Economics 9th edition Hubbard Test Bank

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***Economics, 9e* (Hubbard)**
Chapter 1 Economics: Foundations and Models

1.1 Three Key Economic Ideas

1) Apple assembles most iPhones in China and India because the lower wages earned by Chinese and Indian workers and their experience in electronics manufacturing reduce the costs of assembling iPhones. This is an example of Apple reacting to which of the three key economic ideas?
A) People are rational.
B) People respond to economic incentives.
C) Optimal decisions are made at the margin.
D) Firms attempt to maximize revenues.
Answer: B
Diff: 2
Topic: Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Chapter Opener: Should Apple Manufacture the iPhone in the United States?

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
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

3) Which of the following statements about scarcity is *true*?
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 only arises when there is a wide disparity in income distribution.
Answer: A
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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4) The basic economic problem of _____ has always existed and will continue to exist.
A) scarcity
B) efficiency
C) inflation
D) recession
Answer: A
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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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
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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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
Diff: 1
Topic: Economic Models
*: Recurring
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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
Diff: 1
Topic: Markets
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

8) In economics, the term _____ refers to a group of buyers and sellers of a product and the arrangement by which they come together to trade.
A) collective
B) cooperative
C) market
D) trade-off
Answer: C
Diff: 1
Topic: Markets
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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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
Diff: 1
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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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
Diff: 2
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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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
Diff: 2
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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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
Diff: 2
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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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 energy drink 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, b, and c
Answer: D
Diff: 3
Topic: People Respond to Economic Incentives
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

14) Suppose that some teachers have decided that economic and financial uncertainty have made the prospect of retiring more risky, and therefore carry a higher cost than not retiring. By using all available information as they act to achieve their goals, these teachers are exemplifying the economic idea that
A) people are rational.
B) people respond to economic incentives.
C) optimal decisions are made at the margin.
D) equity is more important than efficiency.
Answer: A
Diff: 2
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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15) Suppose that some investors have decided that economic and financial uncertainty have made the prospect of investing in domestic stock markets more risky than investing in foreign stock markets, and therefore choose to invest in foreign markets. By using all available information as they act to achieve their goals, these investors are exemplifying the economic idea that
A) people are rational.
B) people respond to economic incentives.
C) optimal decisions are made at the margin.
D) equity is more important than efficiency.
Answer: A
Diff: 2
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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16) Suppose the U.S. government encouraged new medical school graduates to take over existing practices from doctors wishing to retire by paying both the new and retiring doctors $100,000. These doctors would be exemplifying the economic idea that
A) people are rational.
B) people respond to economic incentives.
C) optimal decisions are made at the margin.
D) equity is more important than efficiency.
Answer: B
Diff: 2
Topic: People Respond to Economic Incentives
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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17) Suppose the U.S. government encouraged consumers to trade in their old automobiles for more efficient, new electric models by paying up to $5,000 for the old automobiles. These consumers who did trade in their old automobiles to take advantage of the government offer would be exemplifying the economic idea that
A) people are rational.
B) people respond to economic incentives.
C) optimal decisions are made at the margin.
D) equity is more important than efficiency.
Answer: B
Diff: 2
Topic: People Respond to Economic Incentives
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18) The Pharmaceuticals and Research Manufacturers of America requested changes including 25 percent tax credits for pharmaceutical companies to build and expand manufacturing facilities , asserting the changes would promote domestic expansion and prevent product shortages. Pharmaceutical manufacturers using all available information, including whether to respond to tax-credit incentives to expand production, exemplifies which key economic idea?
A) People are rational.
B) People respond to economic incentives.
C) Optimal decisions are made at the margin.
D) The market system relies on the principle of voluntary exchange.
Answer: A
Diff: 1
Topic: People Are Rational
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: An Inside Look: Will Biden's Strategy Expand the U.S. Biotechnology Industry?

19) Leaders in the U.S. pharmaceutical industry have asked the Biden administration for tax breaks and subsidies for U.S. drug manufacturers to assist in domestic expansion and to help compete with foreign producers. Offering tax breaks and subsidies reflects an attempt to get firms to follow which key economic idea?
A) People are rational.
B) People respond to economic incentives.
C) Optimal decisions are made at the margin.
D) The market system relies on the principle of voluntary exchange.
Answer: B
Diff: 1
Topic: People Respond to Economic Incentives
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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Special Feature: An Inside Look: Will Biden's Strategy Expand the U.S. Biotechnology Industry?

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20) If the Biden administration is successful in implementing changes to the student loan program where students could expect to pay back only half of what they borrowed, and this resulted in students actually borrowing more money than initially planned, the students would be following which key economic idea?
A) People are allocatively efficient.
B) People respond to economic incentives.
C) Optimal decisions are made at the margin.
D) The market system relies on the principle of voluntary exchange.
Answer: B
Diff: 2
Topic: People Respond to Economic Incentives
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Apply the Concept: Will Changes to the Federal Student Loan Program Unintentionally Give Colleges an Incentive to Increase Tuition?

21) The total value of outstanding student loans in the United States in 2023 was about
A) $37 billion.
B) $52 billion.
C) $825 billion.
D) $1.5 trillion.
Answer: D
Diff: 1
Topic: People Respond to Economic Incentives
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
Special Feature: Apply the Concept: Will Changes to the Federal Student Loan Program Unintentionally Give Colleges an Incentive to Increase Tuition?

22) In economics, the term _____ means "additional" or "extra."
A) allocative
B) marginal
C) equity
D) optimal
Answer: B
Diff: 1
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23) A grocery store sells a bag of potatoes at a fixed price of $3.75. Which of the following is a term used by economists to describe the money received from the sale of an additional bag of potatoes?
A) marginal revenue
B) gross earnings
C) pure profit
D) marginal costs
Answer: A
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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24) Economists reason that the optimal decision is to continue any activity up to the point where the
A) marginal benefit is zero.
B) marginal benefit is greater than the marginal cost.
C) marginal cost is zero.
D) marginal benefit equals the marginal cost.
Answer: D
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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25) Marginal analysis involves undertaking an activity
A) until its marginal costs start declining.
B) only when its marginal benefits are positive.
C) until its marginal benefits equal marginal costs.
D) only if its marginal costs are greater than its marginal benefits.
Answer: C
Diff: 1
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26) The revenue received from the sale of _____ of a product is a marginal benefit to the firm.
A) an additional unit
B) the total number of units
C) no units
D) only profitable units
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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27) Making optimal decisions "at the margin" requires
A) making decisions according to one's whims and fancies.
B) making consistently irrational decisions.
C) weighing the costs and benefits of a decision before deciding if it should be pursued.
D) making borderline decisions.
Answer: C
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
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28) Making "how much" decisions involves
A) calculating the total benefits of the activity and determining if you are satisfied with that amount.
B) calculating the total costs of the activity and determining if you can afford to incur that expenditure.
C) calculating the average benefit and the average cost of an activity to determine if it is worthwhile undertaking that activity.
D) determining the additional benefits and the additional costs of that activity.
Answer: D
Diff: 2
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29) The extra cost associated with undertaking an activity is called
A) net loss.
B) marginal cost.
C) opportunity cost.
D) foregone cost.
Answer: B
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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30) 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 $60, and he charges $95 for this service. For a total price of $120, DeShawn will also detail the car's engine, a service that adds an additional $30 to the total cost of the package. What is DeShawn's marginal benefit if he sells a basic detailing package?
A) $60
B) $95
C) He makes a marginal loss of $25, not a marginal benefit.
D) The marginal benefit cannot be determined.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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31) 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 $60, and he charges $95 for this service. For a total price of $120, DeShawn will also detail the car's engine, a service that adds an additional $30 to the total cost of the package. What is the marginal cost of adding the engine detailing to the basic detailing package?
A) $30
B) $35
C) $85
D) $85 plus the value of his time
Answer: A
Diff: 2
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32) 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 $60, and he charges $95 for this service. For a total price of $120, DeShawn will also detail the car's engine, a service that adds an additional $30 to the total cost of the package. Should DeShawn continue to offer the engine detailing service?
A) Yes, he still makes a profit by selling the engine detailing service with the basic detailing package.
B) Yes, but only if he raises the price of the basic detailing package.
C) No, his marginal benefit is less than his marginal cost.
D) More information is needed for DeShawn to make this decision.
Answer: C
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
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33) Allison's Auto Art is a company that applies pinstripes to vehicles. Allison's cost for a basic 1-color pinstriping job is $35, and she charges $95 for this service. For a total price of $175, Allison will apply a fancier 3-color pinstripe application to an automobile, a service that adds an additional $40 to the total cost of the package. What is Allison's marginal benefit if she sells a basic 1-color job?
A) $35
B) $60
C) $95
D) The marginal benefit cannot be determined.
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

34) Allison's Auto Art is a company that applies pinstripes to vehicles. Allison's cost for a basic 1-color pinstriping job is $35, and she charges $95 for this service. For a total price of $175, Allison will apply a fancier 3-color pinstripe application to an automobile, a service that adds an additional $40 to the total cost of the package. What is the marginal cost of moving up from the 1-color application to the 3-color application?
A) $35
B) $40
C) $80
D) $175
Answer: B
Diff: 2
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35) Allison's Auto Art is a company that applies pinstripes to vehicles. Allison's cost for a basic 1-color pinstriping job is $35, and she charges $95 for this service. For a total price of $175, Allison will apply a fancier 3-color pinstripe application to an automobile, a service that adds an additional $40 to the total cost of the package. Should Allison continue to offer the 3-color pinstripe application?
A) Yes, she still makes a profit by selling the 3-color application.
B) Yes, but only if she lowers the price of the 1-color application.
C) No, her marginal benefit is less than her marginal cost.
D) More information is needed for Allison to make this decision.
Answer: A
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
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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."

36) ***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
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
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37) ***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
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
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38) ***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 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
Diff: 2
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Table 1-1

Extra Hours Open	Total Revenue (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. Lydia is debating whether to extend the hours of operation. Lydia figures that sales revenue will depend on the number of extra hours the nail salon is open as shown in the table above. Lydia would have to hire a worker for those extra hours at a wage rate of $10 per hour.

39) ***Refer to Table 1-1.*** Using marginal analysis, by how many hours should Lydia extend the nail salon's hours of operations?
A) 2 hours
B) 3 hours
C) 4 hours
D) 5 hours
Answer: D
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
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40) ***Refer to Table 1-1.*** What is Lydia's marginal benefit if the salon stays open for an extra two hours instead of one hour?
A) $25
B) $50
C) $75
D) $125
Answer: A
Diff: 2
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41) ***Refer to Table 1-1.*** What is Lydia's marginal cost if the salon stays open for an extra two hours instead of one hour?
A) $10
B) $20
C) $25
D) $40
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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Table 1-2

Extra Hours Open	Total Revenue (dollars)
1	$25
2	45
3	70
4	90
5	105
6	110

Thuy Anh runs a small flower shop in the town of Florabunda. She is debating whether she should extend her hours of operation. Thuy Anh figures that her sales revenue will depend on the number of extra hours the flower shop is open as shown in the table above. She would have to hire a worker for those extra hours at a wage rate of $16 per hour.

42) ***Refer to Table 1-2.*** Using marginal analysis, by how many hours should Thuy Anh extend her flower shop's hours of operations?
A) 2 hours
B) 3 hours
C) 4 hours
D) 5 hours
Answer: C
Diff: 3
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43) ***Refer to Table 1-2.*** What is Thuy Anh's marginal benefit if she decides to stay open for an extra three hours instead of two hours?
A) $0
B) $20
C) $25
D) $45
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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44) ***Refer to Table 1-2.*** What is Thuy Anh's marginal cost if she decides to stay open for an extra three hours instead of two hours?
A) $0
B) $16
C) $25
D) $32
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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45) Soo Jin shares a one-bedroom apartment with her classmate. Her share of the rent is $800 per month. She is considering moving to a studio apartment which she will not have to share with anyone. The studio apartment rents for $1,100 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 student, 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 $300.
C) Soo Jin figures that the additional benefit of having her own place (as opposed to sharing) is at least $1,100.
D) the cost of having one's own space outweighs the benefits.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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46) Suppose the managers at Six Flags Over Texas were trying to decide whether to reduce operations from 7 days a week to just weekends due a labor shortage following the Covid-19 pandemic. Reducing operations from 7 days a week to just weekends would be optimal
A) only if the marginal cost of reducing operations to just weekends falls to zero.
B) as long as the marginal benefit of reducing operations to just weekends is just equal to or greater than the marginal cost of reducing operations to just weekends.
C) as long as the marginal cost does not rise.
D) until the marginal benefit of this action is maximized.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Solved Problem: The Marginal Benefit and Marginal Cost of Opening Walt Disney World during the Covid-19 Pandemic

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

Which of the above statements demonstrates that economic agents respond to incentives?
A) a only
B) b only
C) c only
D) a and b
Answer: D
Diff: 2
Topic: People Respond to Economic Incentives
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48) A restaurant sells a large soft drink at a fixed price of $1.79. A term used by economists to describe the money received from the sale of an additional large soft drink is
A) marginal revenue.
B) gross earnings.
C) pure profit.
D) net benefit.
Answer: A
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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49) The _____ the sale of an additional unit of a product is a marginal benefit to the firm.
A) revenue received from
B) extra cost of
C) total value of
D) sales tax on
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

50) Which of the following is an example of a "how much" decision?
A) Dinah's Diner is only open for breakfast and lunch. Dinah is trying to decide whether to open for dinner as well.
B) Zander has torn up his front yard and is debating whether to plant grass or install a rock garden.
C) You received a nice birthday check from your grandmother and are deciding on whether to spend it on a trip to New York or a trip to San Francisco.
D) Sergio quit his job to go back to school full time.
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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51) Pookie's Pinball Palace restores old Pinball machines. Pookie has just spent $300 purchasing and cleaning a 1960s-era machine which he expects to sell for $2,000 once he is finished with the restoration. After having spent $300, Pookie discovers that he will need to rewire the entire machine at a cost of $1,100 in order to finish the restoration. Alternatively, he can sell the machine "as is" now for $1,000. What is his marginal benefit if he sells the machine "as is" now?
A) $300
B) $900
C) $1,000
D) The marginal benefit cannot be determined.
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

52) Pookie's Pinball Palace restores old Pinball machines. Pookie has just spent $300 purchasing and cleaning a 1960s-era machine which he expects to sell for $2,000 once he is finished with the restoration. After having spent $300, Pookie discovers that he will need to rewire the entire machine at a cost of $1,100 in order to finish the restoration. Alternatively, he can sell the machine "as is" now for $1,000. What is the marginal cost of completing the task?
A) $300
B) $800
C) $1,100
D) $1,400
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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53) Pookie's Pinball Palace restores old Pinball machines. Pookie has just spent $300 purchasing and cleaning a 1960s-era machine which he expects to sell for $2,000 once he is finished with the restoration. After having spent $300, Pookie discovers that he will need to rewire the entire machine at a cost of $1,100 in order to finish the restoration. Alternatively, he can sell the machine "as is" now for $1,000. What should he do?
A) He should sell the machine now to make the most profit.
B) It does not matter what he does; he is going to take a loss on his project.
C) He should rewire the machine, complete the task and then sell the machine.
D) He should have never purchased the machine because he has already spent too much time on it and has not been paid for that time.
Answer: A
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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Scenario 1-2

Suppose a hat manufacturer currently sells 2,000 hats per week and makes a profit of $5,000 per week. The plant owner observes, "Although the last 300 hats we produced and sold increased our revenue by $1,000 and our costs by $1,100, 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 hats."

54) ***Refer to Scenario 1-2.*** Using marginal analysis terminology, another economic term for the incremental revenue received from the sale of the last 300 hats is
A) gross earnings.
B) marginal revenue.
C) sales revenue.
D) gross profit.
Answer: B
Diff: 1
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55) ***Refer to Scenario 1-2***. Using marginal analysis terminology, another economic term for the incremental cost of producing the last 300 hats is
A) marginal cost.
B) operating cost.
C) explicit cost.
D) Any of the above terms are correct.
Answer: A
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

56) ***Refer to Scenario 1-2.*** Had the firm not produced and sold the last 300 hats, would its profit be higher or lower, and by how much?
A) Its profit will be $1,100 higher.
B) Its profit will be $100 higher.
C) Its profit will be $100 lower.
D) Its profit will be $1,000 lower.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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Table 1-3

Extra Hours Open	Total Revenue (dollars)
1	$70
2	120
3	160
4	184
5	200
6	210

Santiago runs a comic book store in the town of East Arbor. He is debating whether he should extend his hours of operation. Santiago figures that his sales revenue will depend on the number of extra hours the store is open as shown in the table above. He would have to hire a worker for those extra hours at a wage rate of $18 per hour.

