afford to sacrifice.
C) country with a free market.
D) country with a command economy.
Answer: A
Diff: 3
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-19

100) The economic problem can best be stated as
A) How can the economy improve technology so as to shift the production possibility frontier up and to the right?
B) Given scarce resources, how exactly do societies go about deciding what to produce, how to produce it, and for whom to produce?
C) Given the fact that the economy is inefficient, how much and what type of government intervention should be used to improve the efficiency of the economy?
D) What is the best rate of economic growth for a society?
Answer: B
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

101) Related to the *Economics in Practice* on page 25: Which one of the following occurs when an individual enters the paid work force?
A) The opportunity cost of time for housework increases, because time spent on housework could be spent on money-earning activities.
B) The opportunity cost of time for housework increases, because money earned at a job can allow individuals to pay someone to do household chores that the individuals used to do themselves.
C) The opportunity cost of time for housework decreases, because increased earning power makes individuals less likely to do their own housework.
D) The opportunity cost of time for housework decreases, because as more people enter the work force, businesses have greater incentives to develop innovations that make housework more efficient.
Answer: A
Diff: 3
Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

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102) Related to the *Economics in Practice* on page 25: How did the introduction of the microwave oven in 1960 affect the market for frozen food?
A) It encouraged people to leave the work force by making cooking easier and less time-consuming.
B) It reduced the opportunity cost of eating frozen food by decreasing the amount of time required to prepare frozen meals.
C) It increased the financial cost of alternative methods of food preparation, such as conventional ovens.
D) It made frozen foods more appealing by increasing the variety of meals that could be frozen and reheated.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

103) Related to the *Economics in Practice* on page 35: In the survey conducted by Esther Duflo and Abhijit Banerjee, the extremely poor were found to consume _____ of their budgets on food compared to people in the United States.
A) a significantly higher percentage
B) about the same percentage
C) a slightly lower percentage
D) approximately 50 percent less
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice
Skill: Fact
Learning Outcome: Micro-25

104) Related to the *Economics in Practice* on page 35: The results of the survey conducted by Esther Duflo and Abhijit Banerjee found that in extremely poor societies
A) household choice plays no role in consumption decisions.
B) all consumption decisions are made by the government.
C) household choice even plays a role in non-food-related consumption decisions.
D) the only consumption decisions in which household choice plays a role is in the consumption of biological needs such as food.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice
Skill: Fact
Learning Outcome: Micro-25

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105) Production is the process by which
A) products are used by consumers.
B) resources are transformed into useful forms.
C) products are converted into capital.
D) resources are allocated and distributed.
Answer: B
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

106) Goods and services of value to households are
A) inputs in the production process.
B) outputs in the production process.
C) both inputs and outputs in the production process.
D) unrelated to the production process.
Answer: B
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

107) Which of the following is a resource as the term is used by economists?
A) buildings
B) labor
C) land
D) all of the above
Answer: D
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

108) Which of the following would an economist classify as capital?
A) a new deposit of natural gas
B) a government savings bond
C) a police car
D) a $100 traveller's check
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

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109) Economists refer to things that have already been produced that are in turn used to produce other goods and services as
A) land.
B) labor.
C) entrepreneurship.
D) capital.
Answer: D
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

110) The principle that the cost of something is equal to what is sacrificed to get it is known as the
A) marginal principle.
B) principle of opportunity cost.
C) principle of diminishing returns.
D) reality principle.
Answer: B
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-20

111) If scarcity was eliminated
A) trade would become unnecessary.
B) opportunity costs would increase.
C) all nations would have an absolute advantage in producing all products.
D) the concept of trade-offs would become irrelevant.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-4

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112) According to the theory of _____, specialization and free trade will benefit all trade partners, even when some are absolutely more efficient producers than others.
A) comparative advantage
B) absolute advantage
C) social equity
D) laissez-faire
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-3

Refer to the information provided in Table 2.2 below to answer the following question(s).

