Microeconomics 11th edition Colander Test Bank

SKU: 9781260507140-TEST-BANK

Microeconomics 11th Edition by Colander CH02

ANSWERS ARE LOCATED IN THE SECOND PART OF THIS DOCUMENT

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) The answers to an economy's three central economic problems are determined by the interaction of three forces: economic forces, political forces, and social forces.

1) _____

- ◎ true
- ◎ false

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Accessibility : Keyboard Navigation

2) Scarcity exists because economies cannot produce enough to meet the perceived desires of all individuals.

2) _____

- ◎ true
- ◎ false

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Accessibility : Keyboard Navigation

3) Only marginal costs, not sunk costs, affect economic decisions if individuals are rational.

3) _____

- ◎ true
- ◎ false

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Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

4) The economic decision rule is to undertake an action only when the marginal benefits of that action are greater than its total costs.

4) _____

◎ true
◎ false

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

5) The opportunity cost of undertaking an activity includes any sunk cost.

5) _____

◎ true
◎ false

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

6) The "invisible hand" is the price mechanism that guides people's actions in the market.

6) _____

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◎ true
◎ false

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Accessibility : Keyboard Navigation

7) Social and political forces affect the way in which the invisible hand works.

7) _____

◎ true
◎ false

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Accessibility : Keyboard Navigation

8) Macroeconomics is the study of how individual choices are affected by economic forces.

8) _____

◎ true
◎ false

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Accessibility : Keyboard Navigation

9) Deciding what the distribution of income should be is an example of normative economics.

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9) _____

◎ true
◎ false

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

10) Say a pill existed that made people selfless. After taking it they were only interested in others, not themselves. Under the coordination definition of economics:

10) _____

A) no economic problem would exist.
B) there still would be an economic problem.
C) there would be a political problem but not an economic problem.
D) there would be a social problem but not an economic problem.

Question Details
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Bloom's : Analyze
Difficulty : 03 Hard
AACSB : Analytical Thinking
Accessibility : Keyboard Navigation

11) According to the text, economics is the study of how:

11) _____

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A) governments allocate resources in the face of constraints.
B) government policies can be used to meet individuals' wants and desires.
C) human beings coordinate their wants and desires.
D) scarce resources are allocated between capitalists and workers.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Accessibility : Keyboard Navigation

12) Dorm rooms usually are not allocated by markets. Allocating dorm rooms is:

12) _____

A) not an economic problem.
B) an economic problem.
C) not affected by economic forces.
D) determined by prices.

Question Details
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Bloom's : Analyze
Difficulty : 03 Hard
AACSB : Analytical Thinking
Accessibility : Keyboard Navigation

13) If allocating dorm rooms changes from allocation by lottery to allocation by the market:

13) _____

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A) it becomes an economic problem.
B) it becomes a political problem but not an economic problem.
C) it becomes a social problem but not an economic problem.
D) the allocation problem is still an economic problem.

Question Details
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Bloom's : Analyze
Difficulty : 03 Hard
AACSB : Analytical Thinking
Accessibility : Keyboard Navigation

14) Which of the following is *not* one of the three central coordination problems of the economy given in the book?

14) _____

A) What
B) Whether
C) For whom
D) How

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Accessibility : Keyboard Navigation

15) The quantity of goods and services available to society:

15) _____

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A) is fixed.
B) depends on human action.
C) is not of economic importance.
D) will always grow to meet individuals' wants and desires.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Accessibility : Keyboard Navigation

16) Economic systems:

16) _____

A) can eliminate scarcity.
B) address the questions what is produced, how it is produced, and for whom it is produced.
C) provide all the goods people want and desire.
D) provide equal distribution of well-being among its participants.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Accessibility : Keyboard Navigation

17) Scarcity exists because:

17) _____

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A) individuals cannot solve the three central coordination problems.
B) governments cannot solve the three central coordination problems.
C) the supply of goods is always less than the demand.
D) new wants continue to develop and willingness to meet them is limited.

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

18) People can reasonably expect that an economic system will decide all of the following *except:*

18) _____

A) what goods to produce.
B) how to produce the goods.
C) how to assign initial property rights.
D) for whom to produce the goods.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Accessibility : Keyboard Navigation

19) To engage in economic reasoning, one must compare:

19) _____

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A) total cost and total benefit.
B) marginal cost, sunk cost, and total benefit.
C) sunk cost and marginal cost.
D) marginal cost and marginal benefit.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

20) Alexandra has determined that studying an hour for her economics quiz will improve her grade on the quiz from a 75 to a 100. She also determines that this improvement is worth $20. To study for an hour for her economics quiz, however, she will have to work one fewer hour at her part-time job. Alexandra should:

20) _____

A) study for the quiz as long as her hourly wage rate is less than $20.
B) study for the quiz as long as her hourly wage rate is more than $20.
C) study for the quiz only if her hourly wage rate is exactly $20.
D) not study for the quiz because earning a higher grade cannot have a dollar value.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

21) Microsoft filed a lawsuit against people who sent spam (junk email) and a website owner who hosted spam services. A spokesman for Microsoft said that Microsoft was "trying to change the economics of spam" by increasing the cost of being a spammer. An economist most likely would agree with which statement about Microsoft's actions?

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21) _____

A) A more effective approach would be to educate spammers about the costs they impose on others.

B) A more effective approach would be to appeal to the morals of the spammers and tell them to follow the Golden Rule.

C) Microsoft's approach of trying to change the costs of spamming is the most efficient way to change behavior.

D) Microsoft should not be involved because spamming is just part of the invisible hand at work and should be left alone.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

22) The marginal benefit from consuming another unit of a good:

22) _____

A) must equal the marginal cost or the unit will not be consumed.
B) must be less than the marginal cost or the unit will not be consumed.
C) equals the increase in total benefits from consuming the unit.
D) equals the total benefit obtained from the consumption of all prior units.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

23) The marginal cost of consuming another unit of a good:

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23) _____

A) must equal the marginal benefit or the unit will not be consumed.
B) must exceed the marginal benefit or the unit will not be consumed.
C) equals the increase in total cost when another unit is consumed.
D) equals the total cost of consuming all prior units.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

24) Mary buys cell-phone services from a company that charges $30 per month. For that $30 she is allowed 600 minutes of free calls and then pays 25 cents per minute for any calls above 600 minutes. Mary has used 300 minutes this month so far. What is her marginal cost per minute of making two more calls lasting 10 minutes each?

24) _____

A) $2.50
B) 25 cents
C) 4 cents
D) $0

Question Details
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
AACSB : Knowledge Application
Bloom's : Apply
Accessibility : Keyboard Navigation

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25) Mary buys cell-phone services from a company that charges $30 per month. For that $30 she is allowed 600 minutes of free calls and then pays 10 cents per minute for any calls above 600 minutes. Mary has used 600 minutes this month so far. What is her marginal cost per minute of making additional calls?

25) _____

A) 25 cents
B) 10 cents
C) 5 cents
D) $0

Question Details
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
AACSB : Knowledge Application
Bloom's : Apply
Accessibility : Keyboard Navigation

26) Sunk costs:

26) _____

A) are an essential part of economic decision making.
B) are irrelevant to economic decision making.
C) should be considered, but only when marginal cost is less than marginal benefit.
D) should be considered only when there is no information about marginal cost and marginal benefit.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

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27) Suppose the marginal cost of dating Perry is $30 and the marginal benefit is worth $40 to you. Following economic reasoning, you should:

27) _____

A) date Perry.
B) not date Perry.
C) determine what your sunk costs are.
D) determine what your total benefits and total costs are.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

28) The table below shows how the marginal benefit of car washes varies for Carol with the number purchased per month.

Car washes per month	Marginal benefit of purchasing an additional car wash
1	$6.00
2	$5.00
3	$4.00
4	$3.00
5	$2.00

The price of each car wash is reduced from $2.99 to $1.99. Assuming that the price of a car wash accurately reflects the marginal cost to Carol and that she is rational, she will increase the number of car washes purchased per month from:

28) _____

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A) one to two.
B) two to three.
C) three to four.
D) four to five.

Question Details
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
AACSB : Knowledge Application
Bloom's : Apply
Accessibility : Keyboard Navigation

29) The table below shows how the marginal benefit of pizza dinners varies for Luigi with the number consumed per month.

Dinners per month	Marginal benefit per dinner
1	$4.00
2	$3.00
3	$2.00
4	$1.00

Suppose the price per dinner is $4.99 and accurately reflects the marginal cost of the dinners to Luigi. Assuming that Luigi is rational, he will:

29) _____

A) not consume any pizza dinners this month.
B) consume one pizza dinner this month.
C) consume two pizza dinners this month.
D) consume three pizza dinners this month.

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Question Details
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
AACSB : Knowledge Application
Bloom's : Apply
Accessibility : Keyboard Navigation

30) The price of a new model of iPad tends to fall significantly a year after it is introduced. Suppose Jane bought an iPad as soon as it was introduced (a year ago) and paid a premium price for it. Now she wants to buy an iPad cover. Which of the following should she consider before buying the new accessory?

