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Correct answers located at the end of the chapter.

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

1) Economics is the study of
   A) how much people should buy and the prices they should be willing to pay.
   B) how much people should sell and the prices they should be willing to accept.
   C) the allocation of the world's freely available resources and who should get them.
   D) the allocation and use of scarce resources to satisfy unlimited human wants.

2) The one word in the definition of economics that focuses on the fact that it is impossible to provide all of the goods and services that everyone wants is
   A) scarcity.
   B) resources.
   C) study.
   D) allocation.

3) The one word in the definition of economics that focuses on the fact that we have to make choices about who gets what and how much is
   A) scarcity.
   B) resources.
   C) study.
   D) allocation.

4) Economists focus on "unlimited human wants" rather than _____, to describe our pursuit of goods and services.
   A) needs
   B) prices
   C) output
   D) physical requirements

5) Scarcity implies that the allocation decisions involve
   A) not making more of any one good.
   B) being unable to make more of a good without making less of another.
   C) making more of all goods, simultaneously.
   D) making less of all goods.

6) A production possibilities frontier models
   A) the choices we make in determining prices.
   B) the choices we make in determining output alternatives.
   C) the choices we make in determining wages.
   D) the choices we make in determining incomes.

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7) The production possibilities frontier is a simple model of
   A) scarcity and allocation.
   B) the price level and the number of outputs.
   C) the amount of production and the magnitude of costs.
   D) the number of inputs and number of outputs.

8) A simplifying assumption is typically made so as to
   A) make a point clearer by stripping away excess detail.
   B) make a point clearer by adding sufficient detail to get things precise.
   C) divert attention from the real problem.
   D) make things look better than they really are.

9) Something is scarce as long as
   A) there is a price that the market puts on the item.
   B) there is no freely available infinite source of the item.
   C) the government provides it.
   D) the market provides it.

10) A resource
   A) must come from the earth.
   B) only includes physical things.
   C) is anything that we consume directly or use to make things we will ultimately consume.
   D) must come from the earth and is anything that we consume directly or use to make things we will ultimately consume.

11) The underlying reason that there are unattainable points on a production possibilities frontier is that there
   A) is government.
   B) are always choices that have to be made.
   C) is a scarcity of resources used to produce an output good given a fixed level of technology.
   D) is the unemployment of resources.

12) The underlying reason production possibilities frontiers are likely to be bowed out (rather than linear) is
   A) choices have consequences.
   B) there is always opportunity costs.
   C) some resources and people can be better used producing one good rather than another.
   D) there is always some level of unemployment.

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13) The optimization assumption suggests that people make
A) irrational decisions.
B) unpredictable decisions.
C) decisions to make themselves as well off as possible.
D) decisions without thinking very hard.

14) The fact that we are operating at a point inside a bowed out production possibilities frontier indicates there is
A) scarcity.
B) constant opportunity cost.
C) unemployment.
D) increasing opportunity cost.

15) The fact that we cannot operate at a point outside a production possibilities frontier indicates there is
A) scarcity.
B) constant opportunity cost.
C) unemployment.
D) increasing opportunity cost.

16) Points on the production possibilities frontier are
A) attainable.
B) unattainable.
C) associated with some unemployment
D) both attainable and unattainable.

17) Points inside the production possibilities frontier are
A) attainable.
B) unattainable.
C) associated with some unemployment.
D) both attainable and associated with some unemployment.

18) Points outside the production possibilities frontier are
A) attainable.
B) unattainable.
C) associated with some unemployment.
D) both attainable and unattainable.

19) In Figure 1.1, of points A, B, C, and D, which are attainable?

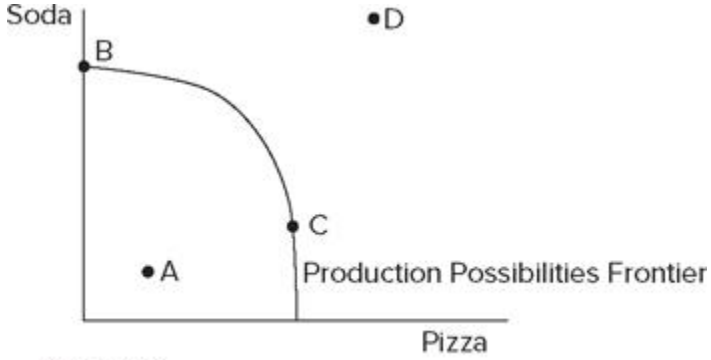


Figure 1.1

A) Only A is attainable.
B) Only B and C are attainable.
C) Only D is attainable.
D) A, B, and C are attainable.

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20) In Figure 1.1, of points A, B, C, and D, which are unattainable?

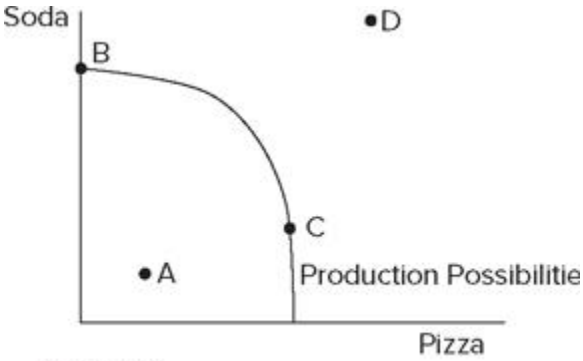


Figure 1.1

A) Only A is unattainable.
B) Only B and C are unattainable.
C) Only D is unattainable.
D) A, B, and C are unattainable.

21) In Figure 1.1, of points A, B, C, and D, which represent the existence of unemployment?