57) ***Refer to Table 1-3.*** Using marginal analysis, by how many hours should Santiago extend his store's hours of operations?
A) 2 hours
B) 3 hours
C) 4 hours
D) 5 hours
Answer: C
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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58) ***Refer to Table 1-3.*** What is Santiago's marginal benefit if he decides to stay open for an extra two hours instead of one hour?
A) $40
B) $50
C) $120
D) $190
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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59) ***Refer to Table 1-3.*** What is Santiago's marginal cost if he decides to stay open for an extra two hours instead of one hour?
A) $18
B) $36
C) $38
D) $102
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

60) Damian shares a small food truck with his sister. His share of the expenses is $500 per month. He has decided to get his own, newer food truck which he will not have to share with anyone. His expenses for the newer truck are $1,400 per month. Damian is as rational as any other person. As an economics major, you rightly conclude that
A) Damian cannot afford the newer truck and will have to go back to sharing a truck with his sister.
B) Damian figures that the additional benefit of having his own truck (as opposed to sharing) is at least $900.
C) Damian figures that the additional benefit of having his own truck (as opposed to sharing) is at least $1,400.
D) the cost of having one's own truck outweighs the benefits.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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Table 1-4

Extra Hours Open	Total Revenue (dollars)
1	$200
2	360
3	480
4	560
5	600
6	620

Tatiana runs an acupuncture clinic in Boston. She is debating whether she should extend her hours of operation. Tatiana figures that her sales revenue will depend on the number of extra hours the clinic is open as shown in the table above. She would have to hire a worker for those extra hours at a wage rate of $45 per hour.

61) ***Refer to Table 1-4.*** Using marginal analysis, by how many hours should Tatiana extend her clinic's hours of operations?
A) 2 hours
B) 3 hours
C) 4 hours
D) 5 hours
Answer: C
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

62) ***Refer to Table 1-4.*** What is Tatiana's marginal benefit if she decides to stay open for an extra two hours instead of one hour?
A) $120
B) $160
C) $200
D) $360
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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63) ***Refer to Table 1-4.*** What is Tatiana's marginal cost if she decides to stay open for an extra two hours instead of one hour?
A) $45
B) $90
C) $160
D) $360
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

64) Harriet's Mobile Hair Salon is a business that provides hair styling at the customer's home. Harriet's cost for a basic haircut is $10, and she charges $35 for this service. For a total price of $50, Harriet will also shampoo and blow dry a customer's hair, a service that adds an additional $5 to the total cost of the package. What is Harriet's marginal benefit if she just provides a basic haircut?
A) $10
B) $15
C) $35
D) The marginal benefit cannot be determined.
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

65) Harriet's Mobile Hair Salon is a business that provides hair styling at the customer's home. Harriet's cost for a basic haircut is $10, and she charges $35 for this service. For a total price of $50, Harriet will also shampoo and blow dry a customer's hair, a service that adds an additional $5 to the total cost of the package. What is Harriet's marginal cost of adding the shampoo and blow dry to the basic haircut?
A) $5
B) $15
C) $35
D) $50
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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66) Harriet's Mobile Hair Salon is a business that provides hair styling at the customer's home. Harriet's cost for a basic haircut is $10, and she charges $35 for this service. For a total price of $50, Harriet will also shampoo and blow dry a customer's hair, a service that adds an additional $5 to the total cost of the package. Should Harriet continue to offer the shampoo and blow dry service?
A) Yes, her marginal benefit is greater than her marginal cost.
B) Yes, but only if she raises the price of the basic haircut.
C) No, her marginal benefit is less than her marginal cost.
D) More information is needed for Harriet to make this decision.
Answer: A
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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67) The CHIPS and Science Act of 2022 included $53 billion in federal government assistance to private firms willing to construct new semiconductor factories in the United States or to expand existing factories. Several companies, including Intel and GlobalFoundries indicated they would take advantage of the assistance and build new factories in the United States. This is an example of these U.S. manufacturing firms reacting to which of the three key economic ideas?
A) Firms attempt to maximize revenues.
B) Optimal decisions are made at the margin.
C) Firms are allocatively efficient.
D) People respond to economic incentives.
Answer: D
Diff: 2
Topic: Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Chapter Opener: Should Apple Manufacture the iPhone in the United States?

68) The study of economics arises due to
A) money.
B) scarcity.
C) greed.
D) resources.
Answer: B
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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69) Scarcity refers to the situation in which
A) unlimited wants exceed limited resources.
B) unlimited resources exceed limited wants.
C) a country's population is larger than its resource base.
D) a nation's poverty level increases faster than its population.
Answer: A
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

70) The basic economic problem of scarcity
A) has always existed and will continue to exist.
B) will eventually disappear as technology continues to advance.
C) is a problem only in developing economies.
D) does not apply to the wealthy in society.
Answer: A
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

71) Economics is the study of the _____ people make to attain their goals, given their _____ resources.
A) purchases; unlimited
B) choices; scarce
C) income; available
D) decisions; household
Answer: B
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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72) What is an economic model?
A) It is a description of an economic issue that includes all possible related information.
B) It is a description of an economic issue based on official government information.
C) It is a detailed version of some aspect of economic life used to analyze an economic issue.
D) It is a simplified version of some aspect of economic life used to analyze an economic issue.
Answer: D
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

73) The term "market" in economics refers to
A) a place where money changes hands.
B) a legal institution where exchange can take place.
C) a group of buyers and sellers of a product and the arrangement by which they come together to trade.
D) an organization which sells goods and services.
Answer: C
Diff: 1
Topic: Markets
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

74) Economists assume that
A) individuals behave in unpredictable ways.
B) consumer behavior is explained by the existence of unlimited resources.
C) people put other people's interests ahead of their own.
D) optimal decisions are made at the margin.
Answer: D
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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75) Which of the following best describes an assumption economists make about human behavior?
A) They assume that individuals act rationally all the time in all circumstances.
B) They assume that rational behavior is useful in explaining choices people make even though people may not behave rationally all the time.
C) They assume that people take into account the question of fairness in all decisions they make.
D) They assume that individuals act randomly.
Answer: B
Diff: 2
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

76) Economists assume that rational people
A) never use all available information as they act to achieve their goals.
B) undertake activities that benefit others and hurt themselves.
C) only weigh the benefits and costs of the most desirable alternative actions.
D) respond to economic incentives.
Answer: D
Diff: 2
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

77) Your roommate, Serafina, a psychology major, said, "The problem with economics is that it assumes that consumers and firms always make the correct decision. But we know that everyone's human, and we all make mistakes." Do you agree with her comment?
A) Yes, I agree with her. One cannot make predictions about economic behavior because in reality people make incorrect choices in many situations.
B) I disagree with her. Economics does not study correct or incorrect behaviors but rather it assumes that economic agents behave rationally, meaning they make the best decisions given their knowledge of the costs and benefits.
C) Yes, I agree with her. Economic theory should allow for irrational behavior so that we can have more reliable predictions.
D) I disagree with her. If we cannot assume that decisions are correct, then we will not be able to examine the moral implications of these decisions.
Answer: B
Diff: 2
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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78) Consider the following statements:
a. Consumers rent more kayaks from a vendor that rents kayaks at a lower price than other rival kayak vendors along Waikiki beach.
b. Department stores take steps to increase security since they believe it is more costly to allow shoplifting than to install expensive security monitoring equipment.
c. Farmers produce more cotton when its selling price falls.

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.
Answer: D
Diff: 3
Topic: People Respond to Economic Incentives
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

79) In the first six months of 2003, branches of Commerce Bank in New York City were robbed 14 times. The New York City Police recommended steps the bank could take to deter robberies, including the installation of plastic barriers called "bandit barriers." The police were surprised the bank did not take their advice. According to a deputy commissioner of police, "Commerce does very little of what we recommend. They've told our detectives they have no interest in ever putting in the barriers."

It would seem that Commerce Bank would have a strong incentive to install "bandit barriers" to deter robberies. Why wouldn't they do it?
A) The banks would rather delay installation of any theft deterring equipment in anticipation of new, lower-cost innovations in the security devices market.
B) The banks must have weighed the cost of installing bandit barriers against the benefits and decided that they have "no interest in ever putting in the barriers."
C) The banks are concerned that "bandit barriers" would send the wrong message to customers—that the bank is unsafe.
D) The banks probably resent any interference from the police department.
Answer: B
Diff: 2
Topic: People Respond to Economic Incentives
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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80) Leaders in the pharmaceutical industry have asked the Biden administration for tax breaks and subsidies for U.S. drug manufacturers to assist in domestic expansion. Assuming that executives at these pharmaceutical firms use all available information when making the decision of whether or not to take advantage of any tax breaks or subsidies to expand their production facilities, including any costs that would be involved in making these moves, exemplifies which key economic idea?
A) People are rational.
B) People respond to economic incentives.
C) Optimal decisions are made at the margin.
D) The market system relies on the principle of voluntary exchange.
Answer: A
Diff: 1
Topic: People Are Rational
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: An Inside Look: Will Biden's Strategy Expand the U.S. Biotechnology Industry?

81) Leaders in the pharmaceutical industry have asked the Biden administration for tax breaks and subsidies for U.S. drug manufacturers to assist in domestic expansion. Expanding manufacturing in the United States to take advantage of tax breaks and subsidies exemplifies which key economic idea?
A) People are rational.
B) People respond to economic incentives.
C) Optimal decisions are made at the margin.
D) The market system relies on the principle of voluntary exchange.
Answer: B
Diff: 1
Topic: People Respond to Economic Incentives
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: An Inside Look: Will Biden's Strategy Expand the U.S. Biotechnology Industry?

82) In 2022, President Biden announced plans to reduce student loan debt. While the intention of these plans was to reduce the burden on people who currently have student loans, some economists believe that not having to pay back all that was borrowed would give students the incentive to
A) borrow more money because now they will expect to have to pay back less than they borrow.
B) completely stop paying back their student loans.
C) stop taking out any student loans.
D) borrow less than they had initially planned.
Answer: A
Diff: 1
Topic: People Respond to Economic Incentives
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Apply the Concept: Will Changes to the Federal Student Loan Program Unintentionally Give Colleges an Incentive to Increase Tuition?

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83) In 2022, President Biden announced plans to reduce student loan debt. While the intention of these plans was to reduce the burden on people who currently have student loans, Professor Sylvain Catherine at the Wharton School argues that students not having to pay back all that was borrowed would give colleges the incentive to
A) stop issuing scholarships.
B) no longer accept Pell Grants.
C) reduce enrollment.
D) further increase tuition.
Answer: D
Diff: 1
Topic: People Respond to Economic Incentives
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Apply the Concept: Will Changes to the Federal Student Loan Program Unintentionally Give Colleges an Incentive to Increase Tuition?

84) What does the term "marginal" mean in economics?
A) the edge of a market
B) an additional or extra
C) illegal
D) secondary
Answer: B
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

85) An office supply store sells a ream of printer paper at a fixed price of $4.50. Which of the following is a term used by economists to describe the money received from the sale of an additional ream of paper?
A) marginal revenue
B) gross earnings
C) pure profit
D) marginal costs
Answer: A
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
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86) Economics promotes which of the following as the way to make the best decision?
A) Continue an enjoyable activity as long as you do not have to pay for it.
B) Continue an enjoyable activity until it is no longer enjoyable.
C) Continue an enjoyable activity until you cannot afford to pursue it.
D) Continue an enjoyable activity up to the point where its marginal benefit equals its marginal cost.
Answer: D
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

87) _____ involves undertaking an activity until its marginal benefits equal marginal costs.
A) Scarcity reduction
B) Central planning
C) Marginal analysis
D) Market intervention
Answer: C
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

88) The revenue received from the sale of an additional unit of a product
A) is a marginal benefit to the firm.
B) is called profit.
C) is called gross sales.
D) is called a net gain.
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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89) The cost incurred from the production of an additional unit of a product
A) is a marginal cost to the firm.
B) is called a loss.
C) is called opportunity cost.
D) must be zero for a firm to be efficient.
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

90) If the daily marginal cost for the Walt Disney Company to reopen Disney World during the Covid-19 pandemic was $800,000, then the Walt Disney Company should have reopened Disney World
A) only if the marginal benefit received each day was less than $800,000.
B) as long as the marginal benefit received each day was just equal to or greater than $800,000.
C) as long as the marginal cost each day was lower than it had been before reopening.
D) until the marginal benefit received fell to zero.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Solved Problem: The Marginal Benefit and Marginal Cost of Opening Walt Disney World during the Covid-19 Pandemic

91) If the marginal cost of producing a television is constant at $200, then a firm should produce this item
A) only if the marginal benefit it receives is greater than $200 plus an acceptable profit margin.
B) as long as the marginal benefit it receives is just equal to or greater than $200.
C) as long as its marginal cost does not rise.
D) until the marginal benefit it receives reaches zero.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
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92) Which of the following is an example of a "how much" decision?
A) The Pleasantville movie theatre is open only in the evenings. The theatre's manager is debating whether to add daily matinee shows.
B) The Zhous have demolished their old home and are debating whether to build a ranch-style house or a Craftsman home.
C) You're planning to hold a graduation party and must decide between having your party catered or having a pot-luck.
D) Chelsea has withdrawn from the swim team to take a full-time job.
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

93) Which of the following is an example of a "how much" decision?
A) Octavia is debating whether to buy a pair of Jimmy Choo shoes or Steve Madden boots.
B) Humberto has taken a second job to earn money to buy a Harley-Davidson SuperLow Sportster.
C) You plan on going to Las Vegas for your birthday and are deciding if you should fly or drive.
D) Diana is trying to decide if she should open her pet shop on Sundays.
Answer: D
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

94) Marginal cost is the _____ associated with a particular increase in an activity.
A) total cost
B) additional cost
C) opportunity cost
D) forgone cost
Answer: B
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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95) Cassie's Quilts alters, reconstructs, and restores heirloom quilts. Cassie has just spent $800 purchasing, cleaning, and reconstructing an antique quilt which she expects to sell for $1,500 once she is finished. After having spent $800, Cassie discovers that she would need some special period fabric that would cost her $200 in material and time in order to complete the task. Alternatively, she can sell the quilt "as is" now for $900. What is her marginal benefit if she sells the quilt "as is" now?
A) $100
B) $900
C) She makes a marginal loss of $600, not a marginal benefit.
D) The marginal benefit cannot be determined.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

96) Cassie's Quilts alters, reconstructs, and restores heirloom quilts. Cassie has just spent $800 purchasing, cleaning, and reconstructing an antique quilt which she expects to sell for $1,500 once she is finished. After having spent $800, Cassie discovers that she would need some special period fabric that would cost her $200 in material and time in order to complete the task. Alternatively, she can sell the quilt "as is" now for $900. What is the marginal cost of completing the task?
A) $200
B) $500
C) $1,000
D) $1,000 plus the value of her time
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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97) Cassie's Quilts alters, reconstructs, and restores heirloom quilts. Cassie has just spent $800 purchasing, cleaning, and reconstructing an antique quilt which she expects to sell for $1,500 once she is finished. After having spent $800, Cassie discovers that she would need some special period fabric that would cost her $200 in material and time in order to complete the task. Alternatively, she can sell the quilt "as is" now for $900. What should she do?
A) She should cut her losses and sell the quilt now.
B) It does not matter what she does; she is going to take a loss on her project.
C) She should purchase the period fabric, complete the task and then sell the quilt.
D) She should not do any more work on the quilt because she has already spent too much time on it and has not been paid for that time.
Answer: C
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

98) Lionel's Lawn Care is a company that maintains residential yards. Lionel's cost for his standard package of mowing, edging, and trimming is $15, and he charges $25 for this service. For a total price of $40, Lionel will also trim shrubs, a service that adds an additional $10 to the total cost of the standard package. What is Lionel's marginal benefit if he sells the standard package?
A) $10
B) $15
C) $25
D) $40
Answer: C
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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99) Lionel's Lawn Care is a company that maintains residential yards. Lionel's cost for his standard package of mowing, edging, and trimming is $15, and he charges $25 for this service. For a total price of $40, Lionel will also trim shrubs, a service that adds an additional $10 to the total cost of the standard package. What is Lionel's marginal cost of adding the shrub-trimming service to the standard package?
A) $10
B) $15
C) $25
D) $40
Answer: A
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

100) Lionel's Lawn Care is a company that maintains residential yards. Lionel's cost for his standard package of mowing, edging, and trimming is $15, and he charges $25 for this service. For a total price of $40, Lionel will also trim shrubs, a service that adds an additional $10 to the total cost of the standard package. Should Lionel continue to offer the shrub-trimming service?
A) Yes, his marginal benefit is greater than his marginal cost.
B) Yes, but only if he raises the price of the standard package.
C) No, his marginal benefit is less than his marginal cost.
D) More information is needed for Lionel to make this decision.
Answer: A
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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Scenario 1-3

Suppose a t-shirt manufacturer currently sells 5,000 t-shirts per week and makes a profit of $10,000 per week. A manager at the plant observes, "Although the last 400 t-shirts we produced and sold increased our revenue by $4,000 and our costs by $4,800, we are still making an overall profit of $10,000 per week so I think we're on the right track. We are producing the optimal number of t-shirts."

