Macroeconomics 9th edition Hubbard Test Bank

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

1.1 Three Key Economic Ideas

1) 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?

2) 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
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3) 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
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4) 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

5) 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
AACSB: Analytical thinking

6) 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
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7) 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
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8) 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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9) 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
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10) 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
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11) 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
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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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12) 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
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13) 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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14) 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?

15) 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?

16) 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
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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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17) 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?

18) 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
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19) 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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20) 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
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21) _____ 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
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22) 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
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23) 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
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24) 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

25) 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
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26) 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
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27) 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
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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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28) 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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29) 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

30) 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
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31) 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
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32) 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
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33) 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
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34) 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
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Scenario 1-1

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."

35) ***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 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
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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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36) ***Refer to Scenario 1-1***. 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
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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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37) ***Refer to Scenario 1-1.*** 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 1-1

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.

38) ***Refer to Table 1-1.*** 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
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39) ***Refer to Table 1-1.*** 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
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40) ***Refer to Table 1-1.*** 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
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Table 1-2

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.

41) ***Refer to Table 1-2.*** 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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42) ***Refer to Table 1-2.*** 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
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43) ***Refer to Table 1-2.*** 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
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44) 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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45) 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

46) 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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47) 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

48) 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
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49) 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 1-2

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."

50) ***Refer to Scenario 1-2.*** 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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51) ***Refer to Scenario 1-2***. 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
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52) ***Refer to Scenario 1-2.*** 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 1-3

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.

53) ***Refer to Table 1-3.*** 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
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54) ***Refer to Table 1-3.*** 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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55) ***Refer to Table 1-3.*** 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

56) 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 1-4

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.

57) ***Refer to Table 1-4.*** 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

58) ***Refer to Table 1-4.*** 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
*: Recurring
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59) ***Refer to Table 1-4.*** 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

60) 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

61) 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
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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62) 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

63) 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

64) 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

65) 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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66) 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

67) 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

68) 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

69) 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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70) 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

71) 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

72) 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

73) 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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74) 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

75) 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

76) 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

77) 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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78) 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) 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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2) 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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3) 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
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4) 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
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

5) 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
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6) 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

7) 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
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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8) 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
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9) 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

10) 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
AACSB: Analytical thinking

11) 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
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12) 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

13) 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
AACSB: Analytical thinking

14) 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
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15) 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

16) 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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17) 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
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18) 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

19) 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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20) 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
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21) 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

22) 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
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

23) 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
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24) 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

25) 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
AACSB: Analytical thinking

26) 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
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27) 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

28) 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
AACSB: Analytical thinking

29) 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

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30) 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

31) 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
AACSB: Analytical thinking

32) 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
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33) 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
AACSB: Analytical thinking

34) 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

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35) 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

36) _____ 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

37) 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

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38) 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
AACSB: Analytical thinking

39) 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
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40) 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
AACSB: Analytical thinking

41) 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

42) 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
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43) 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

44) 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

45) 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
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46) 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

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.

47) ***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.

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48) ***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.

49) 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

50) 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

51) 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
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52) 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

53) 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

54) 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

55) 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
AACSB: Analytical thinking

56) 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
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57) 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

58) 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

59) 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

60) 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
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61) 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

1.3 Economic Models

1) 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

2) 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

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3) 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

4) 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

5) 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

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6) 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

7) 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

8) 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?

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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. 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

10) 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

11) 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
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12) 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
AACSB: Analytical thinking

13) 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

14) 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

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15) "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
AACSB: Analytical thinking

16) "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

17) 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

18) "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

19) "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
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20) 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
AACSB: Analytical thinking

21) 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

22) 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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23) 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) 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

2) 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
AACSB: Analytical thinking

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3) 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

4) 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

5) 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
AACSB: Analytical thinking

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6) 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

7) 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

8) 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

9) 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
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10) 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
AACSB: Analytical thinking

11) 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

12) 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

13) 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
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14) 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 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

2) 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
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3) 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

4) 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

5) 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
AACSB: Analytical thinking

6) 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 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
AACSB: Analytical thinking

2) 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
AACSB: Analytical thinking

3) 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
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4) 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
AACSB: Analytical thinking

5) 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

6) 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
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7) 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?