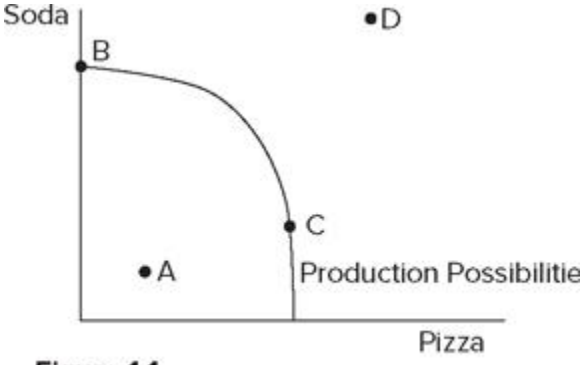


Figure 1.1

A) Unemployment is present in A only.
B) Unemployment is present in B and C only.
C) Unemployment is present in D only.
D) Unemployment is present in A, B, and C.

22) In Figure 1.1, of points A, B, C, and D, there are sufficient resources and technology to produce

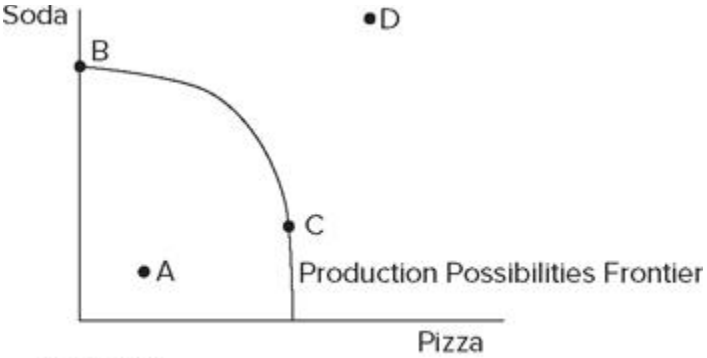


Figure 1.1

A) only A.
B) only B and C.
C) only D.
D) A, B, and C.

23) In Figure 1.1, of points A, B, C, and D, there are insufficient resources and technology to produce

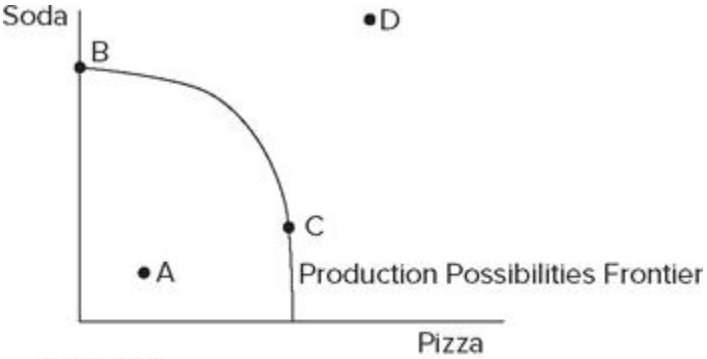


Figure 1.1

A) only A.
B) only B and C.
C) only D.
D) A, B, and C.

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24) In Figure 1.2, of points A, B, C, and D, which are attainable?

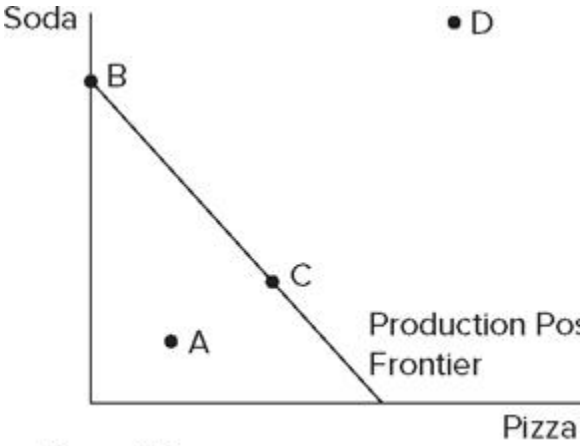


Figure 1.2

A) Only A is attainable.
B) Only B and C are attainable.
C) Only D is attainable.
D) A, B, and C are attainable.

25) In Figure 1.2, of points A, B, C, and D, which are unattainable?

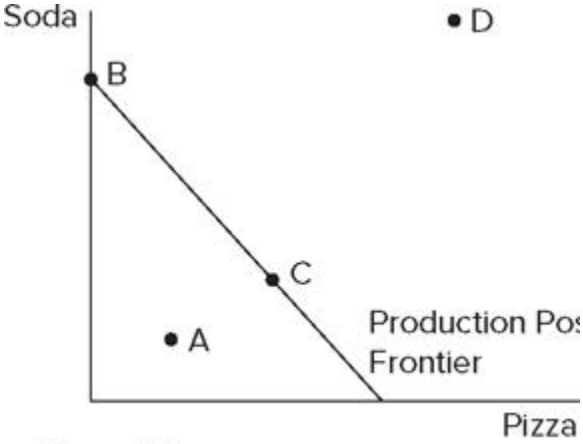


Figure 1.2

A) Only A is unattainable.
B) Only B and C are unattainable.
C) Only D is unattainable.
D) A, B, and C are unattainable.

26) In Figure 1.2, of points A, B, C, and D, which represent the existence of unemployment?

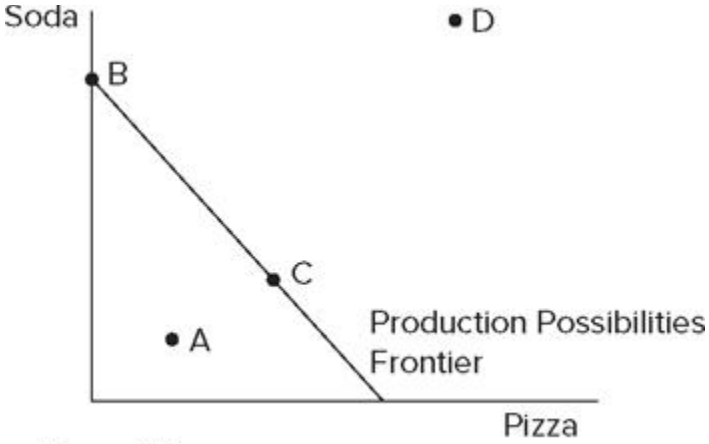


Figure 1.2

A) Unemployment is present in A only.
B) Unemployment is present in B and C only.
C) Unemployment is present in D only.
D) Unemployment is present in A, B, and C.