Table 2.2

	Molly	Pete
Avatar Design	6	8
Tattoo Design	3	2

113) Refer to Table 2.2. For Molly, the opportunity cost of designing one tattoo is
A) 1/2 of an avatar design.
B) 1 avatar design.
C) 2 avatar designs.
D) 3 avatar designs.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

114) Refer to Table 2.2. For Pete, the opportunity cost of designing one tattoo is
A) 1/4 of an avatar design.
B) 2 avatar designs.
C) 4 avatar designs.
D) 6 avatar designs.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

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115) Refer to Table 2.2. Which of the following statements is *true*?
A) Molly has a comparative advantage in both avatar design and tattoo design.
B) Pete has a comparative advantage in both avatar design and tattoo design.
C) Molly has a comparative advantage in avatar design and Pete has a comparative advantage in tattoo design.
D) Pete has a comparative advantage in avatar design and Molly has a comparative advantage in tattoo design.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

116) Refer to Table 2.2. To maximize total production
A) Molly should specialize in avatar design and Pete should specialize in tattoo design.
B) Pete should specialize in avatar design and Molly should specialize in tattoo design.
C) Molly and Pete should both split their time between designing avatars and tattoos.
D) Molly should design avatars and tattoos, but Pete should only design avatars.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

117) Refer to Table 2.2. For Pete, the opportunity cost of designing three tattoos is _____ avatar designs.
A) 6
B) 12
C) 24
D) an indeterminate number of
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

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118) Refer to Table 2.2. For Molly, the opportunity cost of designing four tattoos is _____ avatar designs.
A) 6
B) 8
C) 12
D) 24
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

119) According to the theory of comparative advantage, trade and specialization _____ productivity by _____ opportunity costs.
A) raise; raising
B) raise; lowering
C) lower; raising
D) lower; lowering
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-3

120) Specialization and trade exploit differences in productivity across workers and
A) only benefit the exporter.
B) only benefit the importer.
C) make everyone better off.
D) make everyone worse off.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

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121) If someone can produce a good at a lower opportunity cost, she _____ in producing that good.
A) has a comparative advantage
B) has an absolute advantage
C) experiences no diminishing returns
D) experiences no marginal costs
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

122) If a vintner has a comparative advantage in producing wine
A) he can produce more wine using the same resources than other vintners.
B) wine is the only product he can produce.
C) he can produce wine at a lower opportunity cost than other vintners.
D) he also has an absolute advantage in producing wine.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

123) Which of the following is an act of economic "investment"?
A) The state legislature authorizes the sale of a state park.
B) An entrepreneur buys 5,000 shares of stock at $5 a share and then sells the stock at a profit for $60 a share.
C) A brewer purchases a new fermentation system for his beer.
D) A teacher deposits $500 in a retirement account.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

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124) In economics, the creation of capital is referred to as
A) investment.
B) comparative advantage.
C) consumption.
D) allocation.
Answer: A
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-18

125) The process of using resources to produce _____ is known as investment.
A) money
B) new capital
C) profit
D) inputs
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-18

126) Saving is an example of
A) exchanging capital for cash.
B) exchanging scarce resources for unlimited resources.
C) trading present benefits for future benefits.
D) trading future benefits for present benefits.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-18

127) An example of an investment is
A) the purchase of an iPhone by a company for one of its salesmen.
B) the purchase of a share of Berkshire Hathaway stock.
C) the purchase of a government Treasury bill.
D) all of the above
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-18

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128) Because resources are scarce, the opportunity cost of investment in capital is
A) past investment.
B) past consumption.
C) foregone present consumption.
D) future consumption.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

129) If the unemployment rate decreases from 9% to 6%, the economy will
A) move closer to a point on the ppf.
B) move away from the ppf toward the origin.
C) remain on the ppf.
D) remain on the origin.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-14

130) Periods of full employment correspond to
A) points outside the ppf.
B) points inside the ppf.
C) points on the ppf.
D) either points inside or outside the ppf.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