30) _____

A) The price she paid for her iPad, the price of the iPad cover, and the benefit she'll receive from using the iPad cover
B) The price of replacing her iPad, the price of the iPad cover, and the benefit she'll receive from using the iPad cover
C) The price of the iPad cover and the benefit she'll receive from using the iPad cover
D) The price of the iPad cover had she bought it with the iPad, the current price of the iPad cover, and the benefit she'll receive from using the iPad cover

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

31) You bought one share of McDonald′s stock for $10, one share of Coca-Cola for $15, and one share of Pepto-Bismol for $20. Currently, each stock is priced at $15. Assuming that there are no tax issues and that you cannot predict the future price of any of the stocks, if you needed $15, which stock would you sell?

31) _____

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A) McDonald's
B) Coca-Cola
C) Pepto-Bismol
D) Any one of them

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

32) Which of the following *best* defines rational behavior?

32) _____

A) Analyzing the total gains from a decision
B) Improving net gain by pursuing decisions as long as the marginal benefits exceed the marginal costs
C) Seeking to gain by choosing to undertake actions as long as the marginal costs exceed the associated marginal benefits
D) Seeking to maximize total gain regardless of cost

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

33) Alan is sitting in a bar drinking beers that cost $4 each. According to the economic decision rule, Alan will stop drinking when the marginal:

33) _____

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A) benefit to him of an additional beer is less than $4.
B) cost to him of an additional beer is less than the marginal benefit.
C) cost remains at $4.
D) benefit to him of an additional beer is greater than $4.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

34) Chuck offers $240,000 for a house. The seller turns down the offer but says she will sell the house for $260,000. However, Chuck refuses to pay the higher price. If Chuck is following the economic decision rule, the marginal benefit of the house to:

34) _____

A) Chuck must be less than $260,000.
B) Chuck must be greater than $260,000.
C) The seller must be less than $260,000.
D) The seller must be less than $240,000.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

35) The marginal benefit of another T-shirt this month to Mary is $15. If the $10 price of a T-shirt reflects its marginal cost to Mary and Mary uses economic reasoning, she:

35) _____

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A) will sell the T-shirts she has to others who are willing to pay $10.
B) will not gain anything by buying another T-shirt.
C) will buy another T-shirt this month.
D) will not buy a T-shirt this month.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

36) The marginal benefit of you going to a movie during the week is currently $6. Assume that the $4 price of going to the movies measures its marginal cost. Following the economic decision rule, you will:

36) _____

A) continue going to movies until the marginal benefit of doing so falls to zero.
B) choose not to go to any movies during the week.
C) continue going to movies until the marginal benefit of doing so falls below $4.
D) not be able to enjoy a net gain from going to the movies during the week.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

37) Marginal analysis suggests that you will engage in more of an activity if the:

37) _____

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A) total benefit of the activity is less than the total cost.
B) additional benefit from the activity exceeds the additional cost.
C) total benefit from the activity exceeds the total cost.
D) additional cost of the activity exceeds the additional benefit.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

38) You've purchased a car for $20,000 and now are deciding whether to have a sunroof installed for $800 and a security system installed for $200. The marginal cost of adding both the sunroof and the security system is:

38) _____

A) $21,200.
B) $20,000.
C) $800.
D) $1,000.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

39) You're deciding whether to install an $800 moonroof and a $400 security system in your car. Suppose the marginal benefit from the moonroof is $700 and the marginal benefit from the security system is $600. The economic decision rule dictates that you should:

39) _____

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A) purchase only the moonroof because that will provide you with the greatest marginal benefit.

B) purchase only the security system because its marginal benefit exceeds its marginal cost.

C) purchase both options because the combined cost of both is less than the combined benefit.

D) not purchase either because the benefits of each do not exceed the costs.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

40) Your opportunity cost of taking this course is the:

40) _____

A) tuition you paid for the course.
B) net benefit of the activity you would have chosen if you had not taken the course.
C) net benefit of taking this course.
D) cost of the activity you would have chosen if you had not taken the course.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

41) Economic reasoning would argue that there is an opportunity cost to:

41) _____

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A) all choices.
B) more choices.
C) only choices that involve money.
D) only choices that do not involve money.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

42) Suppose you paid $300 to take this economics course, which meets 30 times for one hour a class during the course of the semester. Instead of attending class you could have either flipped hamburgers for $10 an hour or waited tables for $8 an hour. Given this information, the opportunity cost of attending each class session is:

42) _____

A) $30.
B) $10.
C) $8.
D) $13.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

43) Opportunity cost:

43) _____

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A) includes only monetary expenses.
B) is the net benefit forgone by not undertaking the next best alternative.
C) is nonexistent for some choices.
D) is the same as sunk cost.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

44) Based on scientific nutritional studies, in most countries an income of $1 a day does not provide sufficient food, shelter, and clothing to live. Under these conditions the medical risk of death is high. This statement is:

44) _____

A) a normative statement.
B) a subjective statement.
C) an art-of-economics statement.
D) a positive statement.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

45) The opportunity cost of attending college for one year is *best* measured by the:

45) _____

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A) benefit received by the student.
B) tuition paid for the year.
C) value of the next-best activity forgone by attending college.
D) total money expenses associated with attending college.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

46) Brooke and Sandy both attend the same college and have the same expenses for tuition, books, and supplies. However, Brooke is a famous actress who could earn $2 million per year if she were not attending college whereas Sandy could earn $10,000 a year serving hamburgers if he were not attending college. It follows that the opportunity cost of attending college:

46) _____

A) is the same for both Brooke and Sandy.
B) is greater for Brooke than for Sandy.
C) is greater for Sandy than for Brooke.
D) for Brooke and Sandy cannot be compared.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

47) When your wages rise, the:

47) _____

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A) opportunity cost of an hour of work decreases.
B) opportunity cost of an hour of leisure stays the same.
C) cost of working increases.
D) opportunity cost of an hour of leisure increases.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

48) If it takes you an hour to make a rational decision and the opportunity cost of that hour is $100, you will:

48) _____

A) always make rational decisions.
B) make rational decisions only if the benefit from doing so exceeds $100.
C) make rational decisions only if the benefit from doing so is less than $100.
D) never make rational decisions.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

49) Applying the concept of opportunity cost to the pollution of a lake, an economist probably would conclude that:

49) _____

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A) all pollution in the lake should be eliminated regardless of cost.
B) no pollution in the lake should be eliminated regardless of benefit.
C) pollution should be eliminated as long as the benefit from a cleanup exceeds the opportunity cost.
D) pollution should be eliminated as long as the opportunity cost of a cleanup exceeds the cost of the resources required for the cleanup.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-02 Discuss various ways in which economists use economic reasoning.
Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

50) For a given benefit, a rational person chooses the option that has:

50) _____

A) the lowest opportunity cost.
B) the highest opportunity cost.
C) the average opportunity cost.
D) no opportunity cost.

Question Details
AACSB : Reflective Thinking
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Difficulty : 02 Medium
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Topic : A Guide to Economic Reasoning
Accessibility : Keyboard Navigation

51) More than 10,000 visitors waited up to two hours in line to see the rare flower titan arum at the Cambridge Botanical Gardens. What does this situation illustrate to an economist about rationing?

51) _____

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A) Goods don't have to be rationed by lottery or first-come, first-served. Goods can be rationed by price.

B) When goods are not fully rationed by monetary price, other rationing mechanisms such as waiting arise.

C) When goods are not rationed by monetary price, other rationing mechanisms such as lottery must be introduced.

D) There is no need for rationing if anyone who waits long enough can see the flower.

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

52) Dogfighting is against the law in New Jersey, resulting in high-priced events held illegally in the state. What idea from Chapter 1 of the text does this story best illustrate?

52) _____

A) There ain't no such thing as a free lunch.
B) The invisible hand is always invisible.
C) Social and political forces sometimes rein in market forces.
D) Maintaining objectivity is easiest in positive economics.

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

53) Prostitution is legal in Churchill County, Nevada, but a referendum threatened to close two brothels (prostitution businesses) in that county. What idea from Chapter 1 of the text does this story best illustrate?

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53) _____

A) Sunk costs do not matter in making decisions.
B) Marginal revenue should equal marginal cost
C) Social and political forces sometimes rein in market forces.
D) Microeconomics and macroeconomics are very much interrelated.

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

54) Nepalese villagers sell their kidneys as a way to earn much-needed money. Unfortunately, although the demand for such kidneys in developed economies is high and the medical facilities are available to conduct kidney transplants, the selling and buying of organs is illegal. What idea from Chapter 1 of the text does this situation best illustrate?

54) _____

A) Sunk costs do not matter in making decisions.
B) Marginal revenue should equal marginal cost.
C) Social and political forces sometimes rein in market forces.
D) Microeconomics and macroeconomics are very much interrelated.

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

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55) Countries such as Brazil, India, and Moldova—well-known sources of organ donors—have banned buying and selling organs. This legal action comes at the risk of driving the trade underground. What idea from Chapter 1 of the text does this story best illustrate?