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27) In Figure 1.2, of points A, B, C, and D, there are sufficient resources and technology to produce

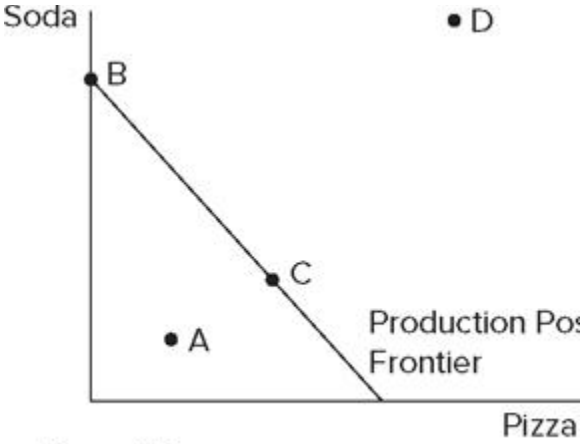


Figure 1.2

A) only A.
B) only C.
C) only D.
D) A, B, and C.

28) In Figure 1.2, of points A, B, C, and D, there are insufficient resources and technology to produce

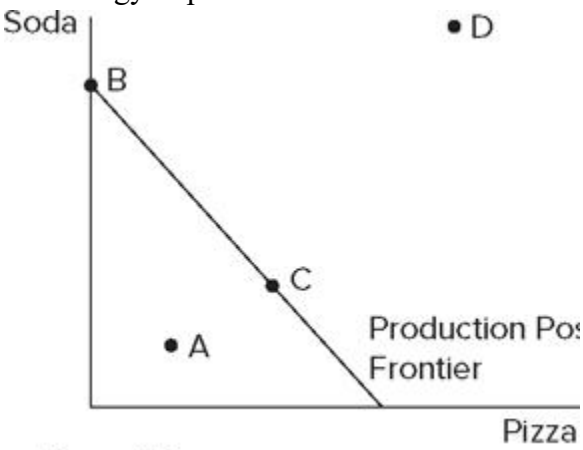


Figure 1.2

A) only A.
B) only C.
C) only D.
D) A, B, and C.

29) Of the three production possibilities frontiers shown in Figure 1.3, opportunity cost exists in

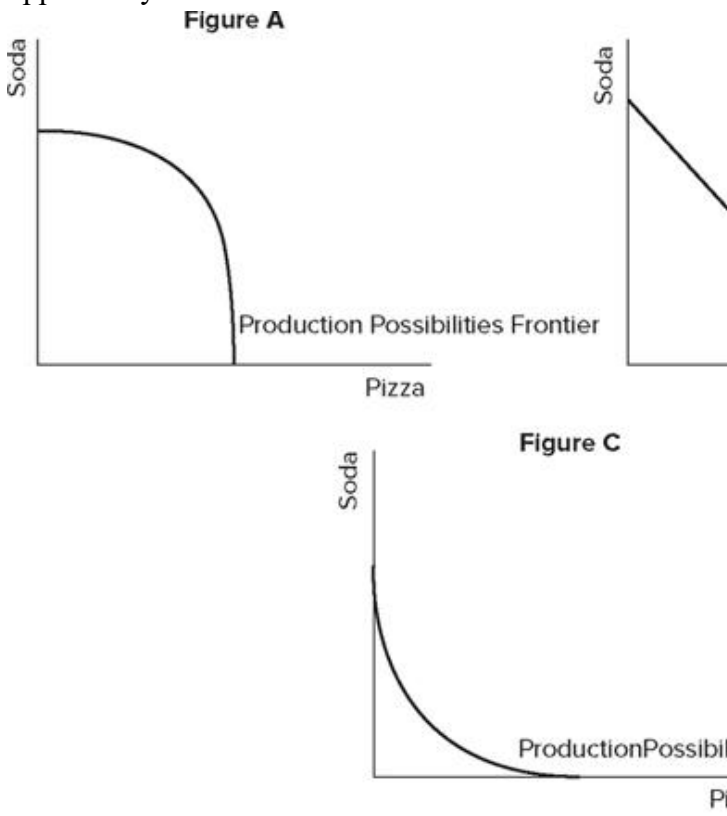


Figure 1.3 A, B and C

A) Figure A.
B) Figure B.
C) Figure C.
D) All of the answer choices are correct.

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30) Of the three production possibilities frontiers shown in Figure 1.3, scarcity exists in

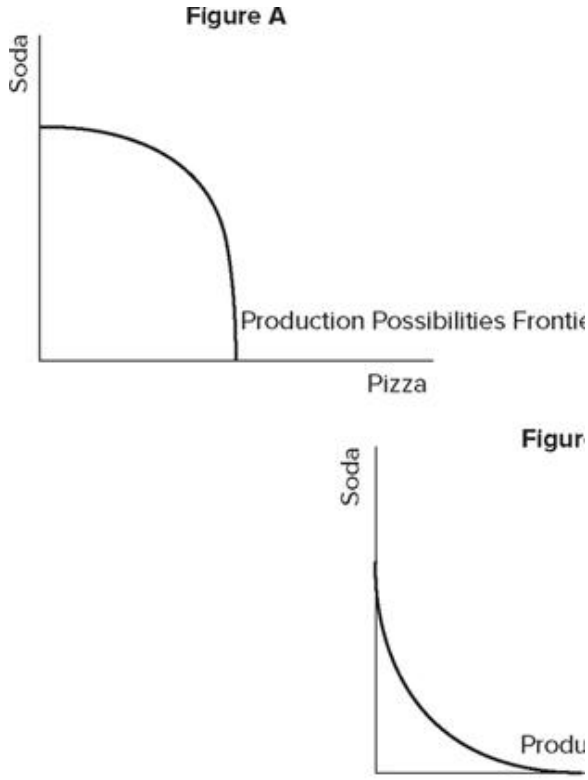


Figure 1.3 A, B and C

A) Figure A.
B) Figure B.
C) Figure C.
D) All of the answer choices are correct.