101) ***Refer to Scenario 1-3.*** Using marginal analysis terminology, what is another economic term for the incremental revenue received from the sale of the last 400 t-shirts?
A) gross earnings
B) marginal revenue
C) sales revenue
D) gross profit
Answer: B
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

102) ***Refer to Scenario 1-3***. Using marginal analysis terminology, what is another economic term for the incremental cost of producing the last 400 t-shirts?
A) marginal cost
B) operating cost
C) explicit cost
D) Any of the above terms are correct.
Answer: A
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

103) ***Refer to Scenario 1-3.*** Had the firm not produced and sold the last 400 t-shirts, would its profit be higher or lower, and if so by how much?
A) Its profit would be $4,800 higher.
B) Its profit would be $800 higher.
C) Its profit would be $800 lower.
D) Its profit would be $4,000 lower.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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Table 1-5

Hours Open	Total Revenue (dollars)
1	$35
2	60
3	80
4	92
5	100
6	105

Eva runs a small bakery in the village of Roggerli. She is debating whether she should extend her hours of operation. Eva figures that her sales revenue will depend on the number of additional hours the bakery is open as shown in the table above. She would have to hire a worker for those hours at a wage rate of $12 per hour.

104) ***Refer to Table 1-5.*** Using marginal analysis, how many hours should Eva extend her bakery's hours of operations?
A) 2 hours
B) 3 hours
C) 4 hours
D) 5 hours
Answer: C
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

105) ***Refer to Table 1-5.*** What is Eva's marginal benefit if she decides to stay open for two hours instead of one hour?
A) $25
B) $36
C) $60
D) $95
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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106) ***Refer to Table 1-5.*** What is Eva's marginal cost if she decides to stay open for two hours instead of one hour?
A) $12
B) $24
C) $36
D) $71
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

Table 1-6

Hours Open	Total Revenue (dollars)
1	$40
2	65
3	80
4	90
5	95
6	98

Julius runs a small tailor shop in the city of Bloomfield. He is debating whether he should extend his hours of operation. Julius figures that his sales revenue will depend on the number of additional hours the tailor shop is open as shown in the table above. He would have to hire a worker for those hours at a wage rate of $18 per hour.

107) ***Refer to Table 1-6.*** Using marginal analysis, how many hours should Julius extend his shop's hours of operations?
A) 2 hours
B) 3 hours
C) 4 hours
D) 5 hours
Answer: A
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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108) ***Refer to Table 1-6.*** What is Julius's marginal benefit if he decides to stay open for three hours instead of two hours?
A) $15
B) $25
C) $65
D) $80
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

109) ***Refer to Table 1-6.*** What is Julius's marginal cost if he decides to stay open for three hours instead of two hours?
A) $0
B) $18
C) $54
D) $65
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

110) Tabitha shares a flea market booth with her sister. Her share of the rent is $150 per month. She is considering moving to her own, larger booth which she will not have to share with anyone. The larger booth rents for $450 per month. Recently, you ran into Tabitha in the grocery store and she tells you that she has rented the larger booth. Tabitha is as rational as any other person. As an economics major, you rightly conclude that
A) Tabitha did not have a choice; her sister was overcharging her.
B) Tabitha figures that the additional benefit of having her own booth (as opposed to sharing) is at least $300.
C) Tabitha figures that the additional benefit of having her own booth (as opposed to sharing) is at least $450.
D) the cost of having one's own booth outweighs the benefits.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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111) Consider the following statements:
a. Soda drinkers purchase more soda from a grocery store that sells soda at a lower price than other rival grocery stores in the area.
b. Homeowners do not take steps to increase security even though they believe it is more costly to allow burglaries than to install security monitoring equipment.
c. Manufacturers produce less of a particular cell phone 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
Answer: A
Diff: 3
Topic: People Respond to Economic Incentives
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

112) Suppose the U.S. government encouraged new teachers to take jobs in underperforming schools by paying the new teachers a $20,000 bonus. These teachers would be exemplifying the economic idea that
A) people are rational.
B) people respond to economic incentives.
C) optimal decisions are made at the margin.
D) equity is more important than efficiency.
Answer: B
Diff: 2
Topic: People Respond to Economic Incentives
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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113) Zane's Vanes is a service that restores old weather vanes. Zane has just spent $125 purchasing a 1920s-era weather vane which he expects to restore and sell for $500 once the work is completed. After having spent $125, Zane realizes that he will need to spend an additional $200 on materials to complete the restoration. Alternatively, he can sell the weather vane without restoring it for $200. What is his marginal benefit if he sells the weather vane without restoring it?
A) $75
B) $125
C) $200
D) $300
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

114) Zane's Vanes is a service that restores old weather vanes. Zane has just spent $125 purchasing a 1920s-era weather vane which he expects to restore and sell for $500 once the work is completed. After having spent $125, Zane realizes that he will need to spend an additional $200 on materials to complete the restoration. Alternatively, he can sell the weather vane without restoring it for $200. What is his marginal cost to complete the restoration?
A) $75
B) $125
C) $200
D) $300
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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115) Zane's Vanes is a service that restores old weather vanes. Zane has just spent $125 purchasing a 1920s-era weather vane which he expects to restore and sell for $500 once the work is completed. After having spent $125, Zane realizes that he will need to spend an additional $200 on materials to complete the restoration. Alternatively, he can sell the weather vane without restoring it for $200. What should he do?
A) He should sell the weather vane now to make the most profit.
B) It does not matter what he does; he is going to take a loss on the project.
C) He should finish the restoration and then sell the weather vane.
D) He should sell the weather vane back to the party he purchased it from and cut his losses.
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

Scenario 1-4

Suppose a cigar manufacturer currently sells 1,500 cigars per week and makes a profit of $3,000 per week. The plant manager observes, "Although the last 500 cigars we produced and sold increased our revenue by $7,500 and our costs by $7,000, we are only making an overall profit of $3,000 per week so I think we need to cut back on production."

116) ***Refer to Scenario 1-4.*** Using marginal analysis terminology, what is another economic term for the incremental revenue received from the sale of the last 500 cigars?
A) gross earnings
B) marginal revenue
C) sales revenue
D) gross profit
Answer: B
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
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117) ***Refer to Scenario 1-4***. Using marginal analysis terminology, what is another economic term for the incremental cost of producing the last 500 cigars?
A) marginal cost
B) operating cost
C) explicit cost
D) Any of the above terms are correct.
Answer: A
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

118) ***Refer to Scenario 1-4.*** Had the firm not produced and sold the last 500 cigars, would its profit be higher or lower, and if so by how much?
A) Its profit would be $500 higher.
B) Its profit would be $1,000 higher.
C) Its profit would be $500 lower.
D) Its profit would be $1,500 lower.
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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Table 1-7

Hours Open	Total Revenue (dollars)
1	$275
2	375
3	450
4	500
5	530
6	550

Ivan runs a custom jewelry shop in Sparkle City. He is debating whether he should extend his hours of operation. Ivan figures that his sales revenue will depend on the number of additional hours the jewelry shop is open as shown in the table above. He would have to hire a worker for those hours at a wage rate of $25 per hour.

119) ***Refer to Table 1-7.*** Using marginal analysis, how many hours should Ivan extend his hours of operations?
A) 2 hours
B) 3 hours
C) 4 hours
D) 5 hours
Answer: D
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

120) ***Refer to Table 1-7.*** What is Ivan's marginal benefit if he decides to stay open for six hours instead of five hours?
A) $10
B) $20
C) $30
D) $91.67
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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121) ***Refer to Table 1-7.*** What is Ivan's marginal cost if he decides to stay open for six hours instead of five hours?
A) $10
B) $20
C) $25
D) $91.67
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

122) Fiona shares an office with her ex-husband. Her share of the rent and utilities is $625 per month. She is considering moving to a home office which she will not have to share with anyone. The home office will not cost her anything as far as extra rent or utilities. Recently, you ran into Fiona at the gym and she tells you that she has moved into her home office. Fiona is as rational as any other person. As an economics major, you rightly conclude that
A) Fiona did not have a choice; her ex-husband was a jerk.
B) Fiona figures that the additional benefit of having her own office (as opposed to sharing) is at least $625.
C) Fiona figures that the benefit of having her own office (as opposed to sharing) is zero, since she is no longer paying rent and utilities.
D) The cost of having one's own space outweighs the benefits.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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Table 1-8

Hours Open	Total Revenue (dollars)
1	$75
2	125
3	160
4	185
5	200
6	210

Sofia runs a small candy store. She is debating whether she should extend her hours of operation. Sofia figures that her sales revenue will depend on the number of additional hours the candy store is open as shown in the table above. She would have to hire a worker for those hours at a wage rate of $15 per hour.

123) ***Refer to Table 1-8.*** Using marginal analysis, how many hours should Sofia extend her hours of operations?
A) 2 hours
B) 3 hours
C) 4 hours
D) 5 hours
Answer: D
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

124) ***Refer to Table 1-8.*** What is Sofia's marginal benefit if she decides to stay open for six hours instead of five hours?
A) $10
B) $15
C) $25
D) $210
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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125) ***Refer to Table 1-8.*** What is Sofia's marginal cost if she decides to stay open for six hours instead of five hours?
A) $10
B) $15
C) $25
D) $210
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

126) Raul restores old motorcycles. Raul has just spent $9,000 purchasing a 1920 Indian Scout motorcycle which he expects to restore and sell for $25,000 once the work is completed. After having spent $9,000, Raul realizes that he will need to spend an additional $5,000 on materials to complete the restoration. Alternatively, he can sell the motorcycle without restoring it for $11,000. What is his marginal benefit if he sells the motorcycle without restoring it?
A) $2,000
B) $5,000
C) $11,000
D) $14,000
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

127) Raul restores old motorcycles. Raul has just spent $9,000 purchasing a 1920 Indian Scout motorcycle which he expects to restore and sell for $25,000 once the work is completed. After having spent $9,000, Raul realizes that he will need to spend an additional $5,000 on materials to complete the restoration. Alternatively, he can sell the motorcycle without restoring it for $11,000. What is his marginal cost to complete the restoration?
A) $2,000
B) $5,000
C) $11,000
D) $14,000
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
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128) Raul restores old motorcycles. Raul has just spent $9,000 purchasing a 1920 Indian Scout motorcycle which he expects to restore and sell for $25,000 once the work is completed. After having spent $9,000, Raul realizes that he will need to spend an additional $5,000 on materials to complete the restoration. Alternatively, he can sell the motorcycle without restoring it for $11,000. What should he do?
A) He should not restore the motorcycle and sell it now to make the most profit.
B) It does not matter what he does; he is going to take a loss on the project.
C) He should finish the restoration and then sell the motorcycle.
D) He should sell the motorcycle back to the party he purchased it from and cut his losses.
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

129) Scarcity refers to a situation in which unlimited wants exceed the limited resources available to fulfill those wants.
Answer: TRUE
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

130) Scarcity is a problem that will eventually disappear as technology advances.
Answer: FALSE
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

131) An economic model is a simplified version of reality used to analyze real-world economic situations.
Answer: TRUE
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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132) The sales revenue a seller receives from the sale of an additional unit of goods is called the marginal benefit.
Answer: TRUE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

133) Optimal decisions are made at the point where marginal cost equals zero.
Answer: FALSE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

134) 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
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

135) Suppose the extra cost for an amusement park to increase its operations from 9 to 12 months a year is $1.5 million per year. The amusement park should increase operations to 12 months a year if it can generate an additional benefit of $1.5 million per year.
Answer: TRUE
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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136) All economic questions arise from the fact that resources are unlimited.
Answer: FALSE
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

137) Even if the population declines, scarcity will still exist.
Answer: TRUE
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

138) The term "market" refers to trading arrangements by which buyers and sellers come together.
Answer: TRUE
Diff: 1
Topic: Markets
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

139) The additional cost to a producer of hiring an additional unit of labor is called the marginal cost.
Answer: TRUE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

140) Marginal benefit refers to the additional benefit that your activity provides to you.
Answer: TRUE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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141) If it costs Danitra $225 to create 4 necklaces and $275 to create 5 necklaces, then the marginal cost of producing the 5th necklace is $50.
Answer: TRUE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

142) Suppose the extra cost to a carnival of increasing its hours from 12 to 16 hours per day is $40,000 per year. The carnival should increase its hours from 12 to 16 hours per day if doing so results in an additional benefit of less than $40,000 per year.
Answer: FALSE
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Solved Problem: The Marginal Benefit and Marginal Cost of Opening Walt Disney World during the Covid-19 Pandemic

143) All economic questions arise from the fact that resources are scarce.
Answer: TRUE
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

144) As population declines, scarcity eventually disappears.
Answer: FALSE
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

145) The term "market" refers only to trading arrangements that have been approved by the government.
Answer: FALSE
Diff: 1
Topic: Markets
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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146) The sales revenue a seller receives from the sale of an additional unit of goods is called the marginal cost.
Answer: FALSE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

147) Marginal benefit is the benefit that your activity provides to someone else.
Answer: FALSE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

148) If it costs Vijay $150 to design 5 websites and $175 to design 6 websites, then $175 is the marginal cost of producing the 6th website.
Answer: FALSE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

149) Suppose the extra cost for a municipality to enact a "no texting while driving" law is $15,000 per year. Then, the municipality should enact the law if it receives a total benefit from all of its traffic laws of $15,000 per year.
Answer: FALSE
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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150) An economic model is a complex version of reality used to analyze real-world economic situations.
Answer: FALSE
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

151) Optimal decisions are made at the point where marginal benefit is maximized.
Answer: FALSE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

152) If it costs Hobie $900 to produce 5 lamps and $1,200 to produce 6 lamps, then the difference of $300 is the marginal cost of producing the 5th lamp.
Answer: FALSE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

153) Suppose the extra annual cost to a nation to enact a mandatory seat belt law for motorcycles is $850. Then, the nation should enact this seat belt law if doing so results in an additional benefit of $850 or more each year.
Answer: TRUE
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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154) Explain the economic assumption that "people are rational."
Answer: "People are rational" means that economists assume consumers and firms will use all available information as they act to achieve their goals. Rational individuals weigh the benefits and costs of each action, and they choose an action only if the benefits exceed the costs.
Diff: 2
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

155) 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 in the way that they feel is in their best interest.
Diff: 2
Topic: People Respond to Economic Incentives
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

156) What is meant by the statement that "optimal decisions are made at the margin"?
Answer: In economics, the word "marginal" means "extra" or "additional." Economists reason that the optimal decision is to continue any activity up to the point where the marginal benefit equals the marginal cost, so optimal decisions are made at the point where the extra benefit received from an activity is equal to the extra cost associated with that activity.
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

157) Assume that an additional $800,000 in benefits will be received each year from the U.S. Postal Service delivering packages for Amazon on Sundays. What must the additional cost of this Sunday delivery policy be to make this policy economically rational?
Answer: The additional cost to the U.S. Postal Service of Sunday delivery for Amazon packages must be no more than $8000,000 for the year to make the policy economically rational.
Diff: 2
Topic: People Are Rational
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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158) What is an economic model?
Answer: An economic model is a simplified version of reality used to analyze real-world economic situations.
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

159) What is a marginal benefit?
Answer: Marginal benefit is the additional benefit received from continuing with an activity.
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

160) What is a marginal cost?
Answer: Marginal cost is the additional cost associated with continuing with an activity.
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

161) Suppose a town can earn an additional $10,000 per year in revenue if it installs a red-light camera at its busiest intersection. At what additional cost would installing this camera not be considered economically rational?
Answer: If the additional cost of the red-light camera exceeds $10,000 per year, the decision would not be economically rational.
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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162) What is scarcity, and why is it a fundamental concept in economics?
Answer: Scarcity refers to a situation in which unlimited wants exceed the limited resources available to fulfill those wants. Scarcity is a fundamental concept in economics because economics is the study of the choices people make to attain their goals, given their scarce resources.
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

163) What is an economic market?
Answer: An economic market refers to a group of buyers and sellers of a good or service and the institution or arrangement by which they come together to trade.
Diff: 1
Topic: Markets
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

164) What does the word "marginal" mean in economics? What is a marginal benefit? What is a marginal cost? What is marginal analysis?
Answer: In economics, the word "marginal" means "extra" or "additional." Marginal benefit is the additional benefit received from continuing with an activity. Marginal cost is the additional cost associated with continuing with an activity. Marginal analysis involves comparing marginal benefits and marginal costs.
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

165) Assume that a city can earn an additional $100,000 of revenue each year from using drones to catch speeding drivers. What must the additional cost of using drones to catch speeders be to make this economically rational?
Answer: The additional cost of using drones to catch speeders must be no more than $100,000 for the year to make this economically rational.
Diff: 2
Topic: People Are Rational
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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166) Explain the term "economics."
Answer: Economics is the study of the choices people make to attain their goals, given their scarce resources.
Diff: 2
Topic: Economics as a Social Science
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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
Diff: 1
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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) a trade-off.
D) equity.
Answer: C
Diff: 1
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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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
Diff: 2
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