55) _____

A) Legal and social forces can eliminate economic forces.
B) Marginal revenue should equal marginal cost.
C) Economic forces always operate despite legal forces.
D) The invisible hand is not always invisible.

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

56) Economic forces:

56) _____

A) are a reaction to scarcity.
B) give rise to scarcity.
C) are not related to scarcity.
D) are not related to rationing.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Accessibility : Keyboard Navigation

57) An economic force given relatively free rein by society to work through the market is a:

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57) _____

A) market force.
B) social force.
C) price mechanism.
D) political force.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Accessibility : Keyboard Navigation

58) The price mechanism that guides people's actions is called the:

58) _____

A) invisible market force.
B) invisible hand.
C) invisible handshake.
D) invisible foot.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Accessibility : Keyboard Navigation

59) Antitrust laws are an example of:

59) _____

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A) social forces.
B) political forces.
C) economic forces.
D) the invisible hand.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Accessibility : Keyboard Navigation

60) Microsoft has just taken some senators out to dinner in Paris in a private jet. This is probably an example of an attempt to influence:

60) _____

A) economic forces.
B) political forces.
C) social forces.
D) the price mechanism.

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

61) The price of computers has fallen each year for the last 30 years. This is probably an example of the working of:

61) _____

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A) economic forces.
B) political forces.
C) social forces.
D) nonmarket forces.

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

62) A cultural norm is a(n):

62) _____

A) economic force.
B) social force.
C) political force.
D) market force.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Accessibility : Keyboard Navigation

63) The price mechanism is:

63) _____

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A) not affected by social and political forces.
B) affected by social but not political forces.
C) affected by political but not social forces.
D) affected by both political and social forces.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Accessibility : Keyboard Navigation

64) Political forces:

64) _____

A) affect the price mechanism through cultural norms.
B) affect the price mechanism through the legal system.
C) affect the price mechanism through scarcity.
D) do not affect the price mechanism.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Accessibility : Keyboard Navigation

65) Social forces:

65) _____

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A) affect the price mechanism through cultural norms.
B) affect the price mechanism but not the legal system.
C) affect the price mechanism through scarcity.
D) do not affect the price mechanism.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Accessibility : Keyboard Navigation

66) Even though 80,000 individuals in the United States wait for kidney transplants and, for a price, there are many individuals who would be willing to supply a kidney (a healthy person can donate one kidney without any problems), it remains illegal to buy and sell organs in the United States. A market for kidneys does not exist because of:

66) _____

A) political forces.
B) social forces.
C) economic forces.
D) market forces.

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

67) Many drugs are illegal in the United States. Despite this law, illegal drugs are usually available at a price many times higher than they would be if the drugs weren't illegal. The high price of illegal drugs is an example of:

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67) _____

A) the market affecting political forces.
B) political forces affecting the market.
C) the failure of the market.
D) the failure of political forces.

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

68) The fact that the price of a gallon of milk is likely to be more expensive at a convenience store than at a supermarket is an example of:

68) _____

A) market forces.
B) political forces.
C) social forces.
D) normative economics.

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

69) Economic forces:

69) _____

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A) are more powerful than social and political forces.
B) are more powerful than social forces but less powerful than political forces.
C) are less powerful than social and political forces.
D) can be more or less powerful than political and social forces depending on the circumstances.

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

70) An economic model:

70) _____

A) applies economic theory to understand real-world events.
B) is so abstract that it cannot be applied to real-world events.
C) can be used only to understand free markets.
D) is an action taken to influence the course of economic events.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-04 Explain how economic insights are developed and used.
Topic : Using Economic Insights
Accessibility : Keyboard Navigation

71) An economic principle:

71) _____

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A) should be used to make every individual decision.
B) generally is stated as a normative statement.
C) can be combined with knowledge of economic institutions to make policy proposals.
D) is an action taken to influence the course of economic events.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-04 Explain how economic insights are developed and used.
Topic : Using Economic Insights
Accessibility : Keyboard Navigation

72) Economics is primarily:

72) _____

A) a normative science.
B) an observational science.
C) a laboratory science.
D) a natural science.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-04 Explain how economic insights are developed and used.
Topic : Using Economic Insights
Accessibility : Keyboard Navigation

73) Experimental economics:

73) _____

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A) includes naturally occurring events that approximates a controlled experiment.
B) is not possible given that economists study real-world events.
C) creates its own data rather than using data from the real world.
D) is what all economists do when they develop their models.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-04 Explain how economic insights are developed and used.
Topic : Using Economic Insights
Accessibility : Keyboard Navigation

74) An economist secures volunteers from her college campus and divides them into two groups that are ushered into different rooms. Both groups are given a test. Those in the first group who score 90 percent or more receive an Apple iPad. Upon exiting the room, those given iPads are offered the choice of receiving $150 in exchange for the iPad. Only a few take the exchange. Those in the second group who score 90 percent are offered either an Apple iPad or $150. About half the students choose $150. The professor uses this data to support a principle known as the endowment effect. The professor is engaging in:

74) _____

A) experimental economics.
B) natural experiments.
C) the economic decision rule.
D) a market coordination mechanism.

Question Details
Bloom's : Analyze
Difficulty : 03 Hard
Learning Objective : 01-04 Explain how economic insights are developed and used.
Topic : Using Economic Insights
AACSB : Analytical Thinking
Accessibility : Keyboard Navigation

75) A natural experiment is:

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75) _____

A) a naturally occurring event that approximates a controlled experiment.
B) not possible given that economists study real-world events.
C) a branch of economics that studies the economy through controlled lab experiments.
D) what all economists do when they develop their models.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-04 Explain how economic insights are developed and used.
Topic : Using Economic Insights
Accessibility : Keyboard Navigation

76) New Jersey raises its minimum wage while neighboring state Pennsylvania, does not. Economists compared the labor market in both states to draw conclusions about the effect of a minimum wage on employment and wages. This is an example of:

76) _____

A) simulation economics.
B) a natural experiment.
C) an economic principle.
D) the economic decision rule.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-04 Explain how economic insights are developed and used.
Topic : Using Economic Insights
Accessibility : Keyboard Navigation

77) A theorem is:

77) _____

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A) the application of models combined with judgment.
B) a policy rule that concludes that a particular course of action is preferable.
C) a proposition that is logically true based on the assumptions of a model.
D) a set of equations that define a model.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-04 Explain how economic insights are developed and used.
Topic : Using Economic Insights
Accessibility : Keyboard Navigation

78) Propositions that are logically true based on the assumptions of a model are known as:

78) _____

A) precepts.
B) theorems.
C) insights.
D) policies.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-04 Explain how economic insights are developed and used.
Topic : Using Economic Insights
Accessibility : Keyboard Navigation

79) A precept is:

79) _____

Microeconomics 11th edition Colander Test Bank

A) the application of models combined with judgment.
B) a policy rule that concludes that a particular course of action is preferable.
C) a proposition that is logically true based on the assumptions of a model.
D) a set of equations that define a model.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-04 Explain how economic insights are developed and used.
Topic : Using Economic Insights
Accessibility : Keyboard Navigation

80) A policy rule that concludes that a particular course of action is preferable is known as a(n):

80) _____

A) precept.
B) theorem.
C) insight.
D) policy.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-04 Explain how economic insights are developed and used.
Topic : Using Economic Insights
Accessibility : Keyboard Navigation

81) The statement, "because the invisible hand allocates resources efficiently, economies ought to minimize government interference" is an example of:

81) _____

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A) an economic theorem.
B) an economic precept.
C) a natural experiment.
D) efficiency.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-04 Explain how economic insights are developed and used.
Topic : Using Economic Insights
Accessibility : Keyboard Navigation

82) Which statement *best* summarizes the invisible hand theorem?

82) _____

A) Government policies direct people's selfish desires (tempered by social and economic forces) to the benefit of society.
B) Cultural norms direct people's selfish desires (tempered by political and economic forces) to the common good.
C) Markets direct people's selfish desires (tempered by political and social forces) to the common good.
D) Social, political, and economic forces act against people's selfish desires to promote the common good.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-04 Explain how economic insights are developed and used.
Topic : Using Economic Insights
Accessibility : Keyboard Navigation

83) A necessary assumption behind the invisible hand theorem is that:

83) _____

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A) market forces are determined by cultural norms.
B) market forces produce inefficient outcomes.
C) the price mechanism is not constrained by political or social forces.
D) people behave rationally.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-04 Explain how economic insights are developed and used.
Topic : Using Economic Insights
Accessibility : Keyboard Navigation

84) An economist who is studying the relationship between the money supply, interest rates, and the rate of inflation is engaged in:

84) _____

A) microeconomic research.
B) macroeconomic research.
C) theoretical research because there is no data on these variables.
D) empirical research because there is no economic theory related to these variables.