31) Of the three production possibilities frontiers shown in Figure 1.3, constant opportunity cost is depicted in

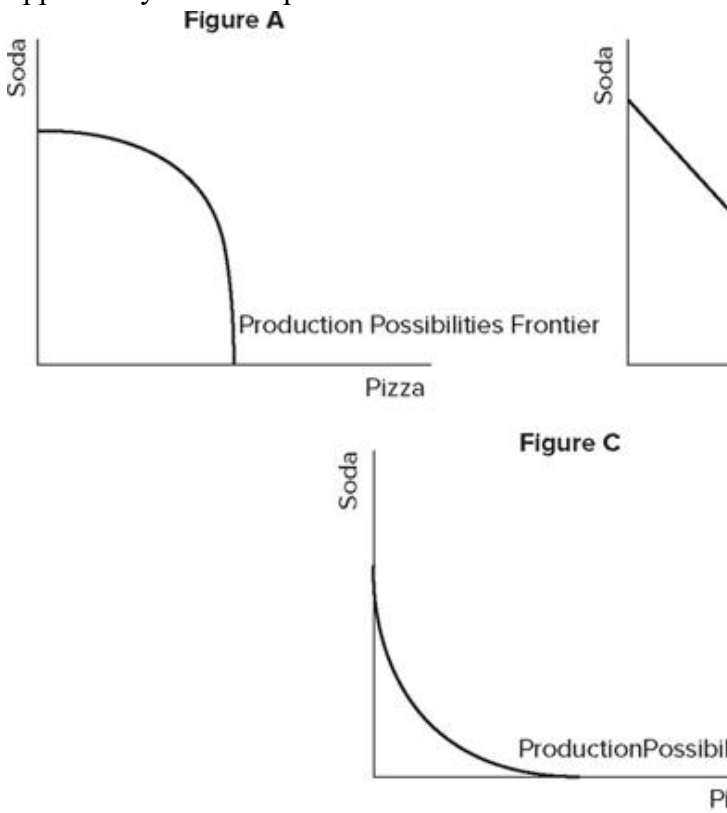


Figure 1.3 A, B and C

A) Figure A.
B) Figure B.
C) Figure C.
D) All of the answer choices are correct.

32) If the production possibilities frontier is not bowed out, but is a straight line, there exists

A) scarcity.
B) constant opportunity costs.
C) unemployment.
D) increasing opportunity costs.

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33) The fact that the production possibilities frontier is bowed out indicates there exists

A) scarcity.
B) constant opportunity costs.
C) unemployment.
D) increasing opportunity costs.

34) Referring to Figure 1.8, if a point is attainable, it is in

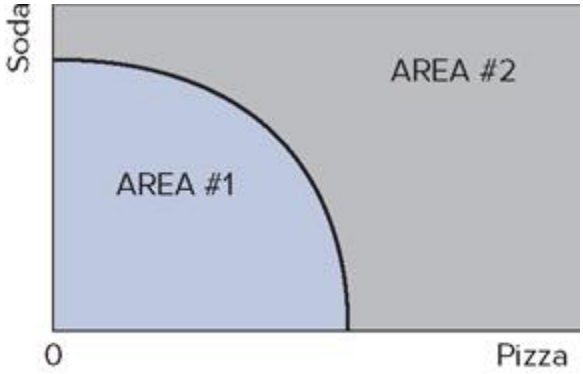


Figure 1.8

A) AREA #1 but not on the curve.
B) AREA #1 or is on the curve.
C) AREA #2 but not on the curve.
D) AREA #2 or is on the curve.

35) Referring to Figure 1.8, if a point is unattainable, it is in

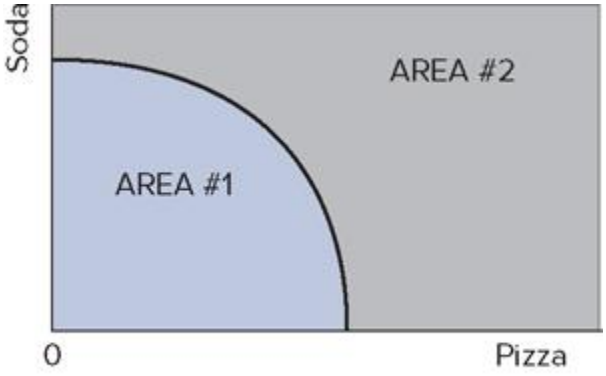


Figure 1.8

A) AREA #1 but not on the curve.
B) AREA #1 or is on the curve.
C) AREA #2 but not on the curve.
D) AREA #2 or is on the curve.

36) Referring to Figure 1.8, if a point represents unemployment, it is in

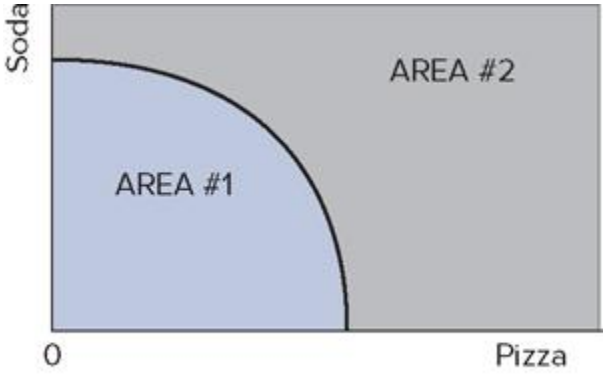


Figure 1.8

A) AREA #1 but not on the curve.
B) AREA #1 or is on the curve.
C) AREA #2 but not on the curve.
D) AREA #2 or is on the curve.