8) 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

9) 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

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10) 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
AACSB: Analytical thinking

11) 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

12) 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

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13) 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

14) 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

15) Human capital refers to the accumulated skills and training that workers possess.
Answer: TRUE
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

16) Physical capital refers to stocks and bonds.
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
AACSB: Analytical thinking

17) 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
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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18) 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

19) 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

20) 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
AACSB: Analytical thinking

1.7 Appendix: Using Graphs and Formulas

1) 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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2) 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

3) 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

4) 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

5) 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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6) 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

7) 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

8) 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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9) 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

10) 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

11) 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
AACSB: Analytical thinking

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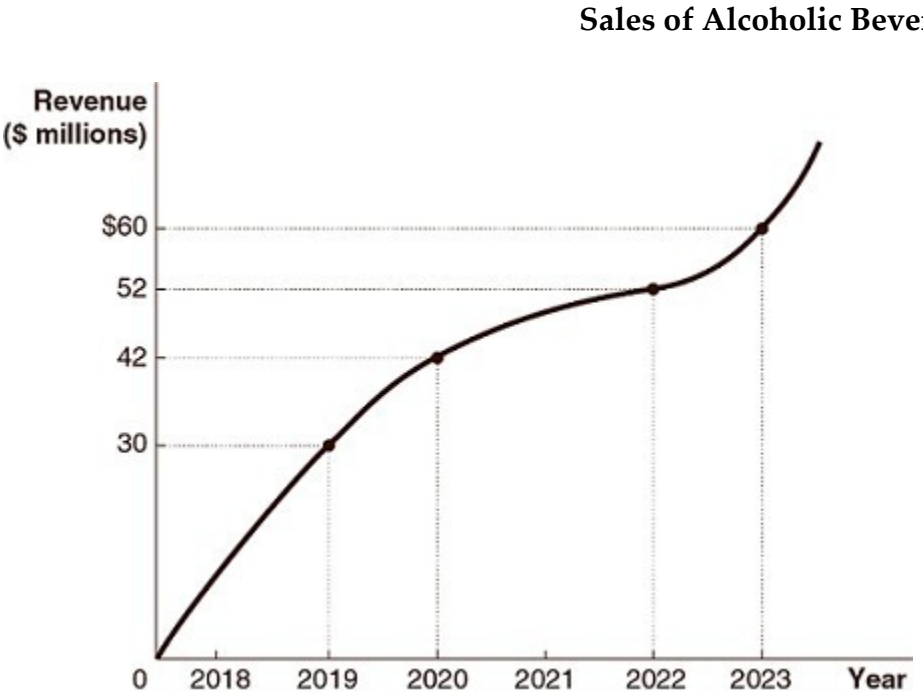
12) If the price of pineapple juice was $4.50 a gallon and it is now $5.75 a gallon, what is the percentage change in price?
A) 7.8 percent
B) 12.5 percent
C) 27.7 percent
D) 57.5 percent
Answer: C
Diff: 1
Topic: Formulas
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics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