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

85) The invisible hand theorem comes from:

85) _____

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A) microeconomics.
B) macroeconomics.
C) sociology.
D) political science.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-04 Explain how economic insights are developed and used.
Topic : Using Economic Insights
Accessibility : Keyboard Navigation

86) Microeconomics and macroeconomics are:

86) _____

A) not related because they are taught as separate courses.
B) virtually identical, though one is much more difficult than the other.
C) interrelated because what happens in the economy as a whole is based on individual decisions.
D) interrelated because both are taught by the same teacher.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Accessibility : Keyboard Navigation

87) Which of the following is least likely to be studied in macroeconomics?

87) _____

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A) Inflation
B) Unemployment
C) Business cycles
D) Advertising

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Accessibility : Keyboard Navigation

88) Macroeconomics is:

88) _____

A) the study of individual choice and how that choice is influenced by economic forces.
B) the study of the pricing policies of firms and the purchasing decisions of households.
C) the study of aggregate economic relationships.
D) an analysis of economic reality that proceeds from the parts to the whole.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Accessibility : Keyboard Navigation

89) Which of the following topics is *best* categorized as a macroeconomic issue?

89) _____

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A) The choices a student makes in selecting college courses
B) The decision by Apple to produce fewer Macintosh computers
C) The effect of a drought on the price of corn
D) The effect of an increase in federal spending on the unemployment rate

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

90) Who would probably argue that you need to study the forest before you can understand the trees?

90) _____

A) A microeconomist
B) A macroeconomist
C) A normative economist
D) A classical economist

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

91) Who probably would argue that you need to study the trees before you can understand the forest?

91) _____

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A) A microeconomist
B) A macroeconomist
C) A positive economist
D) A Keynesian economist

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

92) Microeconomics includes the study of:

92) _____

A) inflation.
B) unemployment.
C) business cycles.
D) a firm's pricing policies.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Accessibility : Keyboard Navigation

93) Macroeconomics includes the study of:

93) _____

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A) inflation.
B) firm pricing policies.
C) the relative prices of oil and coal.
D) individual choice.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Accessibility : Keyboard Navigation

94) The invisible hand theorem relates mostly to:

94) _____

A) microeconomics.
B) macroeconomics.
C) normative economics.
D) supra-economics.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Accessibility : Keyboard Navigation

95) The study of individual choice is a focus in:

95) _____

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A) microeconomics.
B) macroeconomics.
C) normative economics.
D) Ricardian economics.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Accessibility : Keyboard Navigation

96) The study of inflation is a topic in:

96) _____

A) microeconomics.
B) macroeconomics.
C) classical economics.
D) normative economics.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Accessibility : Keyboard Navigation

97) A basic difference between microeconomics and macroeconomics is that:

97) _____

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A) microeconomics focuses on the choices of individual consumers, whereas macroeconomics considers the behavior of large businesses.

B) microeconomics focuses on financial reporting by individuals, whereas macroeconomics focuses on financial reporting by large firms.

C) microeconomics examines the choices made by individual participants in an economy, whereas macroeconomics considers the economy's overall performance.

D) microeconomics focuses on national markets, whereas macroeconomics concentrates on international markets.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Accessibility : Keyboard Navigation

98) Which of the following topics is most appropriately studied in a microeconomics course?

98) _____

A) The decision by a nurse to change professions
B) When the next recession will arrive
C) Why unemployment is so low and inflation has not accelerated
D) How the presidential candidates' tax plans might affect economic growth

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-01 Define economics and identify its components.
Topic : What Economics Is
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

99) Which of the following is *not* an economic institution?

99) _____

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A) Corporations
B) Government
C) Cultural norms
D) None of the answers is correct.

Question Details
AACSB : Reflective Thinking
Learning Objective : 01-03 Explain real-world events in terms of economic forces, social forces, and
Topic : Economic Forces, Social Forces, and Political Forces
Bloom's : Understand
Difficulty : 02 Medium
Accessibility : Keyboard Navigation

100) An economic policy is:

100) _____

A) a generalization about the workings of an abstract economy.
B) a physical or mental structure that significantly influences economic decisions.
C) an action taken by the government to influence the course of economic events.
D) a standard people use when they determine whether a particular activity or behavior is acceptable.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

101) Positive economics seeks to:

101) _____

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A) determine the most appropriate economic goals for society.
B) determine what government economic policies are best.
C) objectively explain how the economy functions.
D) objectively explain how societies value different economic outcomes.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

102) Normative economics seeks to:

102) _____

A) determine the most appropriate economic goals for a society.
B) determine how government policies affect the economy.
C) objectively explain how the economy functions.
D) objectively explain economic problems such as inflation and unemployment.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

103) The statement "government should provide affordable health care coverage for every member of society" is:

103) _____

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A) a statement that everyone agrees with.
B) a statement that everyone disagrees with.
C) a positive statement.
D) a normative statement.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

104) Say that an economic model concludes that "government raising payroll taxes is a measure that can maintain current Social Security benefit levels for every retiree." This conclusion is:

104) _____

A) a normative statement because there is disagreement over whether Social Security benefits should be maintained.
B) a positive statement because raising payroll taxes is one way to maintain Social Security benefits.
C) a statement in the art of economics because it is about policy.
D) false because there is no payroll tax rate high enough to maintain current benefits.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

105) Which of the following statements about urban sprawl and traffic congestion is the best illustration of a normative statement?

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105) _____

A) Snarled traffic cost motorists in the 85 largest U.S. cities 3.5 billion hours.
B) The average U.S. urban traveler is stuck in road traffic 46 hours a year.
C) Traffic congestion has increased in the last 20 years.
D) Because urban sprawl is the result of individual choice, it is okay.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

106) Which of the following is the best example of a positive question?

106) _____

A) How should the government deal with the next recession?
B) Should the government reduce inflation?
C) How are price and quantity demanded related?
D) Should government allow two large companies to merge?

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

107) Positive economics is:

107) _____

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A) subjective.
B) neither objective nor subjective.
C) more objective than normative economics.
D) more subjective than normative economics.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

108) Value judgments in economics:

108) _____

A) are necessary when objective analysis cannot address a question.
B) can always be avoided with the use of objective analysis.
C) are essential parts of positive economics.
D) can be avoided through the use of normative economics.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

109) Which of the following tools did Adam Smith argue provided a reasonable way to address normative questions objectively?

109) _____

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A) The impartial spectator tool
B) The invisible observer tool
C) The scientific observer tool
D) The reasoned spectator tool

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

110) Using the impartial spectator tool, one arrives at normative judgments based on your estimation of:

110) _____

A) your own normative judgments.
B) the best science available.
C) what the blended judgment of all members of society would arrive at.
D) the goals of those individuals most harmed by the policy being considered.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

111) Someone using the reasoning process consistent with the impartial spectator tool would argue that the minimum wage is a:

111) _____

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A) bad policy since, based on one's reasoned judgment, it will cause unemployment.
B) good policy since based on one's reasoned judgment, it will raise one's wage.
C) bad policy because, based on one's reasoned judgment, it interferes with the market.
D) good policy because, based on one's reasoned judgment, it would lead to the greatest good for the greatest number.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

112) The art of economics is:

112) _____

A) the application of the knowledge gained by positive economics to the goals set in normative economics.
B) purely technical and therefore more objective than positive or normative economics.
C) purely subjective so that the economist does not have to strive for the same level of objectivity that positive or normative economists do.
D) the branch of economics farthest removed from practical application, since its goal is to create the most elegant mathematical models.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

113) "We should support the market because it is efficient" is an example of:

113) _____

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A) positive economics.
B) normative economics.
C) objective economics.
D) negative economics.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

114) "The distribution of income should be left to the market" is an example of:

114) _____

A) positive economics.
B) normative economics.
C) the art of economics.
D) negative economics.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

115) What relates positive economics to normative economics?

115) _____

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A) Microeconomics
B) Macroeconomics
C) The art of economics
D) The science of economics

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 01 Easy
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

116) "Price controls in competitive markets cause shortages" is an example of:

116) _____

A) positive economics.
B) normative economics.
C) the art of economics.
D) Keynesian economics.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

117) "Government should not use price controls" is an example of:

117) _____

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A) positive economics.
B) normative economics.
C) the art of economics.
D) Marshallian economics.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

118) Maintaining objectivity is easiest in:

118) _____

A) positive economics.
B) the art of economics.
C) normative economics.
D) subjective economics.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

119) Identifying the effect of an increase in the money supply on prices requires the use of:

119) _____

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A) positive economics.
B) the art of economics.
C) normative economics.
D) subjective economics.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

120) Which of the following is a normative statement?

120) _____

A) Reducing the budget deficit will also reduce the balance of trade deficit.
B) Tariffs on imported cars result in higher prices for domestic auto consumers.
C) A tax cut will cause higher inflation.
D) The government should spend more to help the poor.

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
Accessibility : Keyboard Navigation

121) Which of the following is the best example of a normative question?

121) _____

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A) How does the market for corn work?
B) How do prices affect the market for coffee?
C) Will increasing the money supply affect interest rates?
D) Will the redistribution of income make society better off?