131) If an economy is fully utilizing its resources, it can produce more of one product only if it
A) doubles manufacturing of the product.
B) produces less of another product.
C) adds more people to the labor force.
D) reduces the price of the most expensive products.
Answer: B
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

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132) All the combinations of goods and services that can be produced if all of society's resources are used efficiently are represented on an economy's
A) production possibility frontier.
B) resource availability diagram.
C) factors of production statement.
D) allocative allotment graph.
Answer: A
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-19

133) When an economy is producing inside its production possibility frontier
A) production inefficiency occurs.
B) only technological advances will allow it to increase production.
C) it is efficient so long as it is producing what people want.
D) it must overcompensate by producing outside the curve to achieve efficiency.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-19

134) If an economy is producing on its production possibility frontier but is *not* producing what people want, the economy
A) is experiencing technological advancement.
B) is producing at more than one point on the production possibility frontier.
C) is not achieving output efficiency.
D) is not being productively efficient.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-19

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135) If a society is producing at a point along its production possibility frontier, then the society
A) is fully employing its resources so it must be achieving output efficiency.
B) is fully employing its resources, but not necessarily achieving output efficiency.
C) is underallocating resources so it must be inefficient.
D) is overallocating resources so efficiency is indeterminate.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-19

136) If an economy begins to use its resources less efficiently, it will move
A) to a point closer to its ppf.
B) to a point farther away from its ppf.
C) from a point along its ppf to a point outside its ppf.
D) from one point to another point along its ppf.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-19

137) Assume a society can produce either beer or wine. If the marginal rate of transformation of gallons of beer into gallons of wine is 0.5, then the opportunity cost of beer is
A) the 2 gallons of beer that must be forgone.
B) the 2 gallons of wine that must be forgone.
C) the 0.5 gallons of beer that must be forgone.
D) the additional 0.5 gallons of beer that can be produced.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
Learning Outcome: Micro-19

138) Assume a society can produce either beer or wine. If the marginal rate of transformation of gallons of beer into gallons of wine is 0.5, then the opportunity cost of wine is
A) the 2 gallons of beer that must be forgone.
B) the 2 gallons of wine that must be forgone.
C) the 0.5 gallons of beer that must be forgone.
D) the additional 0.5 gallons of beer that can be produced.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
Learning Outcome: Micro-19

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139) Assume a society can produce either olives or grapes. If the marginal rate of transformation of bushels of olives into bushels of grapes is 0.2, then the opportunity cost of grapes is
A) the 5 bushels of olives that must be forgone.
B) the 5 bushels of grapes that must be forgone.
C) the 0.2 bushels of olives that must be forgone.
D) the additional 0.2 gallons of olives that can be produced.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
Learning Outcome: Micro-19

140) Assume a society can produce either olives or grapes. If the marginal rate of transformation of bushels of olives into bushels of grapes is 0.2, then the opportunity cost of olives is
A) the 5 bushels of olives that must be forgone.
B) the 5 bushels of grapes that must be forgone.
C) the 0.2 bushels of olives that must be forgone.
D) the additional 0.2 gallons of olives that can be produced.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
Learning Outcome: Micro-19

141) A society can produce two goods: green tea and vitamin water. As this society moves down its production possibility frontier, producing more and more units of vitamin water, the opportunity cost of producing vitamin water increases. The society's production possibilities frontier will be
A) positively sloped and bowed outward.
B) positively sloped and bowed inward.
C) negatively sloped and bowed outward.
D) negatively sloped and bowed inward.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

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142) If an economy's production possibility frontier is negatively sloped and "bowed outward" from the origin, then the opportunity cost of producing a good
A) increases as more of that good is produced.
B) decreases as more of that good is produced.
C) remains constant as more of that good is produced.
D) remains constant as less of that good is produced.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

143) As you move up the production possibility frontier, the absolute value of the marginal rate of transformation
A) increases.
B) decreases.
C) initially increases, then decreases.
D) initially decreases, then increases.
Answer: A
Diff: 3
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