13) 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 1.1

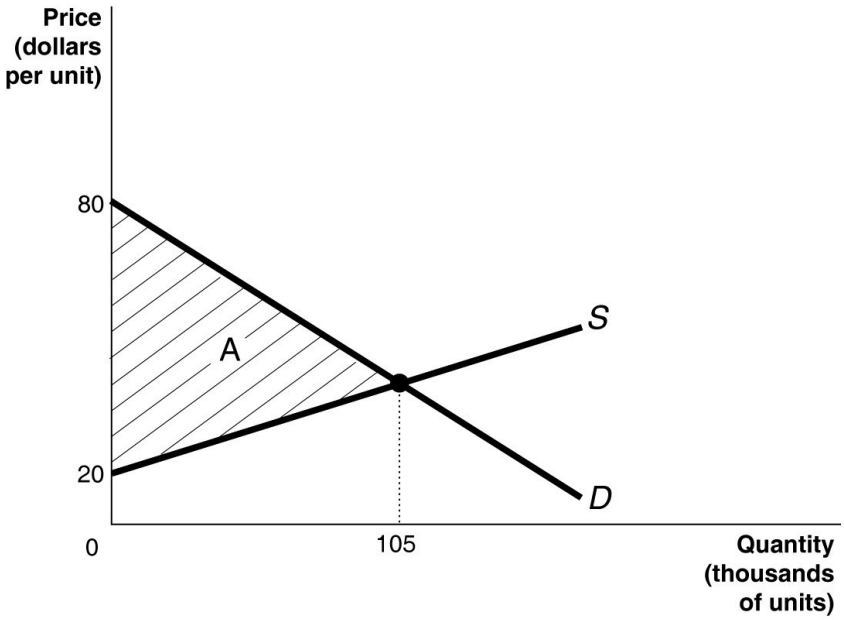


14) ***Refer to Figure 1-1.*** Using the information in the figure above, calculate the percentage change in revenue from alcoholic beverage sales between 2020 and 2022.
A) 23.8%
B) 40%
C) 42.9%
D) 73.3%
Answer: A
Diff: 1
Topic: Formulas
Learning Outcome: Micro-2: Interpret and analyze information presented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

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Figure 1-2

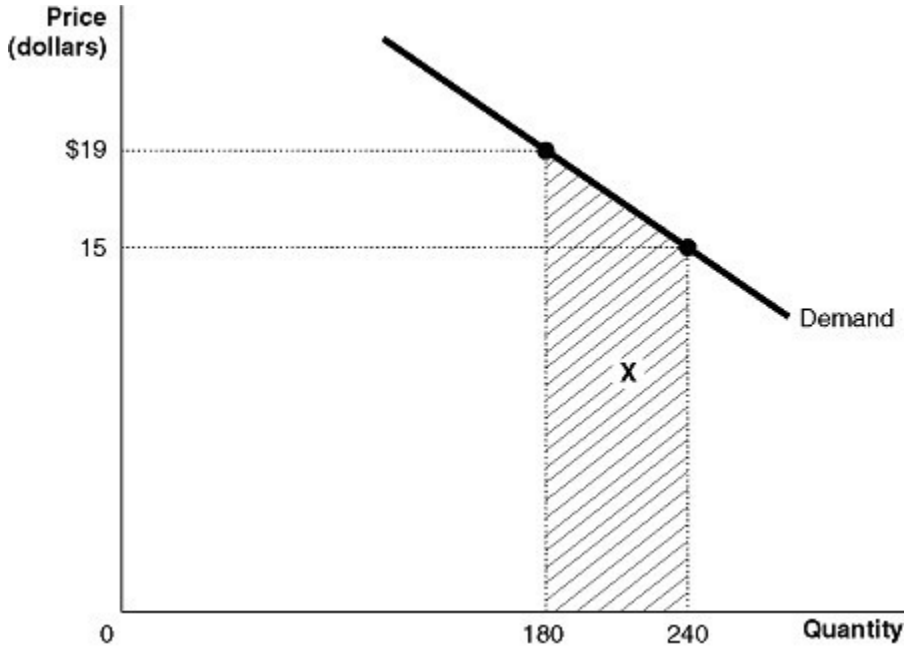


15) ***Refer to Figure 1-2.*** Calculate the area of the triangle *A*.
A) $8.4 million
B) $6.3 million
C) $3.15 million
D) $2.1 million
Answer: C
Diff: 1
Topic: Formulas
*: Recurring
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Figure 1-3