4) Which of the following statements is *true*?
A) Any time 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 with a stock clearance sale.
C) Every individual, no matter how rich or poor, is faced with situations that require trade-offs.
D) Economics is a social science that studies the trade-offs we are forced to make because resources are unlimited.
Answer: C
Diff: 2
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

5) Which of the following is *not* an example of an economic trade-off that a firm has to face?
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
Diff: 1
Topic: Trade-offs
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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
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

7) Billie's Billiard Barn has seen its business slow down ever since Patti's Ping Pong Parlour opened up across the street. Since the opening of Patti's Ping Pong Parlour, the opportunity cost of shooting pool at Billie's Billiard Barn has _____ for Billie's customers who also like to play ping pong.
A) decreased
B) increased
C) fallen to zero
D) not changed
Answer: B
Diff: 2
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

8) The Coffee Nook, a small cafe near campus, sells cappuccinos for $2.50 and Russian tea cakes for $1.00 each. What is the opportunity cost of buying a cappuccino?
A) 2 1/2 Russian tea cakes
B) 2/5 of a Russian tea cake
C) $2.50
D) $1.00
Answer: A
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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9) The Coffee Nook, a small cafe near campus, sells cappuccinos for $2.50 and Russian tea cakes for $1.00 each. What is the opportunity cost of buying a Russian tea cake?
A) 2 1/2 cappuccinos
B) 2/5 of a cappuccino
C) $2.50
D) $1.00
Answer: B
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

10) Arlene quits her $125,000-a-year job to take care of her ailing parents. What is the opportunity cost of her decision?
A) zero, since she will no longer be earning a salary
B) It depends on the "going rate" for home-care providers.
C) at least $125,000
D) the value she attributes to the satisfaction she receives from taking care of her parents
Answer: C
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

11) The distribution of income primarily determines which of the fundamental economic questions?
A) What goods and services are to be produced?
B) How the goods and services are to be produced?
C) Who will receive the goods and services produced?
D) How will the economy be planned?
Answer: C
Diff: 2
Topic: Who Will Receive the Goods and Services Produced?
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12) Automobile manufacturers produce a range of automobiles such as sports utility vehicles, luxury sedans, pickup trucks, and compact cars. What fundamental economic question are they addressing by making this range of products?
A) How to produce goods that consumers want?
B) Why produce a variety of automobiles?
C) What to produce?
D) Who to produce automobiles for?
Answer: C
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

13) Consider the following economic agents:
a. the government
b. consumers
c. producers

Who, in a centrally planned economy, decides what goods and services will be produced with the scarce resources available in that economy?
A) the government
B) producers
C) consumers
D) consumers and producers
Answer: A
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

14) The decision about what goods and services will be produced in a market economy is made by
A) lawmakers in the government voting on what will be produced.
B) workers deciding to produce only what the boss says must be produced.
C) producers deciding what society wants most.
D) consumers and firms choosing which goods and services to buy or produce.
Answer: D
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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15) Which of the following statements about the economic decisions consumers, firms, and the government have to make is *false*?
A) Governments face the problem of scarcity in making economic decisions.
B) Only individuals face scarcity; firms and the government do not.
C) Both firms and individuals face scarcity.
D) Each faces the problem of scarcity which necessitates trade-offs in making economic decisions.
Answer: B
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

16) 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 will lead to drastic shortages of all goods and services.
D) Failure to do this could reduce efficiency and lead to an inequitable allocation of output.
Answer: A
Diff: 3
Topic: Who Will Receive the Goods and Services Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

17) Who receives the most of what is produced in a market economy?
A) lawmakers and other politically favored groups
B) those who are most willing and able to buy them
C) everyone receives an equal amount
D) people who earn the highest incomes
Answer: B
Diff: 1
Topic: Who Will Receive the Goods and Services Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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18) 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
Diff: 1
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

19) How are the fundamental economic questions answered in a market economy?
A) The government alone decides the answers.
B) Individuals, firms, and the government interact in markets to decide the answers to these questions.
C) Households and firms interact in markets to decide the answers to these questions.
D) Large corporations alone decide the answers.
Answer: C
Diff: 2
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

20) Which of the following is a problem inherent in centrally planned economies?
A) Households and firms make poor decisions in choosing how resources are allocated.
B) There is too little production of low-cost, high-quality goods and services.
C) Production managers are more concerned with satisfying consumer wants than with satisfying government's orders.
D) Exports tend to exceed imports.
Answer: B
Diff: 2
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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21) 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 could coordinate economic activities.
Answer: D
Diff: 2
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

22) _____ is a situation in which a good or service is produced at the lowest possible cost.
A) Allocative efficiency
B) Productive efficiency
C) Equity
D) Optimal marginalism
Answer: B
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

23) Productive efficiency is achieved when
A) firms add a low profit margin to the goods and services they produce.
B) firms produce the goods and services that consumers value most.
C) firms produce goods and services at the lowest cost.
D) there are no shortages or surpluses in the market.
Answer: C
Diff: 1
Topic: Efficiency
*: Recurring
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24) When production reflects consumer preferences, _____ occurs.
A) allocative efficiency
B) productive efficiency
C) equity
D) efficient central planning
Answer: A
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

25) Allocative efficiency is achieved when firms produce goods and services
A) at the lowest possible cost.
B) that consumers value most.
C) at the lowest opportunity cost.
D) at a marginal cost of zero.
Answer: B
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

26) Markets promote
A) equity and competition.
B) voluntary exchange and equality.
C) equity and equality.
D) competition and voluntary exchange.
Answer: D
Diff: 2
Topic: Market Economies
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27) Which of the following statements about competition in a market is *true*?
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
Diff: 2
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

28) _____ increases economic efficiency because it forces firms to produce and sell goods and services as long as the additional benefit to consumers is greater than the additional cost of production.
A) Competition
B) Voluntary exchange
C) Equity
D) A centrally planned economy
Answer: A
Diff: 1
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

29) Which of the following generates productive efficiency?
A) competition among sellers
B) competition among buyers
C) government inspectors
D) government production rules and regulations
Answer: A
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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30) Voluntary exchange between buyers and sellers generates _____ in a market economy.
A) scarcity
B) allocative efficiency
C) productive efficiency
D) equity
Answer: B
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

31) Which of the following is a result of a market economy?
A) environmental protection
B) an equal income distribution
C) agreement on equity
D) voluntary exchange
Answer: D
Diff: 1
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

32) Political candidates often hold fundraisers by charging "per plate" for dinner. Wendy purchased four tickets to a $1,000 per plate dinner for a local city council candidate. Does this transaction benefit both parties?
A) No, political candidates should never be allowed to overcharge for a fundraising dinner as that limits the number of people who can afford to attend.
B) Yes, it was a voluntary exchange that benefited both parties.
C) No, Wendy paid too much for four dinners.
D) Yes, but only if the dinners served actually cost $1,000 each.
Answer: B
Diff: 2
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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33) In economics, the term "equity" means
A) everyone has an equal standard of living.
B) the hardest working individuals consume all they want.
C) only elected officials have high standards of living.
D) economic benefits are distributed fairly.
Answer: D
Diff: 1
Topic: Equity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

34) 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
Diff: 3
Topic: Equity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

35) 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
Diff: 3
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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36) 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
Diff: 3
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

37) Which of the following correctly describes the relationship between economic efficiency and economic equity?
A) They are both automatically achieved in a free market economy.
B) They always call for opposite outcomes.
C) There is no conflict between the two goals.
D) There is often a trade-off between the two.
Answer: D
Diff: 2
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

38) Allocative efficiency best explains _____, and productive efficiency best explains _____.
A) how something will be produced; when something will be produced
B) when something will be produced; why something will be produced
C) why something will be produced; what will be produced
D) what will be produced; how something will be produced
Answer: D
Diff: 2
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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39) Trina's Tropical Fish Store sells goldfish for $2 each and angelfish for $10 each. What is the opportunity cost of buying a goldfish?
A) 5 angelfish
B) 1/5 of an angelfish
C) $10
D) $2
Answer: B
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

40) Trinh quits his $80,000-a-year job to become a full-time volunteer at a museum. What is the opportunity cost of his decision?
A) 0 since he will no longer be earning a salary
B) depends on the "going rate" of museum employees
C) at least $80,000
D) the value he attributes to the joy of working at a museum
Answer: C
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

41) Jewelry manufacturers produce a range of products such as rings, necklaces, bracelets, and brooches. What fundamental economic question are they addressing by offering this range of items?
A) How to produce goods that consumers want?
B) Why produce a variety of items?
C) What to produce?
D) Who to produce the items for?
Answer: C
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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42) Consider the following economic agents:
a. the government
b. consumers
c. producers

Who, in a market economy, decides what goods and services will be produced with the scarce resources available in that economy?
A) the government
B) producers
C) consumers
D) consumers and producers
Answer: D
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

43) In a modern mixed economy, who decides what goods and services will be produced?
A) only the producers
B) only consumers
C) only the government
D) producers, consumers, and government
Answer: D
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

44) How are most fundamental economic decisions now determined in China?
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 China is a centrally planned economy.
D) The United Nations decides because China is a developing economy.
Answer: A
Diff: 1
Topic: Mixed Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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45) When every good or service is produced up to the point where the last unit provides _____, allocative efficiency occurs.
A) a marginal benefit to society equal to the marginal cost of producing it
B) a marginal benefit to society greater than the marginal cost of producing it
C) a marginal benefit to society less than the marginal cost of producing it
D) a marginal benefit to society equal to zero
Answer: A
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

46) Voluntary exchange _____ economic efficiency because neither the buyer nor the seller would agree to a trade unless _____.
A) increases; they both benefit
B) increases; only one party benefits
C) decreases; neither benefit
D) decreases; they both benefit
Answer: A
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

47) All centrally planned economies
A) have been political dictatorships.
B) started out as market economies.
C) began as mixed economies.
D) have become mixed economies.
Answer: A
Diff: 1
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

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48) Mr. Peabody chooses to invest in companies that produce goods and services at the lowest possible cost. Mr. Peabody is investing in companies that are
A) allocatively efficient.
B) productively efficient.
C) guaranteed to make a profit.
D) all of the above
Answer: B
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

49) Mr. Peabody chooses to invest in companies that produce goods and services based on consumer preferences. Mr. Peabody is investing in companies that are attempting to be
A) allocatively efficient.
B) productively efficient.
C) guaranteed to make a profit.
D) all of the above
Answer: A
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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50) The town of Harmonia gives away all 500 tickets to its annual Founder's Day Free Concert-in-the-Park to local residents. Each year, more than 500 people wish to attend the concert, so some of the residents who receive the free tickets sell them for as much as $75 each. Is a transaction where someone pays a resident $75 for a "free ticket" economically efficient?
A) No, people should never be allowed to sell items they received for free.
B) Yes, it was a voluntary exchange that benefited both parties.
C) No, the buyer paid too much for the ticket.
D) Yes, but it is efficient only from the perspective of the seller and not from the perspective of the buyer.
Answer: B
Diff: 2
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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Article Summary

According to a U.S. Department of Commerce news blog, geographic income inequality in the United States has increased by more than 40% from 1980 to 2021. This income gap between richer places and poorer places has even increased over the past few years despite recent wage growth being strongest for lower-wage workers. Geographic income inequality is measured as the variation in average income in all places across the country. The increase in geographic income inequality was largely due to the richer places getting richer than to the poorer places getting poorer. For poorer areas, real per-capita income grew between 55 and 60 percent, while for richer areas, the growth rate was between 80 and 172 percent. Economic activity has increased in these richer areas, which tend to be larger metropolitan areas, and economic activity becoming more concentrated in a small number of places has widened the gap in the distribution of income. Source: Jed Kolko, "Geographic Inequality on the Rise in the U.S.", U.S. Department of Commerce, June 15, 2023.

51) ***Refer to the Article Summary***. The article discusses income inequality and how economic growth has not resulted in a more equitable distribution of income. What is meant by a more equitable distribution of income?
A) a more allocatively efficient distribution of income
B) a more productively efficient distribution of income
C) a more fair distribution of income
D) income distributed based on wealth levels
Answer: C
Diff: 2
Topic: Equity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Apply the Concept: Geographic Inequality on the Rise in the U.S.

52) ***Refer to the Article Summary***. The article discusses income inequality and how economic growth has not resulted in a more equitable distribution of income. If governments increased equity by reducing the incomes of high-income people and increasing the incomes of the poor, would it be possible that fewer goods and services would be produced and less saving would take place?
A) No, an increase in equity will result in a more efficient level of production and saving.
B) No, greater production and saving will take place regardless of the level of equity.
C) Yes, there is often a trade-off between efficiency and equity.
D) Yes, a reduction of the income gap necessitates a reduction in production and saving.
Answer: C
Diff: 2
Topic: Equity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Apply the Concept: Geographic Inequality on the Rise in the U.S.

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53) ***Refer to the Article Summary***. The article discusses income inequality and how economic growth has not resulted in a more equitable distribution of income. Would an equitable distribution of income necessarily be the most efficient distribution of income?
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, it is impossible to have an economically efficient distribution which is also an equitable distribution.
D) No, an economically efficient distribution of income would not necessarily be equitable.
Answer: D
Diff: 2
Topic: Equity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Apply the Concept: Geographic Inequality on the Rise in the U.S.

54) ***Refer to the Article Summary***. The article discusses income inequality and how economic growth has not resulted in a more equitable distribution of income. If governments increased equity by reducing the incomes of high-income people and increasing the incomes of the poor, would this necessarily increase efficiency?
A) Yes, efficiency always increases when the income gap between the rich and poor is reduced.
B) Yes, because equity and efficiency are the same.
C) No, it is impossible to have an equitable distribution of income which is also efficient.
D) No, a more equitable distribution of income may reduce efficiency.
Answer: D
Diff: 2
Topic: Equity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Apply the Concept: Geographic Inequality on the Rise in the U.S.

55) Trade-offs force society to make choices when answering what three fundamental questions?
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
Diff: 1
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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56) Every society faces economic trade-offs. This means
A) some people live better than others do.
B) not everyone can have enough goods to survive.
C) producing more of one good means less of another good can be produced.
D) society's output cannot be made available to all.
Answer: C
Diff: 1
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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57) Which of the following statements is *false*?
A) Anytime you have to decide which action to take you are facing an economic trade-off.
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 of scarcity.
Answer: B
Diff: 2
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

58) Which of the following is 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) deciding why consumers want its products
C) whether or not consumers will buy its products
D) deciding what profit margin it desires for its products
Answer: A
Diff: 1
Topic: Trade-offs
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59) Opportunity cost is defined as
A) the benefit of an activity.
B) the monetary expense associated with an activity.
C) the highest valued alternative that must be given up to engage in an activity.
D) the total value of all alternatives that must be given up to engage in an activity.
Answer: C
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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60) The Stogie Shop, a cigar store in the mall, sells hand-rolled cigars for $10.00 and machine-made cigars for $2.50 each. What is the opportunity cost of buying a hand-rolled cigar?
A) 4 machine-made cigars
B) one-quarter of a machine-made cigar
C) $10.00
D) $2.50
Answer: A
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

61) Ted quits his $60,000-a-year job to be a stay-at-home dad. What is the opportunity cost of his decision?
A) zero, since he will no longer be earning a salary
B) depends on the "going rate" for stay-at-home dads
C) at least $60,000
D) the value he attributes to the joy of parenting
Answer: C
Diff: 1
Topic: Opportunity Cost
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62) Skeeter's Skeeball Castle has seen its business slow down ever since Kerrie's Off-Key Karaoke opened up next door. Since the opening of Kerrie's Off-Key Karaoke, the opportunity cost of playing skeeball at Skeeter's has
A) decreased.
B) increased.
C) fallen to zero.
D) not changed.
Answer: B
Diff: 2
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

63) Who receives the goods and services produced in the United States depends largely on
A) how income is distributed.
B) how the goods and services are produced.
C) what goods and services are produced.
D) government redistribution.
Answer: A
Diff: 2
Topic: Who Will Receive the Goods and Services Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

64) Fast food restaurants produce a range of menu items such as hamburgers, chicken sandwiches, salads, and french fries. What fundamental economic question are they addressing by offering this range of items?
A) How to produce goods that consumers want?
B) Why produce a variety of menu items?
C) What to produce?
D) Who to produce the menu items for?
Answer: C
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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65) Consider the following economic agents:
a. the government
b. consumers
c. producers

Who, in a modern mixed economy, decides what goods and services will be produced with the scarce resources available in that economy?
A) the government
B) producers
C) consumers
D) all of the above
Answer: D
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

66) In a market economy, who decides what goods and services will be produced?
A) only the producers
B) only consumers
C) consumers and producers
D) the government
Answer: C
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