144) Because resources are not equally well suited to producing all goods
A) as more of a good is produced the inputs used to produce that good will increase in price.
B) the opportunity costs of producing a good will increase as more of that good is produced.
C) the opportunity costs of producing a good will decrease as more of that good is produced.
D) as more of a good is produced the quality of that good declines and therefore the costs of production increase.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

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145) Economic growth may occur when
A) a society acquires new resources.
B) a society decides to produce less using existing resources.
C) the society begins to produce the combination of goods society wants most.
D) technology remains unchanged but unemployment increases.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

146) Due to a mild winter, Florida experienced a bumper crop of oranges. This would best be represented by a(n)
A) movement down the U.S. production possibility frontier.
B) movement off the U.S. production possibility frontier to some point inside the frontier.
C) movement up the U.S. production possibility frontier.
D) outward shift of the U.S. production possibility frontier away from the origin.
Answer: D
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Analytical
AACSB: Analytical Thinking
Learning Outcome: Micro-20

147) In terms of the production possibility frontier, _____ would best be shown by the production possibility frontier shifting outward.
A) an increase in productivity attributable to an increase in the capital stock
B) a decrease in the unemployment rate
C) a shift in resources from capital goods to consumer goods
D) a change in consumer tastes
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

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148) An increase in the stock of capital will cause the
A) production possibility frontier to shift outward.
B) production possibility frontier to shift inward.
C) economy to move down the production possibility frontier.
D) economy to move closer to its production possibility frontier.
Answer: A
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

149) A decrease in the stock of capital will cause the
A) production possibility frontier to shift outward.
B) production possibility frontier to shift inward.
C) economy to move down the production possibility frontier.
D) economy to move closer to its production possibility frontier.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

150) Consider two countries, Estonia and Ukraine. Estonia devotes a larger portion of its production to capital. All other things equal, which of the following statements is most likely *true*?
A) Estonia is a poorer country than Ukraine.
B) Estonia will move up its production possibility curve faster than Ukraine.
C) Estonia's production possibility frontier will shift up and out farther and faster than Ukraine's.
D) Ukraine is producing inside its production possibility frontier, whereas Estonia is producing at a point on its production possibility frontier.
Answer: C
Diff: 3
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

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151) From 1935 to 2009, the yield per acre for corn has _____ in the United States.
A) slightly declined
B) roughly doubled
C) almost tripled
D) increased more than 6-fold
Answer: D
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Fact
Learning Outcome: Micro-19

152) From 1935 to 2009, the yield per acre for wheat has _____ in the United States.
A) slightly declined
B) roughly doubled
C) more than tripled
D) increased more than 6-fold
Answer: C
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Fact
Learning Outcome: Micro-19

153) An economy produces capital goods and consumer goods. This economy is operating at a point on its production possibility frontier associated with a large amount of capital goods and a small amount of consumer goods. This is most likely to be a
A) "poor" country because such a nation has difficulty devoting many resources to the production of consumer goods.
B) "rich" country because such a nation can afford to sacrifice.
C) country with a free market.
D) country with a command economy.
Answer: B
Diff: 3
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-19

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154) Given scarce resources, how societies go about deciding what to produce, how to produce it, and for whom to produce best describes
A) decreasing opportunity costs.
B) the fallacy of composition.
C) Ockham's razor.
D) the economic problem.
Answer: D
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

155) Related to the *Economics in Practice* on p. 25: Based on the increase in the number of women in the labor force over the past 50 years, the opportunity cost of preparing a home-cooked meal
A) decreased.
B) increased.
C) remained constant.
D) dropped to zero.
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

156) Related to the *Economics in Practice* on p. 25: One reason for the increase in sales of frozen foods from $1 billion in 1950 to $44 billion in 2012 is the
A) increased opportunity cost of cooking frozen meals.
B) decrease in the number of women in the labor force.
C) increased opportunity cost of preparing home-cooked meals.
D) decrease in popularity of the microwave oven.
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-20