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37) Referring to Figure 1.9, if a point is attainable, it is in

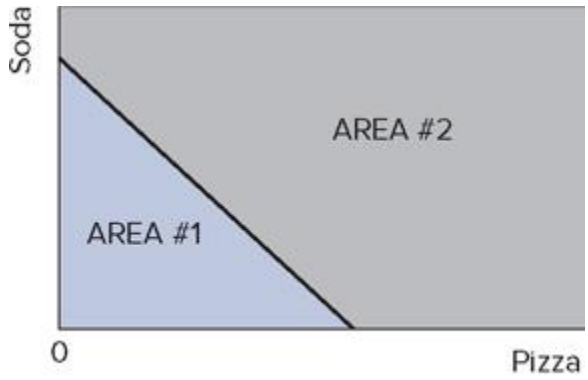


Figure 1.9

A) AREA #1 but not on the curve.
B) AREA #1 or is on the curve.
C) AREA #2 but not on the curve.
D) AREA #2 or is on the curve.

38) Referring to Figure 1.9, if a point is unattainable, it is in

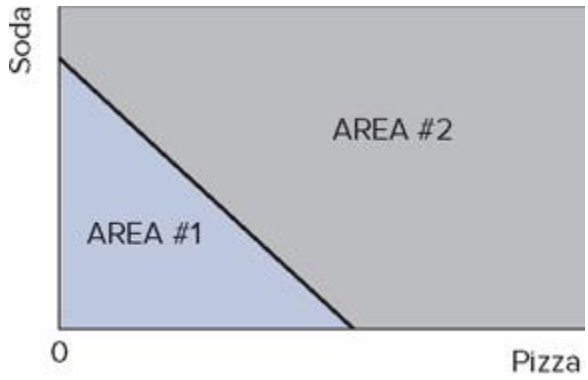


Figure 1.9

A) AREA #1 but not on the curve.
B) AREA #1 or is on the curve.
C) AREA #2 but not on the curve.
D) AREA #2 or is on the curve.

39) Referring to Figure 1.9, if a point represents unemployment, it is in



Figure 1.9

A) AREA #1 but not on the curve.
B) AREA #1 or is on the curve.
C) AREA #2 but not on the curve.
D) AREA #2 or is on the curve.

40) When studying opportunity cost, economists insist that society

A) can produce all it wants of everything it wants if people just work harder.
B) faces trade-offs because of the existence of limited resources.
C) can avoid trade-offs if it simply makes the right decisions.
D) do not face trade-offs because it has limited resources.

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41) Of the three production possibilities frontiers shown in Figure 1.3, increasing opportunity cost is depicted in

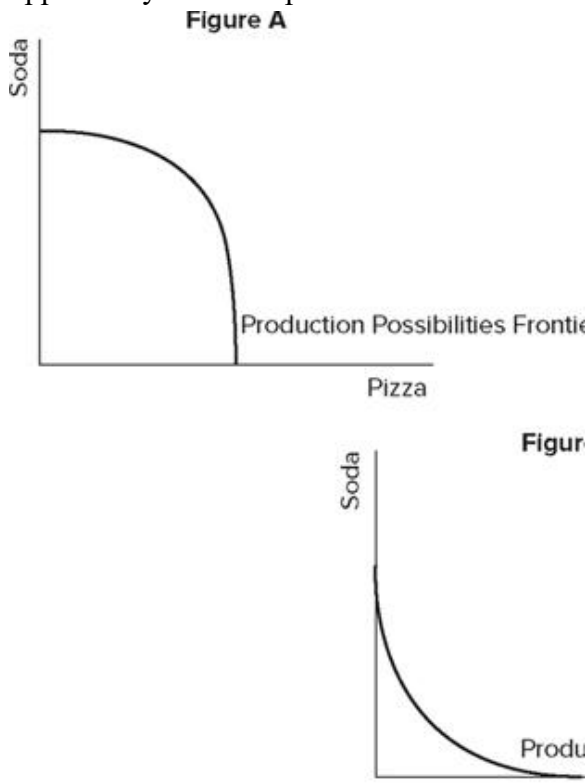


Figure 1.3 A, B and C

A) Figure A.
B) Figure B.
C) Figure C.
D) All of the answer choices are correct.

42) Using Figure 1.4, it is the case that

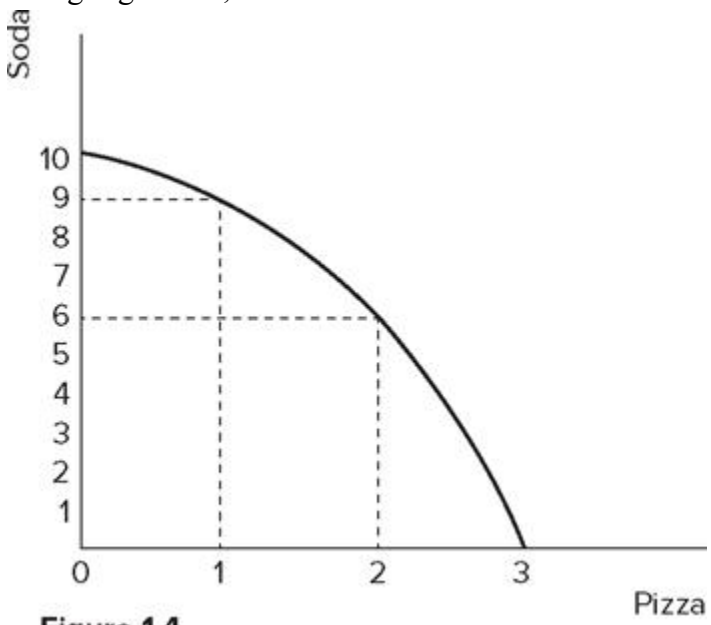


Figure 1.4

A) there are increasing opportunity costs.
B) there is unemployment.
C) there are constant opportunity costs.
D) with the current technology, it is not possible to produce 9 units of soda and 1 unit of pizza.