Question Details
AACSB : Reflective Thinking
Bloom's : Understand
Difficulty : 02 Medium
Learning Objective : 01-05 Distinguish among positive economics, normative economics, and the art of
Topic : Economic Policy Options
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Answer Key

Test name: CH01

1) TRUE
Economic, political, and social forces determine how an economy operates and thus answers the three economic problems.

2) TRUE
Scarcity exists because what people desire exceeds what they are able to produce.

3) TRUE
Sunk costs are costs that have already been incurred and cannot be recovered no matter what action is taken. Marginal costs represent the additional costs associated with undertaking an economic activity, and an individual must balance these costs against the marginal benefit from the activity to make a rational choice.

4) FALSE
The economic decision rule is to undertake an action only when the marginal benefits of that action are greater than its marginal costs.

5) FALSE
Sunk costs are costs that already have been incurred and cannot be recovered no matter what action is taken. Thus, they do not represent an opportunity cost, which are an additional cost.

6) TRUE
This statement matches the definition of the invisible hand in the text.

7) TRUE

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Social and political forces place cultural and legal limits on how the market mechanism works.

8) FALSE
Macroeconomics is the study of the economy as a whole. This statement describes microeconomics.

9) TRUE
This statement questions what the goals of the economy should be and is thus an example of normative economics.

10) B
The coordination definition of economics focuses on the need for the coordination of activities and resources. Even if everyone were selfless, there still would be the need for coordinating the selfless actions so that those actions and resources would be allocated efficiently.

11) C
According to the text, economics "is the study of how human beings coordinate their wants and desires given a society's decision-making mechanisms, social customs, and political realities."

12) B
An economic problem is the problem of coordinating and rationing the diverse wants of individuals. This includes the desire to have a dorm room. The type of allocation mechanism used to coordinate those wants does not eliminate the initial problem.

13) D
The economic problem arises when limited resources must be allocated among individuals. The problem existed before any allocation mechanism was chosen.

14) B

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The three central coordination problems are listed in the text.

15) B
The quantity of goods and services available depends on the incentives to work.

16) B
Any economic system must solve the three coordination problems. An economic system does not necessarily eliminate scarcity. Individual decisions within an economic system are what solve the three central problems. An economic system allocates what is produced but may not do so equally.

17) D
Scarcity exists because human desires have always exceeded human willingness to meet those desires.

18) C
See the three central coordination problems listed in the text.

19) D
Such a comparison makes it possible to determine whether the marginal benefit of an action exceeds the marginal cost. This economic reasoning determines whether an action is worthwhile and which is the most advantageous option.

20) A
It is efficient for Alexandra to study if the marginal benefit exceeds the marginal cost. The marginal benefit is $20 and the marginal cost is equal to her hourly wage rate, and so marginal benefit exceeds marginal cost as long as her hourly wage rate is less than $20.

21) C

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When economists want to change behavior, they will change either the costs or the benefits of the behavior. By filing a lawsuit against the spammers, Microsoft is imposing a cost on sending spam email, and therefore creating a disincentive from the action.

22) C
See the definition of marginal benefit in the text.

23) C
See the definition of marginal cost in the text.

24) D
Marginal cost is the cost of calling for another minute. Since Mary has not yet reached 600 minutes, making another call adds nothing to her bill.

25) B
Marginal cost is the cost of calling another minute. Since Mary has reached 600 minutes, making another call adds 10 cents per minute to her bill.

26) B
Sunk costs are costs that already have been incurred and cannot be recaptured. They are in essence "water under the bridge," and as such, they do not influence economic decisions.

27) A
Since the marginal benefit of dating Perry exceeds the marginal cost, you will be better off dating Perry.

28) D

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The economic decision rule is to do something if the relevant (marginal) benefits exceed the relevant (marginal) costs. It they don't, one should not do it. Following the economic decision rule, Carol initially purchased four car washes because the marginal benefit of only the first four car washes exceeded the marginal cost of $2.99. When the price dropped to $1.99, the marginal benefit of even the fifth car wash ($2.00) exceeded its marginal cost, and so, Carol purchased five car washes.

29) A

The economic decision rule is to do something if the relevant (marginal) benefits exceed the relevant (marginal) costs. If they don't, one should not do it. Following the economic decision rule, Luigi will consume no pizza dinners this month since the marginal cost of a pizza dinner ($4.99) is greater than the marginal benefit of even one dinner.

30) C

According to the economic decision rule, one must compare the marginal benefits to the marginal costs. The marginal cost is the price of the iPad cover. The price Jane bought the iPad for is a sunk cost and therefore is not considered in making the decision.

31) D

Since the purchase price is a sunk cost, it will not enter into your decision. Without additional information, it would not matter which one you sell since you don't know the future performance of any of the stocks.

32) B

This is the economic decision rule discussed in the text, in which the decision maker evaluates options using cost-benefit analysis.

33) A

Alan will stop drinking only when the marginal cost exceeds the marginal benefit.

34) A

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The economic decision rule is to choose the option where the marginal benefit exceeds the marginal cost and not to otherwise. Since Chuck was unwilling to purchase the house at $260,000, we can deduce that the marginal benefit of purchasing the house must be less than $260,000.

35) C
The economic decision rule is to choose the option where the marginal benefit exceeds the marginal cost and not to otherwise. Since the marginal benefit of buying more shirts exceeds the marginal cost, Mary will buy more T-shirts.

36) C
You will continue to go to the movies until the marginal benefit falls below the marginal cost.

37) B
The economic decision rule is to do more of something if the marginal benefit exceeds the marginal cost.

38) D
The marginal cost is the additional cost over and above the costs already incurred. The $20,000 price of the car should not be included in the marginal cost calculation since it is a sunk cost because the purchase has already been incurred.

39) B
The economic decision rule is that if relevant benefits exceed relevant costs, do it. If relevant costs exceed relevant benefits, don't do it. Since the marginal benefit of the moonroof does not exceed the marginal cost, don't buy it. Since the marginal benefit of the security system does exceed the marginal cost, buy it.

40) B

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Opportunity cost is what you must sacrifice when you choose an activity. By taking this course, you are sacrificing the benefit you could have obtained from the activity you would have chosen if you had not taken the course. Assessing opportunity cost is grounded in the comparison of marginal benefit between two options.

41) A
All activities involve choices and hence opportunity costs.

42) B
The opportunity cost of an activity is the benefit forgone by not undertaking the next best activity. In this case, the next best activity is the job that pays $8 an hour.

43) B
Opportunity costs are the benefits forgone when an activity is undertaken, not the money paid to undertake an activity. All decisions involve opportunity costs because all decisions involve choices in which another option is being sacrificed.

44) D
The statement, because it is stating factual information, is positive.

45) C
Opportunity cost is the benefit forgone of the next-best alternative by undertaking another activity.

46) B
Opportunity cost is the benefit forgone by undertaking an activity. Since Brook is forgoing a $2 million salary and Sandy is forgoing a $10,000 salary, the opportunity cost of attending college is greater for Brooke.

47) D

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The opportunity cost of working is the forgone benefit of leisure. The benefit of leisure does not change with a change in wage. The opportunity cost of leisure is the benefit forgone of working, or wages earned. In this case, the wage has risen and so has the opportunity cost of leisure, because the alternative now has a higher marginal benefit.

48) B
Only if the benefit from making rational decisions is greater than $100 will it be worthwhile to make such decisions. Otherwise the time spent making rational decisions would be better spent doing the best alternative. This comparison is between marginal benefit and marginal cost.

49) C
Only when this is true will the elimination of pollution produce net benefits.

50) A
The opportunity cost of an action is the benefit forgone when that action is undertaken. Recognizing that all actions have an opportunity cost, the rational individual will choose the action that has the lowest opportunity cost.

51) B
Anything scarce must be rationed. Rationing by queue is an alternative to rationing by price. It is evident that the demand to see the rare flower exceeds the supply of viewings.

52) C
It is possible to get many messages from this incident, but it clearly illustrates a restriction on market activity (dogfighting) by political and social forces in New Jersey.

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53) C
It is possible to get many messages from this incident, but it clearly illustrates a restriction on market activity by political and social forces in Nevada. Source: www.lahontanvalleynews.com, August 25, 2004.

54) C
It is probably possible to get many messages from this practice but it clearly illustrates an attempt to restrict market activity by political and social forces.

55) C
It is possible to draw many conclusions from this story, but the fact that an underground trade emerged illustrates that legal forces cannot eliminate economic forces and the demand for market activity.

56) A
Scarcity leads to rationing, and economic forces determine how rationing occurs.

57) A
The price mechanism is the mechanism that converts economic forces into market forces. See the definition of market force.

58) B
The invisible hand is the price mechanism that guides people's actions as defined in the text. Price mechanisms serve as the connection between economic forces and market forces.

59) B
Political forces determine the legal environment, and this environment constrains the workings of the price mechanism. Antitrust laws may have been passed because of social forces, but as laws, they are political forces.

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60) B
This is an example in which Microsoft is lobbying lawmakers in order to influence political decisions and forces.

61) A
This is an example of the price mechanism changing as a result of changes in supply and demand, or the invisible hand.