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157) Related to the *Economics in Practice* on p. 35: In the survey conducted by Esther Duflo and Abhijit Banerjee, the extremely poor were found to consume _____ of their budgets on weddings, funerals, and other festivals.
A) virtually none
B) less than 5 percent
C) almost 10 percent
D) over half
Answer: C
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice
Skill: Fact
Learning Outcome: Micro-25

158) Related to the *Economics in Practice* on p. 35: In all societies, resources are limited relative to people's demands, and there are _____ trade-offs individuals face in rich countries versus poor countries.
A) fewer
B) large differences in the kinds of
C) virtually no differences in the types of
D) more important
Answer: B
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice
Skill: Fact
Learning Outcome: Micro-25

159) In economics, the term *capital* refers only to some form of money.
Answer: FALSE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

160) Among the resources used in production are labor and capital.
Answer: TRUE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

161) Things that have already been produced that are in turn used to produce other goods and services over time are called "capital."
Answer: TRUE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

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162) Points outside a production possibility frontier represent inefficiency.
Answer: FALSE
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-3

163) Economic growth shifts a society's production possibility frontier away from the origin.
Answer: TRUE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-3

164) A society's production possibility frontier is bowed in from the origin due to specialized resources.
Answer: FALSE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-3

165) The "economic problem" is that given scarce resources, how do large societies go about answering the basic economic questions of what will be produced, how it will be produced, and who will get it.
Answer: TRUE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

166) Comparative advantage refers to the ability to produce better quality goods than a competitor.
Answer: FALSE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

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167) Comparative advantage refers to the ability to produce at a lower opportunity cost than a competitor.
Answer: TRUE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

168) The marginal rate of transformation is the slope of the production possibility frontier.
Answer: TRUE
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

169) In economics, the term "investment" refers to the purchase of stocks and bonds.
Answer: FALSE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

170) Resources are also referred to as outputs.
Answer: FALSE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

171) The inputs into the process of production are called factors of production.
Answer: TRUE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

172) When two people trade, one must lose for the other to win.
Answer: FALSE
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-3

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173) A bowed-out production possibility frontier represents decreasing opportunity costs.
Answer: FALSE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-3

174) A society's production possibility frontier is bowed out from the origin because some resources are better suited for producing one good as opposed to the other.
Answer: TRUE
Diff: 2
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-3

175) The marginal rate of transformation represents the slope of the production possibility frontier.
Answer: TRUE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

176) Comparative advantage refers to the ability to produce goods at a lower opportunity cost, and therefore more efficiently, than a competitor.
Answer: TRUE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

177) Comparative advantage refers to the ability to produce at a lower financial cost than a competitor.
Answer: FALSE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Definition
Learning Outcome: Micro-1

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178) Manufacturers produce only what the market is willing to pay for.
Answer: FALSE
Diff: 1
Topic: Scarcity, Choice, and Opportunity Cost
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

2.2 Economic Systems and the Role of Government

1) An economy in which a central authority draws up a plan that establishes what will be produced and when, sets production goals, and makes rules for distribution is a
A) free-market economy.
B) laissez-faire economy.
C) public-goods economy.
D) command economy.
Answer: D
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Definition
Learning Outcome: Micro-1

2) An economy in which individual people and firms pursue their own self-interest without any central direction or regulation is a(n)
A) command economy.
B) laissez-faire economy.
C) invisible-hand economy.
D) private-sector economy.
Answer: B
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Definition
Learning Outcome: Micro-1

3) Private enterprise plays some role in production decisions for
A) all countries in the world.
B) most countries in the world.
C) about half of the countries in the world.
D) few countries in the world.
Answer: B
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Fact
AACSB: Reflective Thinking
Learning Outcome: Micro-19

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4) Which of the following is an element of a command economy?
A) The market decides distribution.
B) The means of production are privately owned.
C) Production decisions are centralized.
D) The market decides what will be produced.
Answer: C
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