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43) Using Figure 1.4, it is the case that

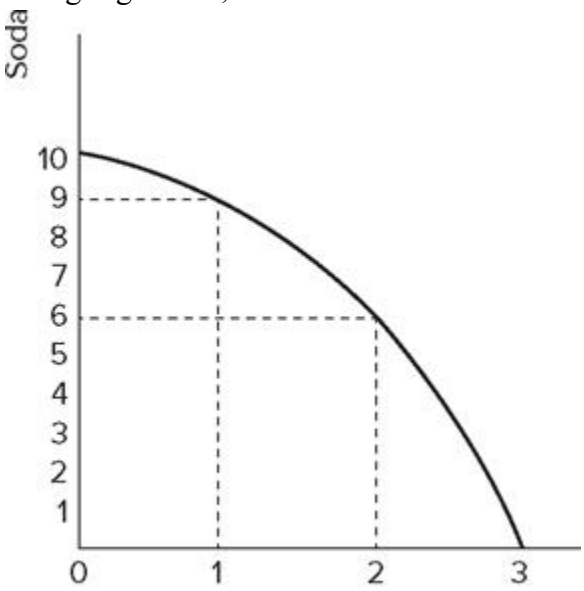


Figure 1.4

A) with the current technology, it is not possible to produce 6 units of soda and 2 units of pizza.
B) there is unemployment.
C) there is constant opportunity cost.
D) with the current technology, it is not possible to produce 9 units of soda and 3 units of pizza.

44) Using Figure 1.4, we know the production of 6 units of soda and 2 units of pizza is

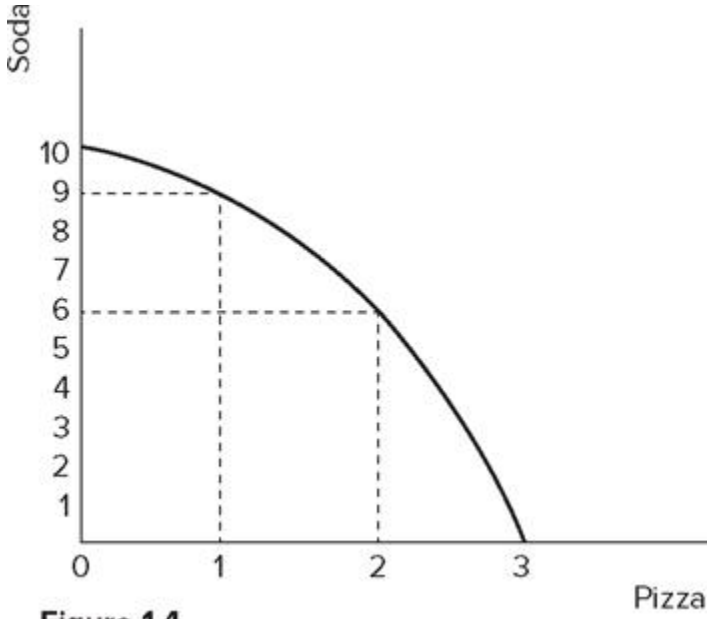


Figure 1.4

A) possible, but there would be unemployment.
B) possible, but only if all resources were fully employed.
C) impossible because we have the resources but do not have the technology.
D) impossible because we have the technology but do not have the resources.

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45) Using Figure 1.4, we know the production of 9 units of soda and 1 unit of pizza is

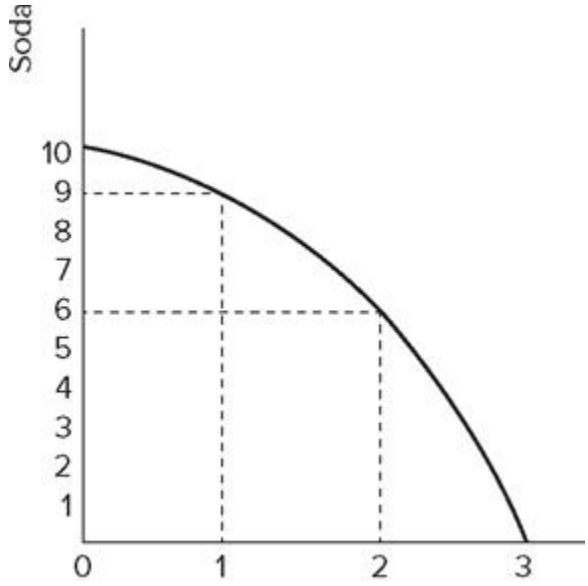


Figure 1.4

A) possible, but there would be unemployment.
B) possible, but only if all resources were fully employed.
C) impossible because we have the resources but do not have the technology.
D) impossible because we have the technology but do not have the resources.