67) Which of the following is correct about the economic decisions consumers, firms, and the government have to make?
A) Governments may face the problem of shortages but not scarcity in making economic decisions.
B) Only individuals face scarcity; firms and the government do not.
C) Firms and the government face scarcity, individuals only face shortages.
D) Each faces the problem of scarcity which necessitates trade-offs in making economic decisions.
Answer: D
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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68) It is necessary for all economic systems to provide people with goods and services and also restrict them from getting as much of these goods and services as they wish, because failure to do this could _____ the efficiency of the system by producing some goods and services that are _____.
A) reduce; not as highly valued as others
B) increase; not as highly valued as others
C) reduce; valued more than others
D) increase; valued more than others
Answer: A
Diff: 3
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

69) How does a market system prevent people from getting as many goods and services as they wish?
A) Governments interfere with the market mechanism to influence the allocation of goods and services.
B) In a market system, firms can charge any price they want, thus preventing poor people from getting as many goods and services as they wish.
C) The market system allocates goods and services to those who are able to pay for those products and therefore income is a limiting factor.
D) The government imposes taxes on those who earn beyond a certain amount of income.
Answer: C
Diff: 2
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

70) In a market economy, those who are willing and able to buy what is produced
A) receive what the government allows them to receive.
B) receive the most of what is produced.
C) receive no more than everyone else in the market.
D) solely determine what is produced.
Answer: B
Diff: 1
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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71) How are the fundamental economic decisions determined in Cuba?
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 Cuba is a centrally planned economy.
D) The United Nations decides because Cuba is a developing economy.
Answer: C
Diff: 1
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

72) In a market economy, _____ interact in markets to decide the answers to the fundamental economic questions.
A) state and local governments
B) large corporations
C) households and firms
D) the judicial and legislative branches of the federal government
Answer: C
Diff: 2
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

73) Which of the following is a problem inherent in centrally planned economies?
A) There are no problems and everyone, including consumers, is satisfied.
B) There is too much production of low-cost, high-quality goods and services.
C) Production managers are more concerned with satisfying government's orders than with satisfying consumer wants.
D) Unemployment is too high.
Answer: C
Diff: 2
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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74) Which of the following contributed to the downfall of the Soviet Union in 1991?
A) public dissatisfaction with low living standards and political repression
B) producing higher-quality goods than were desired by consumers
C) the rapidly increasing standard of living
D) the lack of a strong dictator who could coordinate economic activities
Answer: A
Diff: 2
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

75) When goods and services are produced at the lowest possible cost, _____ occurs.
A) allocative efficiency
B) productive efficiency
C) equity
D) efficient central planning
Answer: B
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

76) Productive efficiency is achieved when firms produce goods and services
A) most desired by society.
B) at the highest profit margin.
C) at the lowest cost.
D) of the highest quality.
Answer: C
Diff: 1
Topic: Efficiency
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77) When every good or service is produced up to the point where the last unit provides a marginal benefit to society equal to the marginal cost of producing it, _____ occurs.
A) allocative efficiency
B) productive efficiency
C) equity
D) efficient central planning
Answer: A
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

78) Allocative efficiency is achieved when
A) goods and services are fairly distributed among consumers in an economy.
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: B
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

79) Which of the following contributes to the efficiency of markets?
A) Governments play an active role in the day-to-day operations of markets.
B) Markets are able to bring about an equitable distribution of goods and services.
C) Markets promote equal standards of living.
D) Markets promote competition and voluntary exchange.
Answer: D
Diff: 2
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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80) Competition forces firms to produce and sell products as long as the _____ to consumers exceeds the _____ of production.
A) marginal benefit; marginal cost
B) marginal benefit; marginal benefit
C) marginal cost; marginal cost
D) marginal cost; marginal benefit
Answer: A
Diff: 2
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

81) Voluntary exchange increases economic efficiency
A) because neither the buyer nor the seller would agree to a trade unless they both benefit.
B) because voluntary exchange only takes place with government permission.
C) because it is free and consequently does not cost anything.
D) because it allows wealthy individuals to act altruistically and give to the poor.
Answer: A
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

82) All _____ economies have been political dictatorships.
A) centrally planned
B) mixed
C) market
D) mixed and market
Answer: A
Diff: 1
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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83) Which of the following generates allocative efficiency in a market economy?
A) national government intervention
B) voluntary exchange between buyers and sellers
C) United Nations rules for competition
D) equity
Answer: B
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

84) Competition among sellers generates
A) productive efficiency.
B) allocative efficiency.
C) equity.
D) scarcity.
Answer: A
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

85) Dr. Goldfinger decides to invest in companies which he believes can "improve the productivity and efficiency" of health care services. How can Dr. Goldfinger strive to achieve this productive efficiency?
A) by investing in companies that produce goods and services based on consumer preferences
B) by investing in companies that produce goods and services at the lowest possible cost
C) by investing in companies that fairly distribute their products and services
D) by investing in companies that produce up to the point where the marginal benefit of the last unit produced is equal to the marginal cost of producing it
Answer: B
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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86) Dr. Goldfinger decides to invest in companies which he believes can "improve the productivity and efficiency" of health care services. What would Dr. Goldfinger need to do to try to achieve allocative efficiency?
A) invest in companies that produce goods and services based on consumer preferences
B) invest in companies that produce goods and services at the lowest possible cost
C) invest in companies that fairly distribute their products and services
D) invest in companies that produce up to the point where the marginal cost of the last unit produced is zero
Answer: A
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

87) Which of the following statements is correct?
A) Mrs. Lovejoy decides to invest in companies which she believes are producing their goods based on the preferences of consumers. Mrs. Lovejoy is therefore investing in companies that are allocatively efficient.
B) Mrs. Lovejoy decides to invest in companies which she believes are producing their goods based on the preferences of consumers. Mrs. Lovejoy is therefore investing in companies that are productively efficient.
C) Mrs. Lovejoy decides to invest in companies which she believes can produce their goods at the lowest possible cost. Mrs. Lovejoy is therefore investing in companies that are allocatively efficient.
D) Mrs. Lovejoy decides to invest in companies which she believes can produce their goods at the lowest possible cost. Mrs. Lovejoy is therefore investing in companies that are both allocatively and productively efficient.
Answer: A
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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88) Which of the following statements is correct?
A) Mrs. Lovejoy decides to invest in companies which she believes are producing their goods based on the preferences of consumers. Mrs. Lovejoy is therefore investing in companies that are productively efficient.
B) Mrs. Lovejoy decides to invest in companies which she believes are producing their goods based on the preferences of consumers. Mrs. Lovejoy is therefore investing in companies that are both allocatively and productively efficient.
C) Mrs. Lovejoy decides to invest in companies which she believes can produce their goods at the lowest possible cost. Mrs. Lovejoy is therefore investing in companies that are productively efficient.
D) Mrs. Lovejoy decides to invest in companies which she believes can produce their goods at the lowest possible cost. Mrs. Lovejoy is therefore investing in companies that are allocatively efficient.
Answer: C
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

89) Selling tickets to graduation ceremonies has long been a tradition among students at institutions that limit the number of guests. Suppose your classmate, Heidi, purchased two tickets for $40 each. Is this transaction economically efficient?
A) No, people should never be allowed to sell items they received for free.
B) Yes, it was a voluntary exchange that benefited both parties.
C) No, Heidi paid too much for the tickets.
D) Yes, it is efficient only from the perspective of the seller and not from the perspective of the buyer.
Answer: B
Diff: 2
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

90) _____ occurs when economic benefits are distributed fairly.
A) Productive efficiency
B) Allocative efficiency
C) Equality
D) Equity
Answer: D
Diff: 1
Topic: Equity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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91) Which of the following is motivated by an equity concern?
A) Some U.S. colleges have cut back on merit scholarships since these programs siphon money from need-based programs, thus harming lower-income students with greater financial need.
B) Following the removal of subsidies in urban water use, household demand for water decreased quite significantly in Bogor, Indonesia.
C) In November 2003, the Federal Communications Commission implemented the "local number portability" rule which gives cell phone customers the option of keeping their number when they switch carriers within the same geographic region.
D) The United States protects intellectual property rights, allowing inventors to prevent others from using their inventions without payment.
Answer: A
Diff: 3
Topic: Equity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

92) Which of the following is motivated by an efficiency concern?
A) In 2021, the Biden administration increased unemployment benefits.
B) As part of an economic stimulus package, each taxpayer received a $3,000 tax rebate check.
C) Following a six-month drought, a city banned homeowners from watering their lawns in an effort to conserve water.
D) Some U.S. colleges have cut back on merit scholarships since these programs siphon money from need-based programs, thus harming lower-income students with greater financial need.
Answer: C
Diff: 3
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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93) Which of the following is *not* 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) The growing demand for corn by ethanol producers has led to a surge in the price of tortillas, a staple in the Mexican diet. To quell public outcry over rising tortilla prices, the Mexican government released government corn stocks at prices well below the market, and pressured states to impose price ceilings on tortillas.
D) Some U.S. colleges cut back on merit scholarships since these programs siphon money from need-based programs, thus harming lower-income students with greater financial need.
Answer: B
Diff: 3
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

94) There is often a trade-off between
A) productive efficiency and allocative efficiency.
B) limited and unlimited resources.
C) voluntary and involuntary exchanges.
D) economic efficiency and economic equity.
Answer: D
Diff: 2
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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95) The Farm Factory, a booth at the local Farmer's Market, sells fresh eggs for $3.00 per dozen and fresh milk for $5.00 per gallon. What is the opportunity cost of buying a dozen eggs?
A) 1 2/3 gallons of milk
B) 3/5 of a gallon of milk
C) $5.00
D) $3.00
Answer: B
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

96) The Farm Factory, a booth at the local Farmer's Market, sells fresh eggs for $3.00 per dozen and fresh milk for $5.00 per gallon. What is the opportunity cost of buying a gallon of milk?
A) 1 2/3 dozen eggs
B) 3/5 of a dozen eggs
C) $5.00
D) $3.00
Answer: A
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

97) The decision about what goods and services will be produced in a market economy is made by
A) lawmakers in the government voting on what will be produced.
B) workers deciding to produce only what the boss says must be produced.
C) producers deciding what society wants most.
D) consumers and firms choosing which goods and services to buy or produce.
Answer: D
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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98) The decision about what goods and services will be produced in a centrally planned economy is made by
A) lawmakers in the government deciding on what will be produced.
B) workers deciding to produce only what the boss says must be produced.
C) producers deciding what society wants most.
D) consumers and firms choosing which goods and services to buy or produce.
Answer: A
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

99) How are the fundamental economic decisions determined in Canada?
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 Canada is a centrally planned economy.
D) The United Nations decides because Canada is a developing economy.
Answer: A
Diff: 1
Topic: Mixed Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

100) Which of the following contributed to the downfall of the Soviet Union in 1991?
A) government dissatisfaction with high living standards and political freedom
B) an inability to produce low-cost consumer goods that households wanted
C) an overabundance of high-quality goods and services
D) the lack of a strong dictator who could coordinate economic activities
Answer: B
Diff: 2
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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101) The government makes all economic decisions in a mixed economy.
Answer: FALSE
Diff: 1
Topic: Mixed Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

102) When voluntary exchange takes place, both parties gain from the exchange.
Answer: TRUE
Diff: 1
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

103) 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
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

104) One desirable outcome of a market economy is that it leads to a more equitable distribution of income.
Answer: FALSE
Diff: 1
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

105) The government makes all economic decisions in a market economy.
Answer: FALSE
Diff: 1
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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106) When voluntary exchange takes place, neither party gains from the exchange.
Answer: FALSE
Diff: 1
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

107) A college must decide if it wants to offer more adult literacy classes. This decision involves answering the economic question of "what to produce."
Answer: TRUE
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

108) In a centrally planned economy, the households and firms decide how economic resources will be allocated.
Answer: FALSE
Diff: 1
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

109) The government makes all economic decisions in a centrally planned economy.
Answer: TRUE
Diff: 1
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

110) When voluntary exchange takes place, only one party gains from the exchange.
Answer: FALSE
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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111) A college must decide if it wants to offer more evening and weekend classes. This decision involves answering the economic question of "for whom to produce."
Answer: FALSE
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

112) In a centrally planned economy, the government decides how economic resources will be allocated.
Answer: TRUE
Diff: 1
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

113) Consumers make all economic decisions in a mixed economy.
Answer: FALSE
Diff: 1
Topic: Mixed Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

114) When voluntary exchange takes place, neither party usually gains from the exchange.
Answer: FALSE
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

115) A university must decide if it should stop offering foreign language classes. This decision involves answering the economic question of "how to produce."
Answer: FALSE
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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116) In market economies, income distribution is always going to be completely equitable.
Answer: FALSE
Diff: 1
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

117) What is equity, and how does it differ from efficiency?
Answer: Equity refers to the fair distribution of economic benefits. In economics, efficiency refers to least cost production (productive efficiency) and producing according to human preferences (allocative efficiency).
Diff: 2
Topic: Equity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

118) What is opportunity cost?
Answer: Opportunity cost refers to the highest-valued alternative that must be given up to engage in an activity. For example, the opportunity cost of taking this economics class is what you are giving up to take the class, which may be taking another class such as accounting or psychology, working extra hours at your job, or extra sleep (whichever is your highest-valued alternative).
Diff: 2
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

119) 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 $200, but this does not necessarily mean that consumers are willing to pay $200 for a typewriter.
Diff: 3
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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120) What is a centrally planned economy?
Answer: A centrally planned economy is an economy in which the government decides how economic resources will be allocated.
Diff: 3
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

121) What is voluntary exchange?
Answer: Voluntary exchange is a situation that occurs in markets when both the buyer and seller of a product are made better off by the transaction.
Diff: 2
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

122) What is a mixed economy?
Answer: A mixed economy is an economy in which most economic decisions result from the interaction of buyers and sellers in markets but in which the government plays a significant role in the allocation of resources.
Diff: 3
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

123) Every society faces trade-offs. Explain the concept of trade-offs.
Answer: Trade-offs refer to the idea that, because of scarcity, producing more of one good or service means producing less of another good or service.
Diff: 2
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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124) Trade-offs force society to make choices when answering what three fundamental questions?
Answer:
1. What goods and services will be produced?
2. How will the goods and services be produced?
3. Who will receive the goods and services produced?
Diff: 2
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

125) What is the difference between economic efficiency and equity?
Answer: Economic efficiency is concerned with maximizing the value of output that can be generated by a given resource base while equity deals with the distribution of society's total output among the sectors and individuals of society.
Diff: 2
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

126) What is a market economy?
Answer: A market economy is an economy in which the decisions of households and firms interacting in markets allocate economic resources.
Diff: 3
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

127) Define allocative efficiency. Explain the significance of this concept in economics?
Answer: Allocative efficiency is an efficiency criterion that describes a situation where the marginal benefit (or marginal valuation) of the last unit purchased is equal to the marginal cost of producing that unit. In other words, allocative efficiency occurs when production reflects consumer preferences. This is a significant concept in that all societies face scarcity which necessitates that societies make choices about what goods and services to produce. To maximize society's wealth, resources must flow to their highest valued use. This value is determined by consumers.
Diff: 3
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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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
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

2) All of the following are part of an economic model *except*
A) assumptions.
B) hypotheses.
C) data.
D) opinions.
Answer: D
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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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
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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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
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

8) All of the following questions or statements regarding tariffs are positive statements *except:*
A) Economic models can be used to estimate the dollar amounts gained by the winners from the imposition of a tariff.
B) Economic analysis can, by itself, decide whether a tariff proposal should be enacted.
C) Economic analysis can show the size of the loss of economic efficiency from the imposition of a tariff.
D) Economic models can be used to estimate the dollar amounts lost by the losers from the imposition of a tariff.
Answer: B
Diff: 2
Topic: Positive and Normative Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Apply the Concept: What Can Economics Contribute to the Debate over Tariffs?