62) B
A cultural norm defines what is socially acceptable and is thus a social force.

63) D
Political and social forces affect the price mechanism through the legal system and cultural norms.

64) B
Political forces determine the legal environment, and this environment constrains the workings of the price mechanism.

65) A
Social forces determine cultural norms, and these norms constrain the workings of the price mechanism.

66) A
This example is similar to the discussion of adoption and a market for babies described in the text. Because it is illegal to buy and sell organs, there isn't a market because of political forces. Although social forces may be at play here, political forces ultimately dominate in making the monetary transaction of organs illegal.

67) B

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The fact that selling drugs is illegal is the consequence of the legal system. Economic forces, however, still operate, and the price mechanism, the invisible hand, also operates in this case in the black market. The illegality of drugs causes a spike in the quantity demanded, thus augmenting prices.

68) A
The higher price of milk at convenience stores is the effect of the invisible hand, or market forces. The higher prices reflect the convenient location of the stores.

69) D
Economic forces are conditioned by the legal system and cultural norms. The extent of this conditioning varies depending on the nature of the legal system and cultural norms. The weight of social, political, and economic forces varies based on the situation.

70) A
An economic model uses insights in more general theories to understand real-world events.

71) C
Economic principles are meant to describe individual or societal choices, not determine them. To the best of their abilities economists strive to state economic principles in positive terms. See the definition of economic principle in the text.

72) B
Economics is primarily an observational science because economists cannot, in general, conduct controlled experiments and must instead make inferences based on careful observation.

73) C

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See the definition of experimental economics in the text.

74) A
Since it is a laboratory experiment, it resides in experimental economics. The professor is creating her own data, rather than basing the conclusion on real-world, naturally occurring events.

75) A
See the definition of natural experiment in the text.

76) B
Since the economists are drawing conclusions from a naturally occurring event, the situation is a natural experiment.

77) C
See the definition of theorem in the text.

78) B
See the definition of theorems in the text.

79) B
See the definition of precept in the text.

80) A
See the definition of precept in the text.

81) B
Because the theorem (the invisible hand allocates resources efficiently) is combined with judgment (that real-world economies conform to the assumptions of the invisible hand theorem) to result in a policy recommendation, this is an example of a precept.

82) C

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The invisible hand theorem states that economic forces (or the invisible hand) guide the actions of individuals to the common good. We know, however, that these forces are checked by culture (social forces) and the government (political forces).

83) D
Unless people behave rationally, market forces will not work.

84) B
Students should recognize that inflation is one of the topics mentioned in the text that is considered to fall under the umbrella of macroeconomics. However, they will have to demonstrate some understanding of what is theory and what is empirical analysis.

85) A
The invisible hand theorem relates to microeconomic pricing mechanisms.

86) C
What happens in the economy as a whole is based on individual decisions, but individual decisions are made within an economy and can be understood only within that context.

87) D
Macroeconomics is the study of inflation, unemployment, business cycles, and growth as defined in the text.

88) C
As discussed in the text, macroeconomics focuses on aggregate relationships.

89) D
"The effect of an increase in federal spending on the unemployment rate" focuses on an aggregate relationship.

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90) B
Macroeconomists focus on aggregate relationships before individual ones.

91) A
Microeconomists focus on individual relationships before aggregate ones.

92) D
Inflation, unemployment, and business cycles are all part of macroeconomics. Therefore, the small-scale decision of a firm's pricing policies falls under the study of microeconomics.

93) A
Macroeconomics is the study of inflation, unemployment, business cycles, and growth.

94) A
The invisible hand theorem is the price mechanism that affects individual decisions.

95) A
Microeconomics is the study of individual choice.

96) B
Macroeconomics is the study of inflation, unemployment, business cycles, and growth.

97) C
See the definition of microeconomics and macroeconomics in the text.

98) A
Microeconomics is the study of individual choice.

99) D

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Each of the above is a physical or mental structure that significantly influences economic decisions, and are therefore all economic institutions.

100) C
See the definition of an economic policy in the text.

101) C
Positive economics attempts to explain why the economy works the way it does without making value judgments.

102) A
Normative economics attempts to determine what an economy should look like and what it should accomplish. Unlike positive economics, normative economics makes value judgments.

103) D
Regardless of how many agree or disagree with this statement, it is making a specific policy recommendation and therefore qualifies as a normative statement.

104) B
In spite of controversy regarding how best to maintain Social Security, it is true that a higher payroll tax rate could be used to maintain current benefit levels. This is not a normative statement since it does not advocate a particular action and is not making a value judgment. The statement is grounded in objectivity.

105) D
Statistical statements are positive. Statements that are value judgments are normative.

106) C

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The answer to this question does not involve a value judgment, and so the question is not normative.

107) C
Positive economics relies on objective analysis and tries to keep subjective analysis to a minimum.

108) A
Objective analysis is useful only in explaining what is and cannot be used to address what should be. Value judgments must be made in deciding what should be.

109) A
See the definition of the impartial spectator tool given in the text.

110) C
See the definition of the impartial spectator tool given in the text.

111) D
The impartial spectator tool requires an individual to consider a policy from all perspectives, and not just from his own. The impartial spectator tool sees the market as a tool that society uses to achieve the greatest good for the greatest number,

112) A
See the definition of the art of economics given in the text.

113) B
Although economic theory (positive economics) says that the market is efficient, a statement that we should support it is a normative statement because it is making a value judgment.

114) B

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"Should" statements are always normative because they are making subjective value judgments.

115) C
The art of economics is the application of the knowledge learned in positive economics, to the suggestions made in normative economics.

116) A
Positive economics is the study of what is. We know that price controls usually cause shortages from the text.

117) B
"Should" statements are always normative, or based on opinion.

118) A
Maintaining objectivity is easiest when one is working with abstract models to understand how the economy works, as is the case in positive economics.

119) A
This requires the application of an abstract model to understand how the economy works, which is positive economics. It does not include value judgments.

120) D
A normative statement is a statement about what should be.

121) D
Normative economics is the study of what the economy should be, not the study of how the economy works, which is positive economics.

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Chapter 1: Economics and Economic Reasoning

Essay Questions

1. As newly elected President of your school's Economics Club, you must prepare the Club's annual budget of $5,000. Past budgets have included: 1) fees for guest speakers; 2) tours of local businesses; 3) charges for downloading economic statistics; 4) an end-of-semester party; and 5) the Club President's salary. How would the central coordination problems faced by any economic system apply to your task of deciding how to allocate the $5,000?

Answer:
The problem of preparing a club's budget is similar to the problem facing any economic system. The club has limited funds and unlimited wants. It must deal with scarcity. In preparing the budget, the club must decide for whom the services of the club will be provided. It must decide what services (and how much of each service) to provide. Finally, it must determine how to provide the services. For example, if it decides to tour a local pizza parlor, will it charter a bus or use school vehicles?

2. Explain how the government might apply economic reasoning in deciding on which of many techniques it should employ to reduce or eliminate terrorist attacks on airlines. What problems can arise when using such an approach?

Answer:
If the government believes that the marginal benefits of a particular method of reducing or eliminating terrorist attacks outweigh the marginal costs, then the economic reasoning suggests that the government should do it. One problem with this approach is that, although some of the costs and benefits are clear and measurable, one cannot clearly assign a monetary value to the intangible costs and benefits that arise from the added security measures (e.g. racial profiling or invasion of privacy).

3. In the late 1970's, the U.S. mandated a maximum highway speed of 55 miles per hour to economize on fuel. Evidence showed that the lower 55-miles-per hour speed limit also significantly reduced traffic fatalities. Nevertheless, when the gas shortage eased, we have returned to the higher speed limits. Provide an economic rationale for not permanently lowering the speed limit to 55 miles per hour when we know that it will save lives.

Answer:
Although experience proves that lower speed limits would almost certainly save lives, the opportunity costs of such a policy are considered to be excessive by most policy makers (and voters). If speed limits were set at 55 miles per hour, much more valuable time would be required for everything from commuting, to shipping goods, to leisure travel. Since people's time is scarce, it has a high opportunity cost. We are willing to trade off the costs of higher speed limits—a greater risk of fatalities—in order to avoid the even greater cost of increased time spent traveling from place to place.

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4. What are theorems? What are precepts? If two economists agree on a theorem, do they necessarily agree on precepts? If two economists agree on a precept, do they necessarily agree on theorems?

Answer:
Theorems are propositions that are logically true based on the assumptions of a model. A precept is policy rule in favor of a particular course of action. With a theorem, an economist can explain how the world may work. With a precept, an economist turns that explanation into a recommendation for action. Because precepts are based on theorems combined with empirical evidence and the goals of society, two economists who agree on a theorem may not necessarily agree on the precept; they might disagree on whether the assumptions of the model hold (which could be tested empirically), or they might disagree on what the goals of society should be. Two economists might also arrive at the same precepts, but based on altogether different theorems, empirical evidence and goals.

5. Explain how each of the following scenarios illustrates the interaction of economic forces, social and cultural forces, and political and legal forces.