46) Using Figure 1.4, we know the production of 9 units of soda and 3 units of pizza is

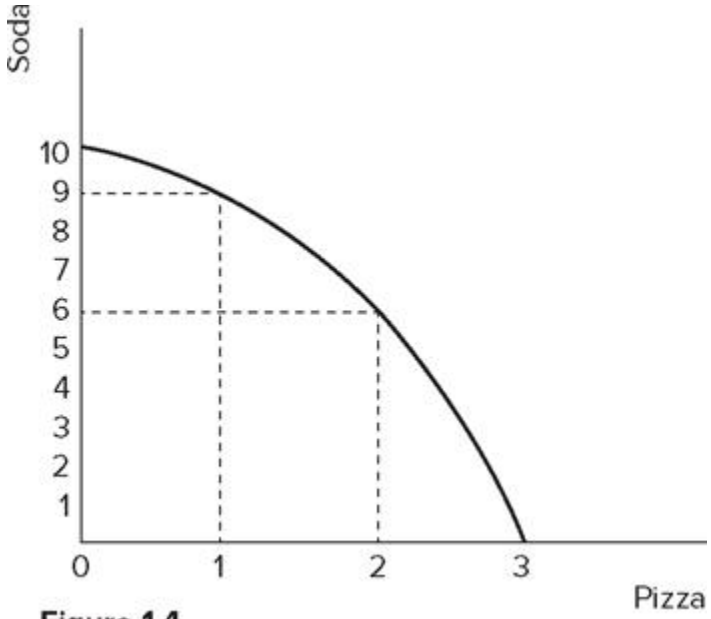


Figure 1.4

A) possible, but there would be unemployment.
B) possible, but only if all resources were fully employed.
C) impossible because we either do not have the resources or the technology.
D) undesirable.

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47) Using Figure 1.4, we know the production of 4 units of soda and 2 units of pizza is

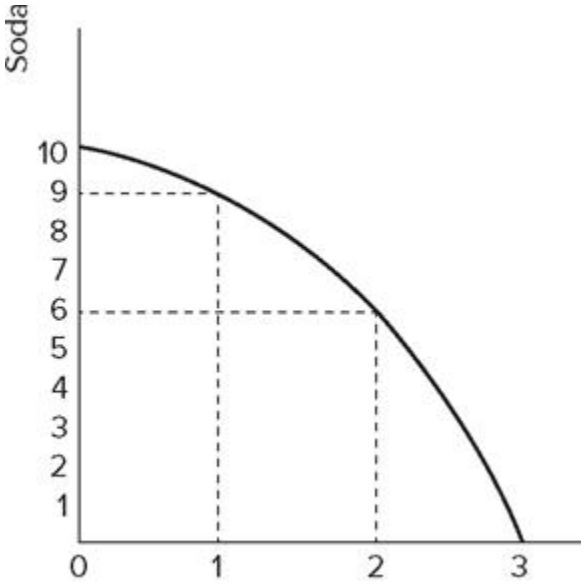


Figure 1.4

A) possible, but there would be unemployed resources.
B) possible, but only if all resources were fully employed.
C) impossible because we have the resources but do not have the technology.
D) impossible because we have the technology but do not have the resources.

48) Referring to Figure 1.4, the opportunity cost of producing the first unit of pizza is

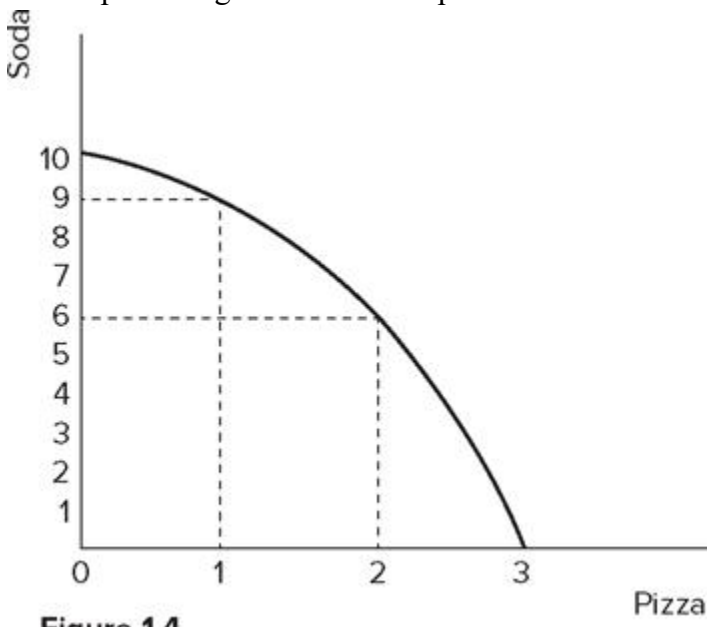


Figure 1.4

A) one unit of soda.
B) three units of soda.
C) six units of soda.
D) the same as the opportunity cost of producing the second unit of pizza.

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49) Referring to Figure 1.4, the opportunity cost of producing the second unit of pizza is

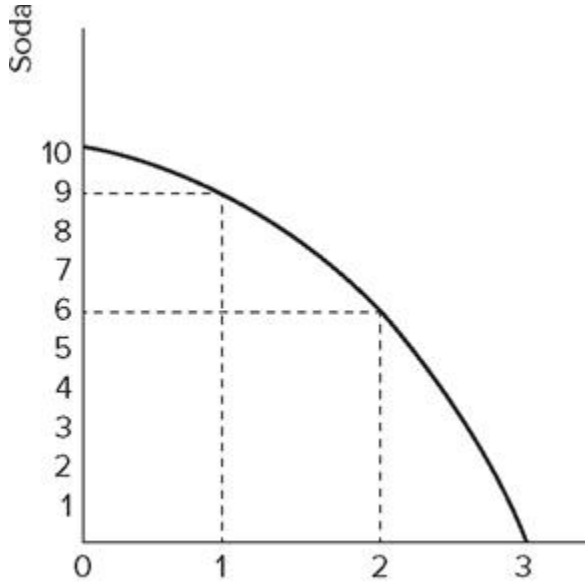


Figure 1.4

A) one unit of soda.
B) three units of soda.
C) six units of soda.
D) the same as the opportunity cost of producing the first unit of pizza.