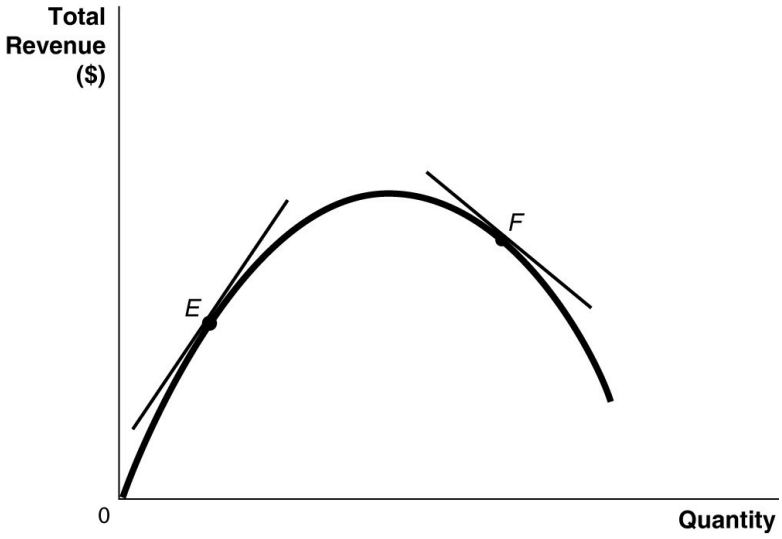


16) ***Refer to Figure 1-3.*** Calculate the area of the trapezoid *X*.
A) $361
B) $450
C) $1,020
D) $1,140
Answer: C
Diff: 2
Topic: Formulas
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

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Figure 1-4



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
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

18) 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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19) 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
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20) 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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21) 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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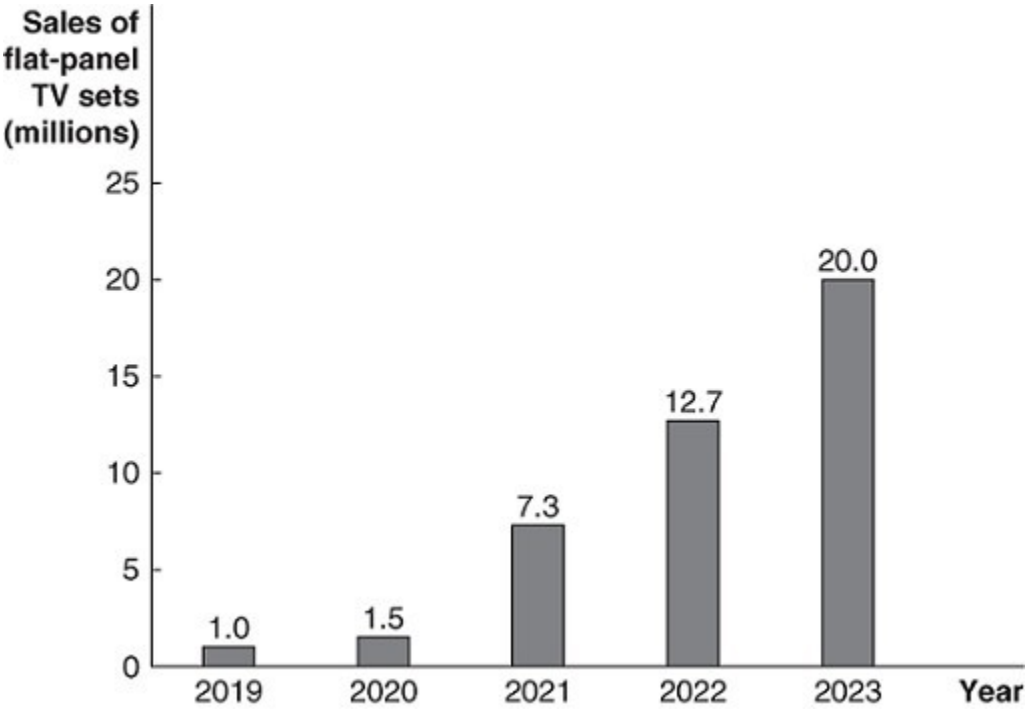
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Table 1-5

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

22) ***Refer to Table 1-5.*** 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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