5) Which of the following statements is *not* true for a command economy?
A) Consumers have some choices concerning what they buy.
B) The government decides what is produced.
C) The amount of a good supplied always equals the amount of the good demanded.
D) The state decides how to distribute what is produced.
Answer: C
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

6) In a laissez-faire economy, _____ what gets produced, how it is produced, and who gets it.
A) the behavior of buyers and sellers determines
B) the central government authority determines
C) firms but not consumers determine
D) consumers but not firms determine
Answer: A
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

7) An institution through which buyers and sellers interact and engage in exchange is
A) a central authority.
B) "laissez-faire."
C) a market.
D) a production frontier.
Answer: C
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Definition
Learning Outcome: Micro-1

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8) A poorly functioning government can do which of the following to an economy?
A) destroy incentives
B) lead to corruption
C) waste society's resources
D) all of the above
Answer: D
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

9) Consumer sovereignty
A) is dependent on profits.
B) is the idea that consumers can buy whatever they want to.
C) is the idea that consumers determine what is produced in the economy through their demands.
D) is only possible in a monarchy.
Answer: C
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Definition
Learning Outcome: Micro-1

10) The idea that consumers ultimately dictate what not to produce by choosing what not to purchase is known as
A) laissez-faire.
B) the economic problem.
C) centralized decision making.
D) consumer sovereignty.
Answer: D
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Definition
Learning Outcome: Micro-1

11) The amount that households have accumulated out of past income through saving and inheritance is
A) future income.
B) wealth.
C) consumption.
D) present income.
Answer: B
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Definition
Learning Outcome: Micro-1

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12) In a free-market system, the amount of output that any one household gets depends on its
A) income.
B) wealth.
C) wage and interest income.
D) income and wealth.
Answer: D
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

13) Advocates of an unregulated market system argue that
A) competition promotes efficiency.
B) competition leads to innovation.
C) competition leads to product variety and quality.
D) all of the above.
Answer: D
Diff: 2
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-3

14) The basic coordinating mechanism in a free-market system is
A) quantity.
B) price.
C) a central government authority.
D) the corporation.
Answer: B
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-3

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15) Which of the following statements is *false*?
A) In a free-market system, the basic economic questions are answered without the help of a central government plan or directive.
B) Individuals guided by their own self-interest will produce products and services that other people want.
C) The basic coordinating mechanism in a free-market system is quantity adjustments toward equilibrium.
D) In a free-market system, competition forces firms to adopt efficient production techniques.
Answer: C
Diff: 2
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-3

16) Some economists advocate government intervention in a market economy
A) to produce collective goods and services.
B) when resource costs for a private producer do not reflect the full cost to society.
C) to stabilize the economy.
D) all of the above.
Answer: D
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-5

17) In a command economy, _____ establish(es) what will be produced and when, set(s) production goals, and make(s) rules for distribution.
A) individuals and households
B) only privately owned firms
C) a centralized authority
D) individuals, households and privately owned firms
Answer: C
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Definition
Learning Outcome: Micro-1

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18) In a laissez-faire economy
A) individual people and firms pursue their own self-interest.
B) the government decides how to distribute goods and services.
C) a centralized authority establishes what will be produced.
D) consumers do not exercise choice.
Answer: A
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Definition
Learning Outcome: Micro-1

19) Which of the following statements is *true*?
A) Planned economies have fared very well in recent years, with many of these economies thriving.
B) Command economies operate the most efficiently because the government makes all the production decisions.
C) In command economies consumers still exercise choice.
D) In a command economy, consumers answer the questions of what to produce, how to produce it, and how to distribute it.
Answer: C
Diff: 2
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-19

20) Production decisions are centralized in a(n)
A) laissez-faire economy.
B) command economy.
C) invisible-hand economy.
D) utopian economy.
Answer: B
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

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21) Which of the following statements is *true* for a command economy?
A) Consumers have no choice concerning what they buy.
B) Manufacturers decide what is produced.
C) The amount of a good supplied always equals the amount of the good demanded.
D) The state decides how to distribute what is produced.
Answer: D
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