(a) State officials are trying to move welfare recipients into jobs during a period of economic weakness, rising unemployment, and declining federal funding.

(b) The European Union is funding a massive program to explore ways of using hydrogen to replace fossil fuels both to increase energy availability and to protect the environment.

(c) In some states, many types of retail stores are prohibited from opening before noon on Sunday.

(d) In North Dakota, most colleges and universities are located in small towns. Despite shrinking student populations, state law mandates that all of these schools remain open.

Answer:
(a) The plight of these state officials illustrates both economic forces and political and legal forces. The social welfare program is administered and regulated by the government (political and legal forces), and the need to move recipients out of the program and help them getting jobs is due to economic forces.
(b) The European research program finding new sources of energy illustrates both economic forces and political and legal forces. The need to develop an alternative power source is more pressing today as the supply of current resources are dwindling (economic force), and also as a result of the strict laws and regulations imposed by the government to reduce fossil fuel emissions (legal and political forces).
(c) Laws to prevent certain types of stores from opening on Sunday mornings are an example of the impact of social and cultural forces and political and legal forces on retail markets. These laws (legal forces) exist to allow people to go to church (social and cultural forces) before they go to work.
(d) The survival of colleges and universities in small towns is an example of both political and legal forces combined with social and cultural forces. Political and legal forces are at work in

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that state law mandates that the schools remain open. Social and cultural forces appear in that the underlying reason for keeping the schools in small towns is the desire to maintain the rural way of life within the state.

6. Explain how microeconomics differs from macroeconomics. Explain why the following headlines, taken from various issues of The Wall Street Journal, deal with either microeconomics or macroeconomics.

(a) "Microsoft posted a 26% increase in sales"

(b) "Housing starts soared 13.3% in September"

(c) "Honeywell Plans to Slash More Jobs"

(d) "Germany to Breach Key Deficit Target it Helped to Create"

(e) "China's Output Grew 8.1%"

(f) "Washington Is Urging Canada to Increase Military Spending"

Answer:
Microeconomics is the study of individual choice and how economic forces influence that choice, while macroeconomics is the study of inflation, unemployment, business cycles, and growth. In macroeconomics we generally go from the whole to the parts. Microeconomics focuses on individual choices while macroeconomics focuses on aggregate relationships. Headline (a) is clearly microeconomic since it deals with a particular firm. Headline (b) lies at the border of micro and macroeconomics since it deals with a large sector of the overall economy (housing) but not the economy as a whole. Headline (c) is also microeconomic since it also applies to a single firm. Headline (d) is clearly macroeconomic since it deals with an economy-wide phenomenon—the government deficit. Headline (e) is clearly macroeconomic since it deals with an economy-wide phenomenon—the growth of total output. Headline (f) also lies at the border of micro and macroeconomics since it deals with a large sector of the overall economy (military spending) but not the economy as a whole.

7. Explain the differences between positive economics, normative economics, and the art of economics. Explain why you would categorize each of the following three statements as belonging to positive economics, normative economics, or the art of economics.

(a) The unemployment rate is 6.5 percent.

(b) The unemployment rate is unacceptably high.

(c) If the government wants to reduce the unemployment rate, it should try cutting taxes.

Answer:

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Positive economics is the study of what is, and how the economy works without regard to the goals of an economy. On the other hand, normative economics is the study of what the goals of the economy should be without regard to how the economy works. The art of economics applies what is known about how the economy works (positive economics) to achieve the goals of an economy (normative economics).
Statement (a) is an example of positive economics because it is a statement of fact and in theory it can be proven true or false. Statement (b) is an example of normative economics because the phrase, "unacceptably high," implies a value judgment over which reasonable people could disagree. It cannot be proven true or false. Statement (c) is an example of art of economics, in which a policy option is offered to try to satisfy a goal. That option may or may not be a "good" one.

8. How did Adam Smith deal with the problem of moving from theorems in positive economics to policy precepts in the art of economics?

Answer:
He used the impartial spectator tool to decide on moral judgments developed in moral philosophy and then integrated those moral judgments into the theorems and empirical facts determined in positive economics. The impartial spectator tool required economists to focus on policy that would achieve the greatest good for the greatest number, and to determine that greatest good through introspection and constructive argumentation with individuals who held opinions different than yours. It required reaching out and placing yourselves in other people's shoes.

Short Answer Questions

9. What is economics, and what are the three coordination problems an economy must solve?

Answer:
Economics is the study of how human beings coordinate their wants and desires, given the decision-making mechanisms, social customs, and political realities of the society. An economy must solve these three problems: What, and how much, to produce? How to produce it? For whom to produce it?

10. How are the three central economic questions—What, How, and For Whom—related to the concept of scarcity?

Answer:
Given that we have scarce resources and essentially unlimited wants, an economic system must make choices to prioritize wants by answering the *What* problem. In order to produce as much as possible from limited resources, the resources must be used efficiently. This is at least one of (and for economists, usually the most important) the criteria for solving the *How* problem. Since everyone can't have everything they want, the available goods must be allocated. That is, the *For*

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Whom problem must also be solved, and frequently is implicitly answered in large part by the answers to the *What* and *How* questions.

11. What is scarcity? Why is it so difficult to eliminate it?

Answer:
Scarcity refers to the problem in an economy wherein the goods available are too few to satisfy individual's desires. Scarcity is difficult to eliminate because new wants are constantly developing. As technology changes and more goods and services become available people decide that they need or want these new goods.

12. What role does coercion play in an economy?

Answer:
Coercion has historically been a part of all economies as they try to solve coordination problems. Specifically coercion involves limiting people's wants and desires and increasing the amount of work individuals are willing to do.

13. What is economic reasoning? Give an example.

Answer:
Economic reasoning is making decisions on the basis of costs and benefits. Any example that clearly states the relevant cost and benefit of an activity is acceptable.

14. What is the economic decision rule?

Answer:
The economic decision rule is an application of economic reasoning that focuses on a comparison of marginal benefits and marginal costs. Specifically, the economic decision rule has two parts:
If the marginal benefits of doing something exceed the marginal costs, do it.
If the marginal costs of doing something exceed the marginal benefits, don't do it.

15. What is opportunity cost? Give an example.

Answer:
Opportunity cost is the benefit foregone of the next best alternative to the activity you've chosen. Any example that clearly distinguishes between the benefit foregone (rather than the explicit costs) of the next best alternative is acceptable.

16. What is the "invisible hand", and how does it work as a market force?

Answer:
The invisible hand is a phrase that refers to the price mechanism as a means for allocating resources. The key point is that it is the rise and fall of prices that guide our actions in a market.

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If there is a shortage in a market (quantity demanded exceeds quantity supplied), the invisible hand applies an upward pressure on the market price. Conversely, if there is a surplus, the invisible hand applies a downward pressure on the market price.

17. What are the three forces that control economic reality? Give an example of each.

Answer:
The three forces are economic forces (the invisible hand), social and cultural forces, and political and legal forces. An example of an economic force is that, when there is an excess supply of some good, price tends to fall. Social and cultural forces include such things as churches, accepted norms or standards of behavior. Political and legal forces include such things as antitrust laws, and agricultural price supports.

18. What is the difference between economic forces and market forces?

Answer:
Economic forces are the necessary reactions to scarcity. Any mechanism that performs a rationing function in order to deal with scarcity may be considered an economic force. A market force is one type of economic force. Specifically, a market force is an economic force that is given relatively free reign by society to work through the market.

19. What does the term efficiency mean?

Answer:
Efficiency means achieving a goal as cheaply as possible.

20. What is the invisible hand theory?

Answer:
The invisible hand theory is the name for a(n) insight/lesson of the economy, which states that a market economy, through the price mechanism, will allocate resources efficiently.

21. Why are empirical results in economics often subject to dispute?

Answer:
Economic models are used to generate natural experiments, which, in turn, provide the empirical results. These models are built on certain assumptions that may not hold at all times. In natural experiments, a researcher cannot hold "other things constant" all the time—thus creating disputes.

22. What is experimental economics?

Answer:
Experimental economics is a field of economics that studies the economy through controlled laboratory experiments.

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23. What is a natural experiment?

Answer:
A natural experiment is a naturally-occurring event that approximates a controlled experiment.

24. How does microeconomics differ from macroeconomics?

Answer:
Microeconomics involves an analysis of individual parts of an economy whereas macroeconomic analysis looks at the big picture, the economy as a whole. Microeconomics is the study of individual choice, and how choice is influenced by economic forces. Macroeconomics is the study of the economy as a whole, which includes inflation, unemployment, business cycles and growth.

25. What is an economic institution? Why is it important? Describe three economic institutions that regularly impact our daily lives.

Answer:
An economic institution is any structural aspect of an economy that influences the outcome of economic decisions. Such things as corporations, governments and cultural norms are all economic institutions. Economic institutions are important because the predictions of economic theory often need to be adjusted to include the impact of economic institutions in order to more accurately explain real world economic events. Examples of economic institutions are endless, but some obvious ones include money, credit, advertising, telemarketing, shopping malls, mail order, etc.