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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 comfortably 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
Topic: Positive and Normative Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Don't Let This Happen to You: Don't Confuse Positive Analysis with Normative Analysis

10) Which of the following is part of an economic model?
A) norms
B) hypotheses
C) opinions
D) preferences of economic agents
Answer: B
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

11) Which of the following is a positive economic statement?
A) The standard of living in the United States is too low.
B) If the price of beef falls, a larger quantity of it will be bought.
C) The government should implement a national consumption tax.
D) The U.S. government should increase regulations on the banking industry.
Answer: B
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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12) Which of the following is a positive economic statement?
A) U.S. citizens should only buy products which are produced in the United States.
B) The government should ban the production and sale of incandescent light bulbs.
C) Raising the tax on gasoline raises the selling price of gasoline.
D) The government should revamp its immigration policies.
Answer: C
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

13) Which of the following is a normative economic statement?
A) Rising corn prices have increased the price of corn-based ethanol.
B) With rising home prices and falling mortgage interest rates, the amount of home foreclosures has decreased.
C) The federal government is considering increasing regulations on the use of fossil fuels to promote the use of wind power.
D) Farmers should not be allowed to grow and sell genetically-modified crops.
Answer: D
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Ethical understanding and reasoning

14) Which of the following is a normative economic statement?
A) The price of wheat is too low.
B) The current low price of wheat is the result of increased worldwide supply.
C) When the price of wheat falls, the quantity of wheat purchased rises.
D) When the price of wheat falls, the cost of wheat-based products falls.
Answer: A
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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15) Economic models
A) make no assumptions in order to remain as accurate as possible.
B) are simplified versions of reality.
C) cannot be used to analyze real-world issues.
D) magnify the complexity of economic issues in order to provide useful data.
Answer: B
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

16) Which of the following is part of an economic model?
A) assumptions
B) norms
C) opinions
D) preferences of economic agents
Answer: A
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

17) Which of the following statements about positive economic analysis is *true*?
A) Positive analysis uses an economic model to estimate the costs and benefits of different course of actions.
B) There is much less 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 positive economic analysis, normative economic analysis can be tested.
Answer: A
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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18) Which of the following is a positive economic statement?
A) Everyone should live at the same standard of living.
B) If the price of gasoline rises, a smaller quantity of it will be bought.
C) The government should close income tax loopholes.
D) U.S. firms should not be allowed to outsource production of goods and services.
Answer: B
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

19) Which of the following is a positive economic statement?
A) People should not buy imported fruits and vegetables.
B) The government should subsidize solar power for homeowners.
C) The minimum wage law causes unemployment.
D) The number of work visas should not be limited by the government.
Answer: C
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

20) Which of the following is a normative economic statement?
A) Rising global demand for diesel and heating oil has led to increases in the price of crude oil.
B) With falling home prices and rising mortgage interest rates, the amount of foreclosures has increased.
C) The federal government is considering raising the gasoline tax to promote the use of public transportation.
D) Fashion designers should be allowed to copyright designs to promote innovation.
Answer: D
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Ethical understanding and reasoning

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21) Which of the following is a normative economic statement?
A) The price of milk is too high.
B) The current high price of milk is the result of reduced worldwide supply.
C) When the price of milk rises, the quantity of milk purchased falls.
D) When the price of milk rises, the cost of milk-based products rises.
Answer: A
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

22) All of the following questions or statements regarding tariffs are positive *except*
A) Economic models can be used to estimate the dollar amounts gained by the winners from the imposition of a tariff.
B) Economic analysis can decide whether a tariff proposal should be enacted.
C) Economic analysis can show the size of the loss of economic efficiency from the imposition of a tariff.
D) Economic models can be used to estimate the dollar amounts lost by the losers from the imposition of a tariff.
Answer: B
Diff: 2
Topic: Positive and Normative Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Apply the Concept: What Can Economics Contribute to the Debate over Tariffs?

23) 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. Unemployment would be lower without a minimum wage law.
c. Minimum wage laws benefit some workers and harm others.
d. The minimum wage should be more than $7.25 per hour.

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: A
Diff: 2
Topic: Positive and Normative Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Don't Let This Happen to You: Don't Confuse Positive Analysis with Normative Analysis

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24) Which of the following is part of an economic model?
A) preferences of economic agents
B) data
C) norms
D) opinions
Answer: B
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

25) Which of the following is a positive economic statement?
A) The inflation rate in the United States is too high.
B) Unemployment insurance payments increase when the unemployment rate rises.
C) The government should defund Obamacare.
D) States should be able to enact their own marijuana legalization laws.
Answer: B
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

26) Which of the following is a positive economic statement?
A) People should use public transportation more often.
B) The government should ban diesel engines in automobiles.
C) Due to a decrease in state funding, university tuition has risen.
D) Foreign citizens should not be allowed to work without a work visa.
Answer: C
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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27) Which of the following is a normative economic statement?
A) Falling global demand for pesticides has led to decreases in the price of pesticides.
B) With falling mortgage rates and falling unemployment rates, the number of new homes being built has increased.
C) The state of Florida's unemployment rate dropped when several large companies relocated to the Miami area.
D) Global warming should be at the top of every economic agenda.
Answer: D
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

28) Which of the following is a normative economic statement?
A) Tobacco products should be banned in all public spaces.
B) The increase in tobacco taxes has caused an increase in the price of cigarettes.
C) Better awareness of health risks has decreased tobacco use.
D) A reduction in tobacco subsidies has caused the price of tobacco to increase.
Answer: A
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

29) "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
Diff: 1
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

30) "The distribution of income should be left to the market" is an example of a positive economic statement.
Answer: FALSE
Diff: 1
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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31) Positive analysis is concerned with "what ought to be," while normative analysis is concerned with "what is."
Answer: FALSE
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

32) "A decrease in the price of tablet computers will decrease the demand for desktop computers." This statement is an example of a normative economic statement.
Answer: FALSE
Diff: 1
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

33) "The distribution of income should be determined by the government" is an example of a positive economic statement.
Answer: FALSE
Diff: 1
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

34) Policies based on positive economic ideas tend to decrease economic efficiency and reduce equity.
Answer: FALSE
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

35) "A decrease in the price of wireless earbuds will decrease the demand for wired headphones." This statement is an example of a positive economic statement.
Answer: TRUE
Diff: 1
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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36) "The distribution of income should be determined by the government" is an example of a normative economic statement.
Answer: TRUE
Diff: 1
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

37) Policies based on normative economic ideas tend to increase economic efficiency and improve equity.
Answer: FALSE
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

38) "An increase in the price of oranges will increase the demand for grapefruits." This statement is an example of a normative economic statement.
Answer: FALSE
Diff: 1
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

39) "The unemployment rate is too high" is an example of a positive economic statement.
Answer: FALSE
Diff: 1
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

40) Normative analysis is concerned with "what ought to be," while positive analysis is concerned with "what is."
Answer: TRUE
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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41) What is the difference between positive economic analysis and normative economic analysis? Give one example each of a positive and normative economic issue or question or statement.
Answer: Positive economic analysis is concerned with what is. Positive economic analysis reaches conclusions based on verifiable statements. Normative economic analysis, on the other hand, is concerned with what ought to be. Normative analysis reaches conclusions based on opinions. (Students will give many different examples.)
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

42) 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.
Diff: 2
Topic: Economics as a Social Science
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

43) What is an economic variable?
Answer: An economic variable is something measurable that can have different values, such as the wages of software programmers.
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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

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

Answer: Statements a and e are positive economic statements. Statements b, c, d, and f are normative economic statements.
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

45) What are the five steps by which economists arrive at a useful economic model?
Answer:
1. Decide on the assumptions to use in developing the model.
2. Formulate a testable hypothesis.
3. Use economic data to test the hypothesis.
4. Revise the model if it fails to explain the economic data well.
5. Retain the revised model to help answer similar economic questions in the future.

Diff: 2
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

46) What is an economic variable? Give an example of an economic variable.
Answer: An economic variable is something measurable that can have different values, such as the wages of software programmers. (Students will give many different examples).
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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47) Which of the following are positive economic statements and which are normative economic statements?

a. An increase in the minimum wage causes unemployment.
b. The government should raise the minimum wage above $7.25 per hour.
c. The prolonged recession has caused the unemployment rate to reach a 30-year high.
d. Interest rates need to be lower for the economy to emerge from the recession.
e. Inflation has decreased since the onset of the recession.
f. Once the recession has ended, interest rates should increase to assure that inflation does not go up.
Answer: Statements a, c, and e are positive economic statements. Statements b, d, and f are normative economic statements.
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

1.4 Microeconomics and Macroeconomics

1) Which of the following is a microeconomic question?
A) How much will be saved and how much will be produced in the entire economy?
B) What will the level of economic growth be in the entire economy?
C) What factors determine the price of carrots?
D) What determines the average price level and inflation?
Answer: C
Diff: 2
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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3) Which of the following is a macroeconomic question?
A) What determines the inflation rate?
B) What determines the production of electric scooters?
C) What factors determine the price of carrots?
D) What determines the wage of auto workers?
Answer: A
Diff: 2
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

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
Diff: 1
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

5) Which of the following is a microeconomic question?
A) Why do economies experience periods of high inflation?
B) Will Federal Reserve intervention lower the inflation rate?
C) Why has growth in the economy increased since the end of the recession?
D) Will the merger of Kroger and Albertsons increase or decrease grocery prices?
Answer: D
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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6) The branch of economics which studies how households and firms interact in markets is called
A) macroeconomics.
B) microeconomics.
C) positive economics.
D) normative economics.
Answer: B
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

7) Which of the following is a macroeconomic question?
A) What determines the growth rate of gross domestic product?
B) How is the production quantity of snowboards determined?
C) What factors determine the price of electronic cigarettes?
D) What determines the salaries of Wall Street executives?
Answer: A
Diff: 1
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

8) The branch of economics which studies the behavior of entire economies is called
A) public economics.
B) microeconomics.
C) macroeconomics.
D) normative economics.
Answer: C
Diff: 1
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

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9) When Mr. Peabody decides on the companies to which he will donate his time and money, a _____ issue is being addressed.
A) microeconomic
B) macroeconomic
C) positive economic
D) normative economic
Answer: A
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

10) Which of the following is a microeconomic question?
A) Why do economies experience periods of recession?
B) Will government intervention lower the unemployment rate?
C) Why has growth in the economy slowed down over the past decade?
D) How will Apple decide on a selling price for the newest generation iPad?
Answer: D
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

11) The branch of economics which studies how households and firms make choices, interact in markets, and how government attempts to influence their choices is called
A) macroeconomics.
B) microeconomics.
C) positive economics.
D) normative economics.
Answer: B
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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12) Which of the following is a macroeconomic question?
A) What determines the unemployment rate?
B) How is the production quantity of wireless earbuds determined?
C) What factors determine the price of iPhones?
D) What determines the wages and benefits of flight attendants?
Answer: A
Diff: 1
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

13) The branch of economics which studies the behavior of entire economies and policies that affect the economy as a whole is called
A) public economics.
B) microeconomics.
C) macroeconomics.
D) normative economics.
Answer: C
Diff: 1
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

14) When Dr. Goldfinger decides on the companies in which he will invest, a _____ issue is being addressed.
A) microeconomic
B) macroeconomic
C) positive economic
D) normative economic
Answer: A
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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15) Which of the following is a microeconomic question?
A) When will the government better secure the borders?
B) Why hasn't the federal government raised the minimum wage?
C) How does Fiat decide on the price of the 500e model?
D) What determines the level of U.S. imports and exports?
Answer: C
Diff: 2
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

16) Which of the following is a macroeconomic question?
A) What determines the minimum wage?
B) What determines the production of video game consoles?
C) What factors determine the price of Oreo cookies?
D) What determines the salaries of college professors?
Answer: A
Diff: 2
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

17) Examining the conditions that could lead to a recession in an economy is an example of a macroeconomic topic.
Answer: TRUE
Diff: 1
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

18) The decisions Apple makes in determining production levels for its iPhone is an example of a microeconomic topic.
Answer: TRUE
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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19) Examining the conditions that could lead to unemployment in an economy is an example of a microeconomic topic.
Answer: FALSE
Diff: 1
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

20) Suppose that to increase sales of hybrid vehicles, auto manufacturers are offering large cash incentives. This is an example of a macroeconomic topic.
Answer: FALSE
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

21) Examining the conditions that could lead to inflation in an economy is an example of a microeconomic topic.
Answer: FALSE
Diff: 1
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

22) Suppose that to move more people off the wait list for organ donations, surgeons and hospitals are developing a market for organ swapping. This is an example of a macroeconomic topic.
Answer: FALSE
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

23) Examining the conditions that could lead to economic growth is an example of a macroeconomic topic.
Answer: TRUE
Diff: 1
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
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24) The decisions General Motors makes in determining production levels for its Chevy Bolt is an example of a microeconomic topic.
Answer: TRUE
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

25) 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.
Diff: 2
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

26) Define microeconomics.
Answer: Microeconomics is the study of how households and firms make choices, how they interact in markets, and how the government attempts to influence their choices.
Diff: 2
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

27) Define macroeconomics.
Answer: Macroeconomics is the study of the economy as a whole, including topics such as inflation, unemployment, and economic growth.
Diff: 1
Topic: Macroeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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

a. college tuition rates
b. farm subsidies
c. national income
d. automobile prices
e. air traffic congestion
f. economic recession
Answer: c and f are primarily macroeconomic topics.
a, b, d, and e are primarily microeconomic topics.
Diff: 2
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

29) How does the study of microeconomics differ from that of macroeconomics? Give one example each of an issue studied in microeconomics and in macroeconomics.
Answer: Microeconomics is the study of how household and businesses make choices, how they interact in markets, and how the government attempts to influence their choices while macroeconomics is the study of the economy as a whole, including topics like unemployment, inflation and economic growth. (Students will give many different examples.)
Diff: 2
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

1.5 Economic Skills and Economics as a Career

1) Which of the following statements is *true*?
A) Only government policymakers can improve decision making by using economic principles.
B) Only government policymakers and business managers can improve decision making by using economic principles.
C) Only business managers and individuals can improve decision making by using economic principles.
D) Government policymakers, business managers, and individuals can all improve decision making by using economic principles.
Answer: D
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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2) Economists spend much of their time
A) describing how choices are made and analyzing the results of those choices.
B) arguing that optimal decisions are rarely made at the margin.
C) using normative analysis to develop economic models.
D) telling businesses what goods and services to produce and how to produce them.
Answer: A
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

3) Of the following examples, which would most likely be performed by an economist working for the U.S. Federal Trade Commission?
A) forecasting employment trends in New England
B) assessing whether Amazon should build its new headquarters in New York or Texas
C) analyzing data related to a potential merger of two companies
D) using economic models to forecast future inflation rates
Answer: C
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

4) Of the following examples, which would likely be performed by an economist working for Apple?
A) forecasting the demand for wearable technology that synchronizes with the iPhone
B) using economic models to analyze the future of cell phone usage in the United States
C) analyzing data related to a potential buyout of semiconductor manufacturer Intel Corp
D) all of the above
Answer: D
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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5) Which of the following can use economic principles to improve how they make important decisions?
A) individuals
B) managers in businesses
C) government policymakers
D) all of the above
Answer: D
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

6) A primary role of _____ is to describe how choices are made, analyze the results of those choices, and advise on how better decisions can be made.
A) economists
B) government policymakers
C) a market economy
D) marginal analysis
Answer: A
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

7) Of the following examples, which would most likely be performed by an economist working for the Federal Reserve Bank of San Francisco?
A) using economic models to analyze crime rates in Central America
B) forecasting production trends in the Pacific Northwest
C) analyzing data related to European antitrust laws
D) assessing whether immigration policy has affected population numbers in Massachusetts
Answer: B
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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8) Of the following examples, which would most likely be performed by an economist working for American Airlines?
A) using economic models to analyze unemployment and inflation rates in Australia
B) assessing whether automobile injuries are directly related to speed limits
C) analyzing data related to passenger air traffic in China
D) forecasting the demand for U.S.-produced organic produce over the next 15 years
Answer: C
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

9) Individuals can use economic principles to improve their decision-making process.
Answer: TRUE
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

10) A primary role of economists is to not only describe how choices are made and analyze the results of those choices, but also to advise on how better decisions can be made.
Answer: TRUE
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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11) Very few businesses, and virtually no nonprofit organizations, hire economists.
Answer: FALSE
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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12) According to the Federal Reserve Bank of New York regarding people aged 22 to 27 with a bachelor's degree, those who major in economics on average earn an annual wage about 33 percent higher than the annual wage earned by all majors.
Answer: TRUE
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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1.6 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
Diff: 2
Topic: Profit
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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
Diff: 1
Topic: Human Capital
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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3) Which of the following is an example of an activity undertaken by an entrepreneur?
A) washing and ironing your own shirts instead of taking them to the cleaners
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
Diff: 1
Topic: Entrepreneur
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

4) The machines that workers have to work with are considered
A) human capital.
B) physical capital.
C) entrepreneurship.
D) financial capital.
Answer: B
Diff: 2
Topic: Capital
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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
Diff: 1
Topic: Technology
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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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
Diff: 1
Topic: Resources
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

7) The development of a new good or a new process for making a good is called
A) an innovation.
B) an invention.
C) a factor of production.
D) a service.
Answer: B
Diff: 1
Topic: Invention
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

8) In economics, an organization that produces a good or service is called a
A) firm.
B) company.
C) business.
D) All of the above are correct.
Answer: D
Diff: 1
Topic: Firms
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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9) Which of the following is an example of an activity undertaken by an entrepreneur?
A) deciding whether to purchase a gasoline-powered automobile or an electric vehicle
B) being appointed as the head of a charitable organization
C) running for a seat on the city council
D) starting your own cigar manufacturing business
Answer: D
Diff: 1
Topic: Entrepreneur
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

10) In economics, all of the following is counted as "capital" *except*
A) money.
B) machine tools.
C) factory buildings.
D) warehouses.
Answer: A
Diff: 2
Topic: Capital
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

11) A firm's technology may depend on which of the following factors?
A) the skill of its managers
B) the training of its workers
C) the speed and efficiency of its equipment
D) all of the above
Answer: D
Diff: 1
Topic: Technology
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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12) Households _____ factors of production and _____ goods and services.
A) supply; demand
B) supply; supply
C) demand; supply
D) demand; demand
Answer: A
Diff: 1
Topic: Households
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

13) The U.S. Bureau of Labor Statistics forecasts that by 2031, total employment in U.S. manufacturing will
A) decline to 12.2 million.
B) increase to 12.8 million.
C) remain the same as it was in 2019.
D) virtually cease to exist.
Answer: A
Diff: 1
Topic: Human Capital
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
Special Feature: Economics in Your Life & Career: Should You Consider a Career in Manufacturing?