22) In a _____ economy, the behavior of buyers and sellers determines what gets produced, how it is produced, and who gets it.
A) command
B) laissez-faire
C) socialist
D) utopian
Answer: B
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

23) In a market system, self-interest motivates most people to
A) avoid paying insurance premiums.
B) remain self-sufficient.
C) provide products for other people.
D) rely on government central planning.
Answer: C
Diff: 2
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

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24) Which of the following is *true* of a market economy?
A) In its pure form, it is also known as a command economy.
B) Decisions are regulated by a central agency.
C) The government answers the basic economic questions of what gets produced, how it gets produced, and who gets it.
D) It relies on millions of individual economic decisions to determine economic outcomes.
Answer: D
Diff: 2
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

25) The idea that consumers determine what is produced in the economy through their demands is known as
A) a laissez-faire economy.
B) a command economy.
C) consumer sovereignty.
D) free enterprise.
Answer: C
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Definition
Learning Outcome: Micro-1

26) The freedom of individuals to start and operate private business in search of profits is known as
A) laissez-faire.
B) free enterprise.
C) centralized decision making.
D) consumer sovereignty.
Answer: B
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Definition
Learning Outcome: Micro-1

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27) The amount that _____ have accumulated out of past income through saving and inheritance is wealth.
A) governments
B) households
C) markets
D) corporations
Answer: B
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Definition
Learning Outcome: Micro-1

28) In a _____, the amount of output that any one household gets depends on its income and wealth.
A) Marxist economy
B) socialist economy
C) command system
D) free-market system
Answer: D
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

29) In which system are decisions made by thousands of people who have information about resources, production technology and consumer desires?
A) market system
B) centrally planned system
C) command system
D) socialist system
Answer: A
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-3

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30) In a laissez-faire economy, what provides individuals the information needed to make decisions?
A) insurance
B) prices
C) patents
D) government
Answer: B
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-3

31) Combined, local, state, and federal governments in the United States directly employ about _____ percent of all workers.
A) 2
B) 6
C) 14
D) 27
Answer: C
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Fact
AACSB: Reflective Thinking
Learning Outcome: Micro-3

32) Some economists advocate government intervention in a market economy when resource costs for a private producer _____ to society.
A) are greater than the full cost
B) are equal to the full cost
C) do not reflect the full cost
D) have no relevant cost
Answer: C
Diff: 2
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-5

33) A laissez-faire economy is one in which individual people and firms pursue their own self-interest without any central direction or regulation.
Answer: TRUE
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Definition
Learning Outcome: Micro-1

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34) A command economy is one in which a central government sets output targets, incomes, and prices.
Answer: TRUE
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Definition
Learning Outcome: Micro-1

35) A command economy eliminates markets.
Answer: FALSE
Diff: 2
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

36) Price is the coordinating mechanism in a planned economy.
Answer: FALSE
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

37) The notion that buyers determine what will be produced by choosing what they purchase is called consumer sovereignty.
Answer: TRUE
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Definition
Learning Outcome: Micro-1

38) The market system works by getting each person, motivated by his or her own self-interest, to produce products for other people.
Answer: TRUE
Diff: 2
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

39) All markets involve buyers and sellers engaging in exchange.
Answer: TRUE
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Definition
Learning Outcome: Micro-1

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40) In their pure forms, laissez-faire economies and command economies do not exist in the world.
Answer: TRUE
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Fact
AACSB: Reflective Thinking
Learning Outcome: Micro-1

41) Price is the coordinating mechanism in a laissez-faire economy.
Answer: TRUE
Diff: 2
Topic: Economic Systems and the Role of Government
Skill: Conceptual
AACSB: Reflective Thinking
Learning Outcome: Micro-1

42) No market economies exist without government involvement and government regulation.
Answer: TRUE
Diff: 1
Topic: Economic Systems and the Role of Government
Skill: Conceptual
Learning Outcome: Micro-1

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