26. Describe the difference between positive economics, normative economics, and the art of economics.

Answer:
Positive economics is the study of what is, and how the economy works. Normative economics is the study of what the goals of the economy should be. The art of economics is the application of the knowledge learned in positive economics to the achievement of the goals one has determined in normative economics.

27. Observers have noted that people often vote against what is in their economic self-interest. It has been called the Kansas paradox because a famous article discussed the phenomenon in relation to the state of Kansas. Would Adam Smith see this as a paradox?

Answer:
No, not necessarily. He would see it as likely reflecting the fact that people are using the impartial spectator tool, and are voting for what they see as benefitting all society, even though it might not be in their specific interest.

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Problems and Applications

28. How do you use the concept of scarcity to explain why a highly paid, star basketball player makes more money than the average player in the league?

Answer:
A highly paid basketball player possesses special talents that other players in the league do not have. These 'scarce' talents may be a major contribution to the dominance of that team, and the reason why the owners of the team are willing to pay a star-player more money than the average player.

29. You are trying to decide which professor to take for Economics. (You don't want to take it at all, but you have to.) Professor A is known to have great classes (fascinating lectures with lots of fun stuff thrown in), but she gives very challenging exams. Professor B's classes are quite dull, but his exams are quite easy. What are the marginal costs and benefits of taking Economics from Professor A rather than from Professor B? Who would you pick?

Answer:
I would choose that class for which the difference between marginal benefit and marginal costs are the greatest. The marginal cost of taking a class is the time spent in class and studying. The marginal benefit is the enjoyment of attending class, the amount learned, increased job performance based on increased knowledge, and grade adjusted credit hours. How do each rate? The following table is suggestive of an answer. Each student will come to different conclusions.

	Professor A	Professor B
Marginal Cost		
time spent at class	same	same
time spent studying	more	less
Marginal Benefit		
enjoyment of attending class	more	less
amount learned	more	less
increased job performance	more	less
grade-adjusted credit hours	less	more
Marginal benefit less marginal cost	more	less

30. Why does classroom attendance rise during exam days and fall during other days?

Answer:
Students apply economic reasoning and the economic decision rule to decide whether to go to class or not. The marginal benefit of missing a class is almost the same in the case of exam day and non-exam day—the extra one hour of sleep a student gains that morning. However, the

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marginal cost of missing an exam day (forgone points, disciplinary action) is significantly higher than the marginal cost of missing a non-exam day (forgone lecture notes).

31. Comment on the following statement that appeared in a local newspaper: "Our junior high school serves a splendid hot meal for one dollar without costing the taxpayer anything, thanks in part to a government subsidy."

Answer:
There ain't no such thing as a free lunch. In order for the government to subsidize the school's menu, it has to collect taxes, part of which come from those who go to this particular school. The person who is responsible for this statement failed to incorporate the principle of opportunity cost in his/her analysis.

32. What is opportunity cost? What would be the opportunity cost of having a date on Saturday night? Alternatively, why is there no such thing as a free date (even if she/he pays)?

Answer:
Opportunity cost is the benefit forgone by undertaking an activity. Even if no monetary costs are involved on your part, your time is still scarce, and using it to go on a date means that it cannot be used for some alternative purpose. You may have been considering spending the evening alone, going out with "the guys" or "the gals," or participating in some group activity in a non-dating situation. The best alternative forgone is your opportunity cost. On the other hand, if you really had no other plans and would have sat in your room feeling sorry for yourself for not having a date, your opportunity cost could indeed have been zero.

33. Consider the following statement: Keith purchased an entire week's groceries for his family of four for $200 while Jerry spent $250 for a week's groceries for his family of four. Can we conclude that Keith is more efficient than Jerry at grocery shopping? Why or why not?

Answer:
The answer is it depends. Efficiency refers to achieving a goal as cheaply as possible. Since we don't know what the goal of each person is, we can't accurately evaluate the efficiency of their shopping. If the goal of Keith and Jerry is to buy a week's worth of groceries for their respective families, then we can say that Keith is more efficient than Jerry. On the other hand if the goal was to buy a specific set of food items, we can't evaluate the relative efficiency of the two shoppers unless we know that each was purchasing exactly the same items; and we are not given this information.

34. Explain how microeconomics differs from macroeconomics and then categorize the following questions as either microeconomic or macroeconomic questions:

(a) How will interest rates change when the Federal Reserve Bank increases money supply?

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(b) How will Nike's market share change when Reebok increases their marketing expenditures?

(c) How does a tariff on imported steel affect the U.S. steel industry?

(d) Should Wal-Mart renovate its stores nationwide?

(e) Should the government lower income taxes to stimulate consumption?

Answer:
Microeconomics is the study of individual choice and how that choice is influenced by economic forces, while macroeconomics is primarily the study of inflation, unemployment, business cycles, and growth from the whole to the parts. Micro focuses on individual choices while macro focuses on aggregate relationships.
(a) Macroeconomics
(b) Microeconomics
(c) Microeconomics
(d) Microeconomics
(e) Macroeconomics

35. Three different ways (approaches) can be used to study economics: positive, normative, and their combination (the art of economics). Describe each approach and give an example of each. Which do you think is the best approach to study economic issues? Explain why you picked the approach you did.

Answer:
(a). Positive economics is the study of what is, and how the economy works without regard to the goals of an economy. Using economic reasoning to determine how tax revenue would change in response to a 5% income tax increase is an example of positive economics.
(b). Normative economics is the study of what the goals of the economy should be. Deciding whether government tax revenue should be used to build more tanks or to provide education grants is an example of normative economic analysis.
(c). The art of economics is the application of the knowledge learned in positive economics to the achievement of the goals in normative economics. Determining that a 5% income tax increase will generate $50 billion in tax revenue, which can be used to provide $10,000 grants to 5,000,000 students to help with college tuition is an example of the art of economics.
Which is best? There is no single "correct" answer here. It depends upon what questions you are addressing. If you are trying to understand how an economy functions, positive economics is the best approach. If you are trying to make policy recommendations, the art of economics is the best approach. Although one hopes that the art of economics receives the most votes.

36. You have just finished paying off the $10,000 loan on your car, and it stops working. Your mechanic tells you that it will cost $1,000 to repair it. Your car is quite old and you are hesitant to put another $1,000 into it. Instead, you are contemplating purchasing a much newer car for $15,000. You want to get your wheels back. What should you do? How

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would your answer change if you took the expected life of the vehicle into consideration? NOTE: Answer this question by applying the economic decision rule.

Answer:
To answer this question using the economic decision rule, you should compare the marginal benefit of each option to its marginal cost. If your goal is simply to "get your wheels back" then the marginal benefit is that you have your wheels again. However, the marginal cost of each option is quite different. Recall that marginal cost is the additional cost you will incur, ignoring all past expenditures. In this case you either spend $1,000 to repair your current car, or spend $15,000 to get a different one. Clearly the cheapest way to "get your wheels back" is to repair your current car, so this is what you should do.

If you take into consideration the expected life of the vehicle, then your marginal benefit is no longer simply getting your wheels back, but rather the length of time you will have those wheels. In this situation, the marginal cost is unknown, since you cannot be certain about which of the cars will require additional repairs in the future. This makes the use of economic reasoning more difficult (but not impossible) to apply. You need to make some educated guesses (or assumptions) about the future repair records of each car in order to determine the marginal cost of each option. Or take the bus.

37. State the economic decision rule and apply it to the following situations:

(a) A personal computer costs about 2 cent per hour to operate. Every time it is turned on and off, there is a .00005 probability that the computer will fail, costing $700 to repair. Is it worthwhile to turn off your computer?

(b) Should you try out for the soccer or the baseball team?

(c) The date to withdraw from a course and get the $300 refund has passed. With 30 more classes left in the semester, should you drop the course?

(d) Your employer has offered you a 20% raise. Do you work more hours?

Answer:
The economic decision rule is: If the marginal benefits of doing something exceed the marginal costs, do it; if the marginal costs of doing something exceed the marginal benefits, don't do it.
(a) Choose that option that provides the maximum net benefit. The cost of turning off your computer is the possibility of having to repair it [$700 x .00005 = 3.5 cents]. The benefit is the energy savings, 2 cents per hour. Don't turn off the computer for periods of less than one hour and forty-five minutes since the marginal benefits do not exceed the marginal costs.
(b) The cost of playing on each team is the practice time and cost of equipment. The benefit is the joy of playing on a team and winning games. Choose that option that provides the maximum net benefit.
(c) The cost of tuition is not a relevant benefit of dropping the course since it is a sunk cost. The cost of dropping the course is the lost opportunity of gaining knowledge and course credits. The

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benefit is the gained free time for other activities. Choose that option that provides the maximum net benefit.
(d) The benefit of working more hours is the wages earned. The cost is the time spent working. After the 20 percent raise, the benefit of working additional hours has increased. If you value the wages more than you value alternative uses of those additional hours, work the extra hours.

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