14) Which of the following statements is *true* about revenue?
A) Revenue is the total amount received for selling a good or service.
B) Revenue is calculated by dividing the price per unit by the number of units sold.
C) The terms "revenue" and "profit" can be used interchangeably.
D) A firm's revenue will increase as its costs increase.
Answer: A
Diff: 1
Topic: Revenue
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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15) Human capital refers to
A) the money people have.
B) the machines that workers have to work with.
C) the accumulated skills and training that workers have.
D) the wealth people have.
Answer: C
Diff: 1
Topic: Human Capital
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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16) Which of the following is an example of an activity undertaken by an entrepreneur?
A) choosing the color scheme for your renovated kitchen
B) being promoted to the position of Chief of Police
C) being appointed to the U.S. Supreme Court
D) starting a snow cone business
Answer: D
Diff: 1
Topic: Entrepreneur
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

17) Which of the following is counted as "capital" in economics?
A) the money people have
B) the machines that workers have to work with
C) the labor force
D) the wealth people have
Answer: B
Diff: 2
Topic: Capital
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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18) The processes used to produce goods and services describes
A) innovation.
B) entrepreneurship.
C) technology.
D) capital.
Answer: C
Diff: 1
Topic: Technology
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

19) Which of the following statements about economic resources is *false*?
A) Economic resources include financial capital and money.
B) Economic resources are also called factors of production.
C) Economic resources are used to produce goods and services.
D) Some economic resources are human-made while others are found in nature.
Answer: A
Diff: 1
Topic: Resources
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

20) The U.S. Bureau of Labor Statistics forecasts that by 2031, total employment in U.S. _____ will decline to 12.2 million.
A) manufacturing
B) education
C) health care fields
D) law enforcement
Answer: A
Diff: 1
Topic: Human Capital
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
Special Feature: Economics in Your Life & Career: Should You Consider a Career in Manufacturing?

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21) In economics, the practical application of an invention is known as
A) technology.
B) entrepreneurship.
C) physical capital.
D) innovation.
Answer: D
Diff: 1
Topic: Innovation
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

22) In economics, tangible merchandise is referred to as
A) invention.
B) human capital.
C) services.
D) goods.
Answer: D
Diff: 1
Topic: Goods and Services
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

23) In economics, activities done for others, such as providing house cleaning or dental work, are referred to as
A) technology.
B) physical capital.
C) services.
D) goods.
Answer: C
Diff: 1
Topic: Goods and Services
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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24) In economics, the total amount received for selling a good or service is referred to as
A) revenue.
B) profit.
C) capital gains.
D) factor payments.
Answer: A
Diff: 1
Topic: Revenue
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

25) In economics, the difference between a firm's revenues and its costs is referred to as
A) physical capital.
B) profit.
C) capital gains.
D) factor payments.
Answer: B
Diff: 1
Topic: Profit
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

26) In the market for factors of production, firms earn income by selling goods and services to households.
Answer: FALSE
Diff: 1
Topic: Resources
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

27) One example of human capital is the amount of skills that you have.
Answer: TRUE
Diff: 1
Topic: Human Capital
*: Recurring
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28) In the market for factors of production, firms earn income by selling factors of production to households.
Answer: FALSE
Diff: 1
Topic: Resources
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

29) One example of physical capital is the amount of savings that you have.
Answer: FALSE
Diff: 1
Topic: Capital
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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30) In the market for factors of production, households earn income by supplying factors of production to firms.
Answer: TRUE
Diff: 1
Topic: Resources
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

31) One example of human capital is the amount of savings that you have.
Answer: FALSE
Diff: 1
Topic: Human Capital
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

32) Human capital refers to the accumulated skills and training that workers possess.
Answer: TRUE
Diff: 1
Topic: Human Capital
*: Recurring
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33) Physical capital refers to stocks and bonds.
Answer: FALSE
Diff: 1
Topic: Capital
*: Recurring
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AACSB: Analytical thinking

34) List the four main factors of production.
Answer: The four main factors of production are labor, capital, natural resources, and entrepreneurial ability.
Diff: 1
Topic: Resources
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

35) 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.
Diff: 1
Topic: Innovation
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

36) 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.
Diff: 1
Topic: Revenue
*: Recurring
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37) What is the difference between goods and services?
Answer: Goods are tangible merchandise such as cell phones or automobiles. Services are activities done for others, such as providing medical care or legal advice.
Diff: 1
Topic: Goods and Services
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

38) What is an entrepreneur, and what decisions does an entrepreneur make in a market system?
Answer: An entrepreneur is someone who operates a business. In a market system, entrepreneurs decide what goods and services to produce and how to produce them.
Diff: 1
Topic: Entrepreneur
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

39) What is a firm? What other terms do economists use interchangeably with the term "firm"?
Answer: A firm is an organization that produces a good or service. Firms are also called companies or businesses.
Diff: 1
Topic: Firms
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

40) What is technology and what factors does it depend on?
Answer: Technology is the processes a firm uses to produce goods and services.
In the economic sense, a firm's technology depends on many factors, such as
the skill of its managers, the training of its workers, and the speed and efficiency of
its machinery and equipment.
Diff: 1
Topic: Technology
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41) What is the difference between physical capital and human capital?
Answer: Physical capital includes manufactured goods which are used to produce other goods and services. Human capital refers to the accumulated education, training, and skills that workers possess.
Diff: 1
Topic: Capital
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

42) What is the difference between accounting profit and economic profit?
Answer: Profit is the difference between revenue and cost. Accounting profit excludes the cost of some economic resources that the firm does not pay for explicitly. Economic profit includes the opportunity cost of all resources used by the firm.
Diff: 1
Topic: Profit
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

43) What is a household? How do households interact with firms in a market?
Answer: A household consists of all persons occupying a home. Households supply factors of production used by firms to produce goods and services. Households also demand goods and services produced by firms.
Diff: 1
Topic: Resources
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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1.7 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
Diff: 1
Topic: Graphs
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
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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
Diff: 1
Topic: Graphs
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

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
Diff: 2
Topic: Slope
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

4) On a two-dimensional graph, _____ illustrate the effects of additional variables.
A) moving along a curve
B) shifting curves
C) eliminating a curve
D) adding an additional curve
Answer: B
Diff: 2
Topic: Graphs
*: Recurring
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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
Diff: 2
Topic: Slope
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

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
Diff: 1
Topic: Positive and Negative Relationships
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

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
Diff: 1
Topic: Positive and Negative Relationships
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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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
Diff: 2
Topic: Formulas
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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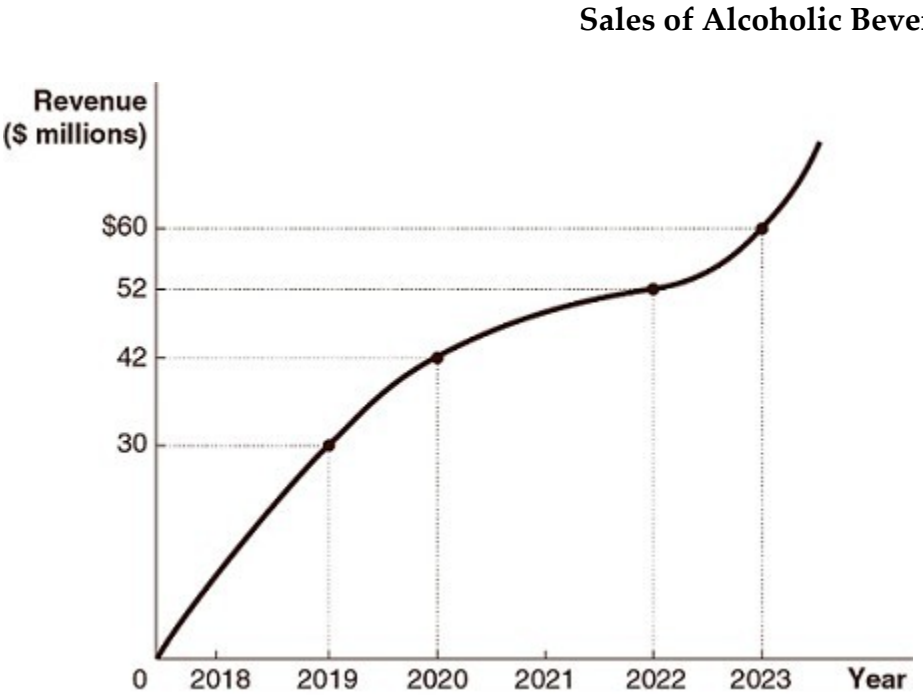
9) In 2022, Hooverville consumed 205,000 tons of sugar. In 2023, sugar consumption rose to 245,000 tons. Calculate the percentage change in sugar consumption.
A) 8.37%
B) 11.95%
C) 19.51%
D) 26.33%
Answer: C
Diff: 2
Topic: Formulas
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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
Diff: 2
Topic: Formulas
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Figure 1.1



11) ***Refer to Figure 1-1.*** Using the information in the figure above, calculate the percentage change in revenue from alcoholic beverage sales between 2020 and 2023.
A) 23.1%
B) 23.8%
C) 30%
D) 42.9%
Answer: D
Diff: 1
Topic: Formulas
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

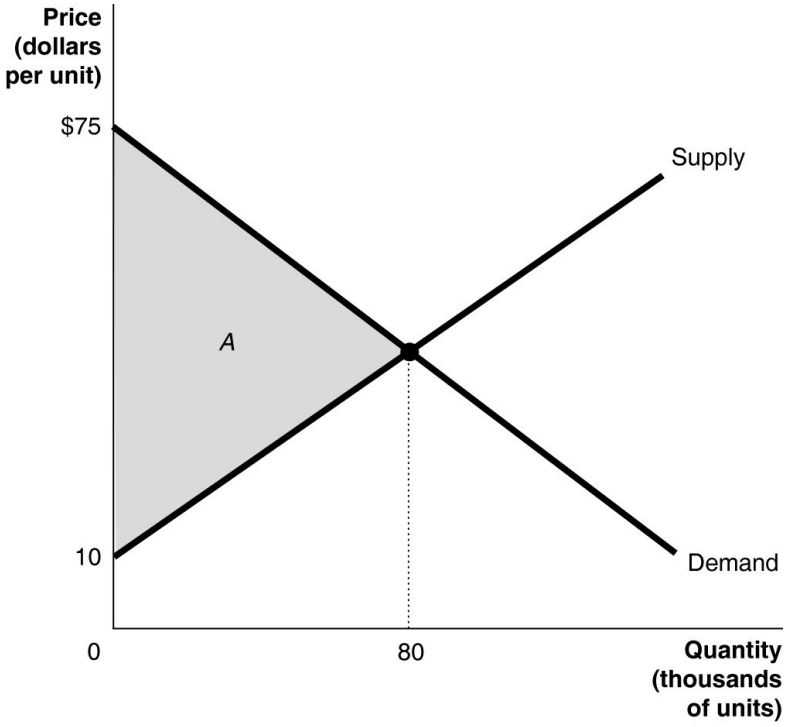
12) ***Refer to Figure 1-1.*** Using the information in the figure above, calculate the percentage change in revenue from alcoholic beverage sales between 2019 and 2023.
A) 30%
B) 50%
C) 66.7%
D) 100%
Answer: D
Diff: 1
Topic: Formulas
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

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13) ***Refer to Figure 1-1.*** Using the information in the figure above, calculate the percentage change in revenue from alcoholic beverage sales between 2020 and 2022.
A) 23.8%
B) 40%
C) 42.9%
D) 73.3%
Answer: A
Diff: 1
Topic: Formulas
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

Figure 1-2

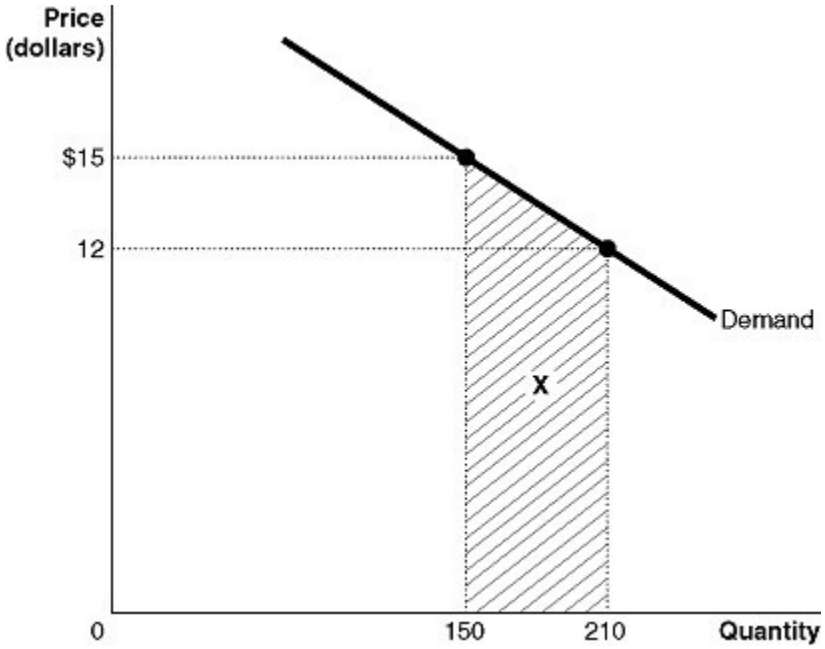


14) ***Refer to Figure 1-2.*** Calculate the area of the triangle *A*.
A) $1.3 million
B) $2.6 million
C) $3.4 million
D) $5.2 million
Answer: B
Diff: 1
Topic: Formulas
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Figure 1-3

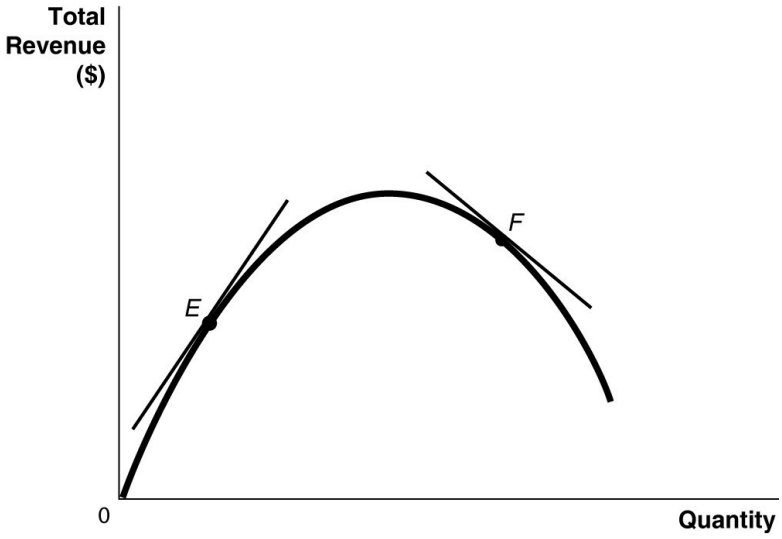


15) ***Refer to Figure 1-3.*** Calculate the area of the trapezoid *X*.
A) $270
B) $720
C) $810
D) $2,520
Answer: C
Diff: 2
Topic: Formulas
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Figure 1-4



16) ***Refer to Figure 1-4.*** Which of the following statements is *false*?
A) The slope of the tangent at *E* is positive.
B) The slope of the tangent at *F* is negative.
C) The slope of the tangent at *E* and the slope of the tangent at *F* are equal.
D) Neither the slope of the tangent at *E* nor the slope of the tangent at *F* are equal to zero.
Answer: C
Diff: 1
Topic: Slope
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

17) ***Refer to Figure 1-4.*** Which of the following statements is *true*?
A) The slope of the tangent at *E* is positive and the slope of the tangent at *F* is negative.
B) The slope of the tangent at *E* is negative and the slope of the tangent at *F* is positive.
C) The slope of the tangent at *E* and the slope of the tangent at *F* are negative.
D) The slope of the tangent at *E* and the slope of the tangent at *F* are positive.
Answer: A
Diff: 1
Topic: Slope
*: Recurring
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18) 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
Diff: 1
Topic: Cause and Effect
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

19) _____ is a problem that occurs when one concludes that a change in variable *X* caused a change in variable *Y* when in actual fact, it is a change in variable *Y* that caused a change in variable *X*.
A) The omitted variable
B) The positive-to-negative relationship
C) Reverse causality
D) Nonlinear slope
Answer: C
Diff: 1
Topic: Cause and Effect
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

20) The prevalence of Alzheimer's dementia is very high among residents living in nursing homes. A student concludes that it is likely that living in a nursing home causes Alzheimer's dementia. What is the flaw in the student's reasoning?
A) The student has failed to take into account other causes of Alzheimer's disease.
B) The student is drawing a false conclusion; he is confusing cause and effect.
C) The student is using an inadequate sample size.
D) The student is drawing a false conclusion by making the mistake of omitting critical variables such as the age and gender of the residents.
Answer: B
Diff: 2
Topic: Cause and Effect
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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21) 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
Diff: 2
Topic: Cause and Effect
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

22) In 2022, Smileytown consumed 12,000 gallons of mouthwash. In 2023, mouthwash consumption rose to 17,000 gallons. Calculate the percentage change in mouthwash consumption.
A) 17.2%
B) 29.4%
C) 41.7%
D) 70.6%
Answer: C
Diff: 2
Topic: Formulas
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

23) If a straight line passes through the point $x = 24$ and $y = 8$ and also through the point $x = 8$ and $y = 16$, the slope of this line is
A) negative 8 divided by 4.
B) seven-tenths.
C) negative one-half.
D) one and one-half.
Answer: C
Diff: 2
Topic: Slope
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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24) If the price of gasoline was $3.25 a gallon and it is now $3.75 a gallon, what is the percentage change in price?
A) 7.1 percent
B) 13.3 percent
C) 15.4 percent
D) 33.3 percent
Answer: C
Diff: 2
Topic: Formulas
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

25) At a recent company meeting, Ravi Batra, sales manager of Life's a Beach, a surfboard producer announced, "We have increased our sales by 13 percent in just 9 months." Suppose 9 months ago, its sales amounted to $245,000, what is the value of its sales today?
A) $31,850
B) $207,638
C) $276,850
D) $359,905
Answer: C
Diff: 2
Topic: Formulas
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

26) If a graph has a line that shows the quantity of flat-screen televisions sold in the last five years, it is known as
A) a pie chart.
B) a time-series graph.
C) a demand curve for outsourcing.
D) a supply curve of outsourcing.
Answer: B
Diff: 1
Topic: Graphs
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
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27) Two-dimensional graphs have a horizontal and a vertical axis and are used in economics to illustrate
A) relationships between two economic variables.
B) one variable.
C) a flow chart.
D) a pie chart.
Answer: A
Diff: 1
Topic: Graphs
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

28) How can the influence of a third variable be shown on a two-dimensional graph?
A) by allowing the relationship to be nonlinear
B) by allowing the position of the relationship line or curve to shift on the graph
C) by drawing a third axis coming out of the two axes
D) by super-imposing the third variable on the two-dimensional graph
Answer: B
Diff: 3
Topic: Graphs
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

29) Which of the following statements is *true*?
A) An inverse relationship has a positive slope value.
B) A direct relationship has a negative slope value.
C) A curved line has slope values that change at every point.
D) A straight line has a slope of one.
Answer: C
Diff: 2
Topic: Slope
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

30) The relationship between sales and revenue is
A) an inverse relationship.
B) a direct relationship.
C) a negative relationship.
D) independent.
Answer: B
Diff: 1
Topic: Positive and Negative Relationships
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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31) Suppose when the price of hybrid automobiles rises, consumers buy fewer hybrid automobiles. This implies that
A) there is a positive relationship between hybrid automobile prices and quantities purchased by consumers.
B) there is a negative relationship between hybrid automobile prices and quantities purchased by consumers.
C) there is a direct relationship between hybrid automobile prices and quantities purchased by consumers.
D) there is a one-to-one relationship between hybrid automobile prices and quantities purchased by consumers.
Answer: B
Diff: 1
Topic: Positive and Negative Relationships
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

32) In 2022, Smileytown consumed 50,000 tubes of toothpaste. In 2023, toothpaste consumption rose to 62,000 tubes. Calculate the percentage change in toothpaste consumption.
A) 12%
B) 16.42%
C) 19.35%
D) 24%
Answer: D
Diff: 1
Topic: Formulas
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

33) In 2022, Peelville consumed 30,000 bananas. In 2023, banana consumption rose to 35,000. Calculate the percentage change in banana consumption.
A) 11.66%
B) 14.28%
C) 16.67%
D) 22.25%
Answer: C
Diff: 1
Topic: Formulas
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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34) If a straight line passes through the point $x = 12$ and $y = 4$ and also through the point $x = 4$ and $y = 8$, the slope of this line is
A) negative 8 divided by 4.
B) seven tenths.
C) negative one half.
D) one -and one half.
Answer: C
Diff: 2
Topic: Slope
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

35) If a straight line passes through the point $x = 8$ and $y = 4$ and also through the point $x = 12$ and $y = 6$, the slope of this line is
A) negative 4 divided by 2.
B) two.
C) negative one half.
D) one half.
Answer: D
Diff: 2
Topic: Slope
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

36) If the price of milk was $1.25 a gallon and it is now $2.25 a gallon, what is the percentage change in price?
A) 4.4 percent
B) 8 percent
C) 44 percent
D) 80 percent
Answer: D
Diff: 1
Topic: Formulas
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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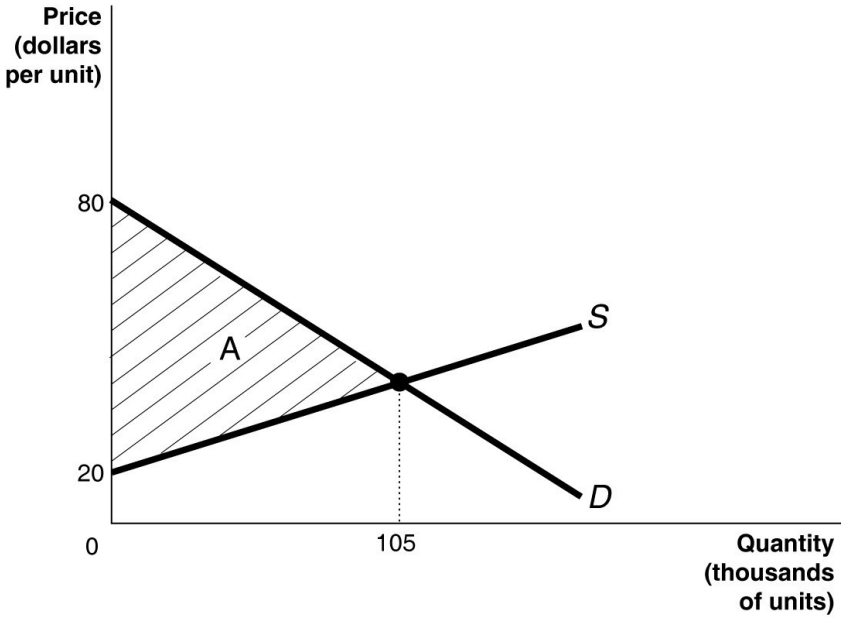
37) If the price of pineapple juice was $4.50 a gallon and it is now $5.75 a gallon, what is the percentage change in price?
A) 7.8 percent
B) 12.5 percent
C) 27.7 percent
D) 57.5 percent
Answer: C
Diff: 1
Topic: Formulas
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

38) At a recent company meeting, Geraldine Erwin, sales manager of Dastoria, a flavored-beverage producer announced, "We have increased our sales by 8 percent in just six months." Suppose six months ago, its sales amounted to $452,000, what is the value of its sales today?
A) $36,160
B) $415,840
C) $488,160
D) $565,000
Answer: C
Diff: 1
Topic: Formulas
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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Figure 1-5

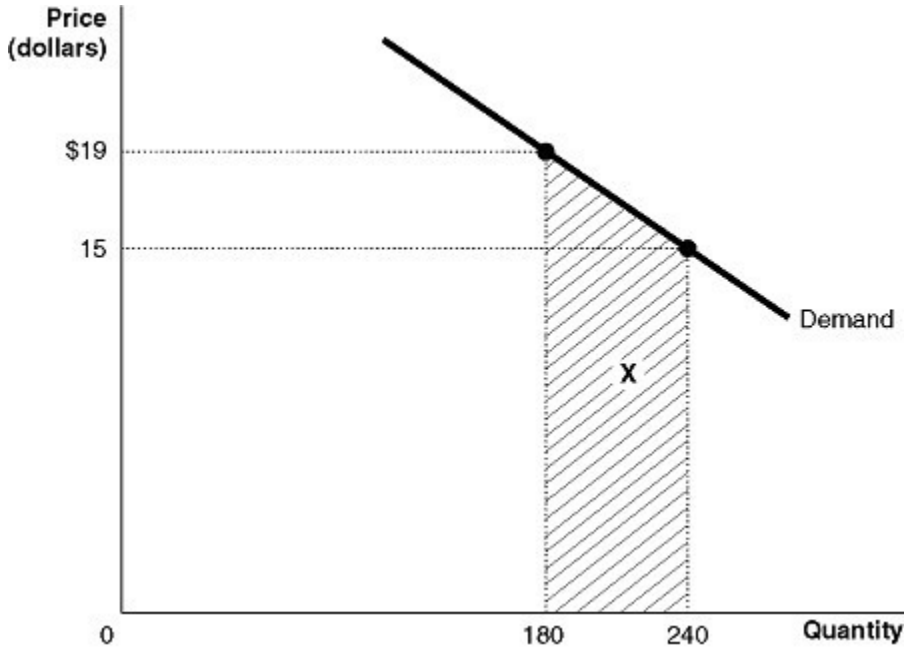


39) ***Refer to Figure 1-5.*** Calculate the area of the triangle *A*.
A) $8.4 million
B) $6.3 million
C) $3.15 million
D) $2.1 million
Answer: C
Diff: 1
Topic: Formulas
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
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Figure 1-6



40) ***Refer to Figure 1-6.*** Calculate the area of the trapezoid *X*.
A) $361
B) $450
C) $1,020
D) $1,140
Answer: C
Diff: 2
Topic: Formulas
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

41) An "omitted variable" is
A) a variable which is purposely omitted from an economic analysis.
B) a variable which is inadvertently omitted from an economic analysis.
C) a variable that has no impact on other variables in an economic analysis.
D) a variable that affects other variables and its omission from economic analysis can lead to false conclusions about cause and effect.
Answer: D
Diff: 1
Topic: Cause and Effect
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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42) What is the "reverse causality" problem in determining cause and effect?
A) It 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 *Z* that caused a change in variable *Y*.
B) It is a problem that occurs when one observes that a change in variable *X* caused a change in variable *Y* which caused a change in variable Z and concludes that a change in variable *X* caused a change in variable *Z*.
C) It 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*.
D) It is a problem that arises when two variables are inter-connected so that a change in variable *X* causes a change in variable *Y*, and a change in variable *Y* causes a change in variable *X*.
Answer: C
Diff: 2
Topic: Cause and Effect
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

43) The number of people who have gray hair is very high among residents living in Florida. A student concludes that living in Florida causes hair to turn gray. What is the flaw in this student's reasoning?
A) The student is drawing a false conclusion by making the mistake of omitting critical variables such as the age and gender of the residents.
B) The student is using an inadequate sample size.
C) The student is drawing a false conclusion; he is confusing cause and effect.
D) The student has failed to take into account other causes of gray hair.
Answer: C
Diff: 2
Topic: Cause and Effect
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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44) You explain to your friend Haslina, who runs a catering service called "Meals in a Zip," about an economic theory which asserts that consumers will purchase less of a product at higher prices than they will at lower prices. She contends that the theory is incorrect because over the past two years she has raised the price of her catered meals and yet has seen a brisk increase in sales. How would you respond to Haslina?
A) Haslina is right; she has evidence to back her claim. The theory must be erroneous.
B) I will explain to her that she is making the error of reverse causality: it is the increase in demand that has enabled her to raise her prices.
C) I will explain to her that there are some omitted variables that have contributed to an increase in her sales such as changes in income.
D) Haslina is making the mistake of assuming that correlation implies causation.
Answer: C
Diff: 2
Topic: Cause and Effect
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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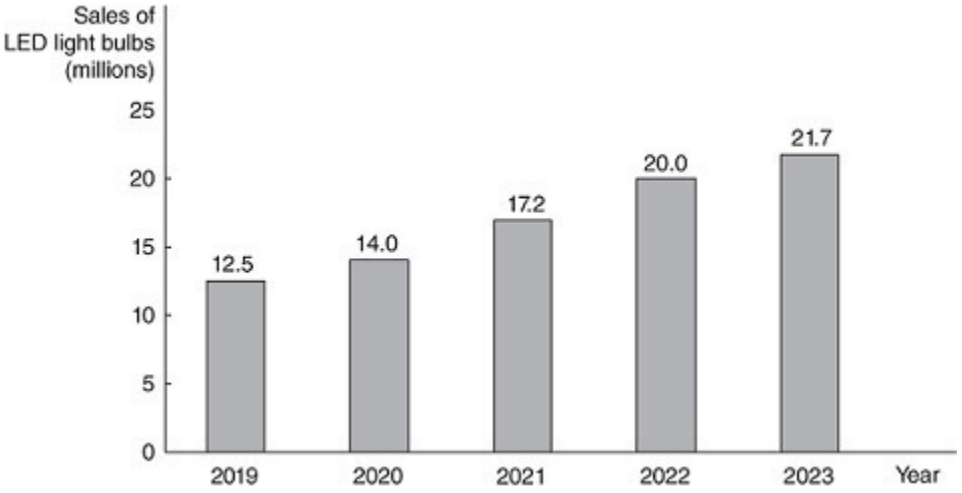
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Table 1-9

Year	LED Light Bulbs (millions)
2019	12.5
2020	14.0
2021	17.2
2022	20.0
2023	21.7

45) ***Refer to Table 1-9.*** The table above shows the sales of LED light bulbs in North America. Present the information using a bar graph.
Answer:



Diff: 1
Topic: Graphs
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
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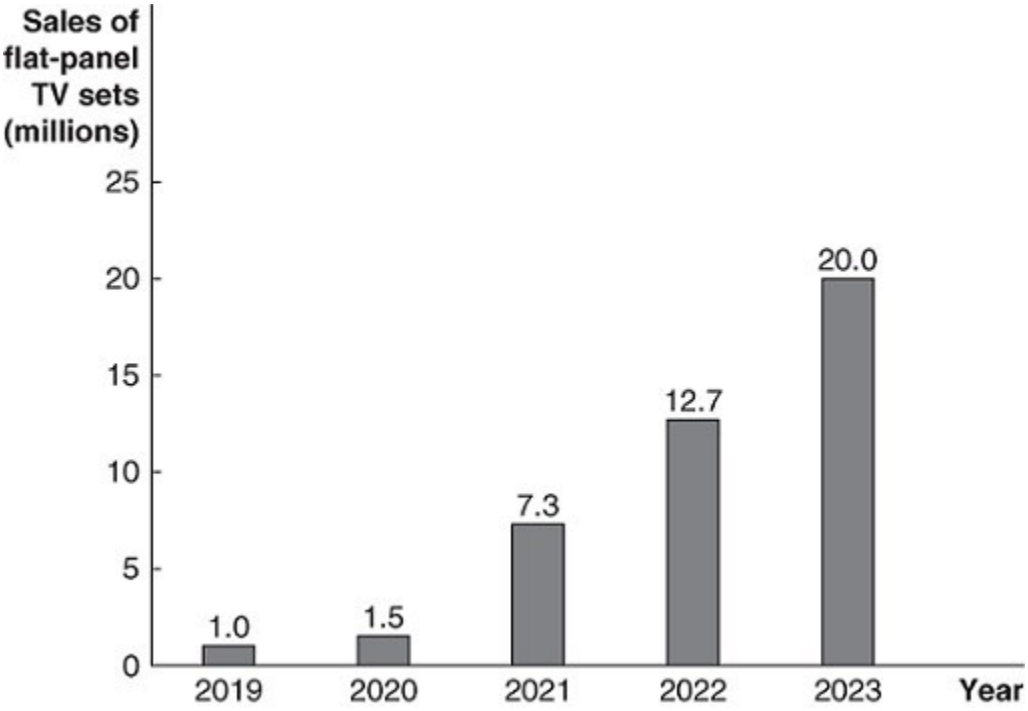
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Table 1-10

Year	Flat-Panel TV Sets (millions)
2019	1.0
2020	1.5
2021	7.3
2022	12.7
2023	20.0

46) ***Refer to Table 1-10.*** The table above shows the sales of flat-panel television sets in Central America. Present the information using a bar graph.
Answer:



Diff: 1
Topic: Graphs
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
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