50) Referring to Figure 1.4, the opportunity cost of producing the third unit of pizza is

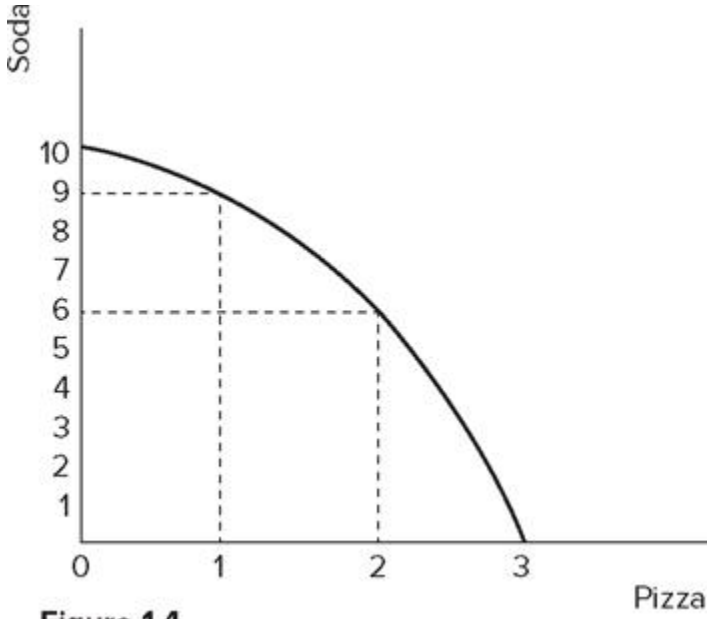


Figure 1.4

A) one unit of soda.
B) three units of soda.
C) six units of soda.
D) the same as the opportunity cost of producing the first unit of pizza.

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51) Using Figure 1.5, it is the case that

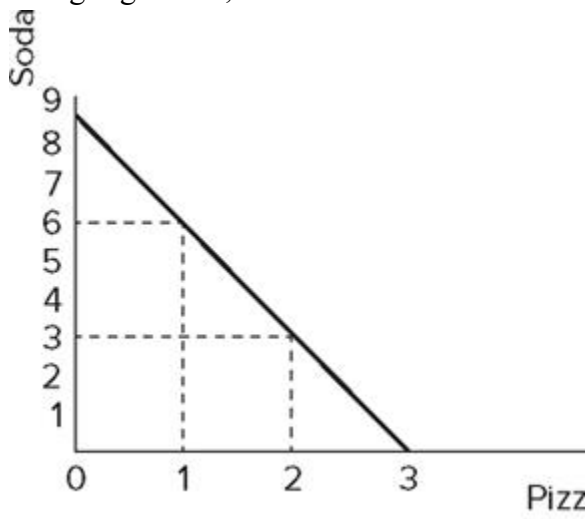


Figure 1.5

A) there are increasing opportunity costs.
B) there is unemployment.
C) there are constant opportunity costs.
D) the technology does not exist to produce 6 units of soda and 1 unit of pizza.

52) Using Figure 1.5, it is the case that

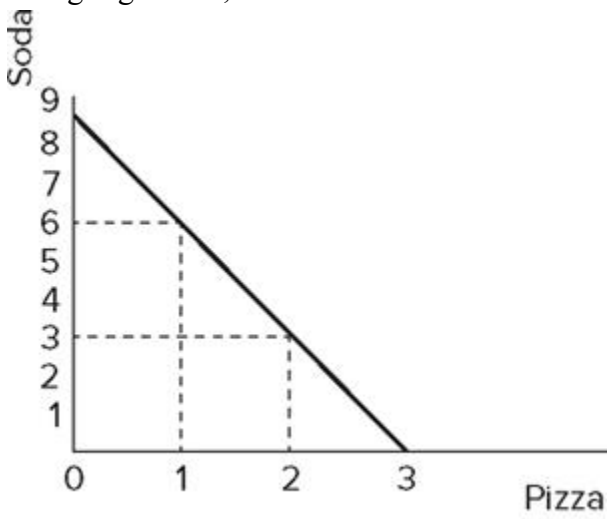


Figure 1.5

A) the technology does not exist to produce 4 units of soda and 1 unit of pizza.
B) there is unemployment.
C) there are increasing opportunity costs.
D) the technology does not exist to produce 3 units of soda and 3 units of pizza.

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53) Using Figure 1.5, we know the production of 3 units of soda and 2 units of pizza is

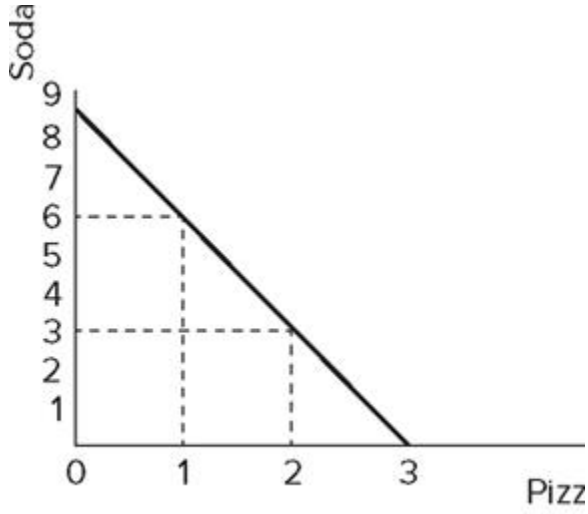


Figure 1.5

A) possible, but there would be unemployed.
B) possible, but only if all resources were fully employed.
C) impossible because we have the resources but do not have the technology.
D) impossible because we have the technology but do not have the resources.

54) Using Figure 1.5, we know the production of 6 units of soda and 1 unit of pizza is

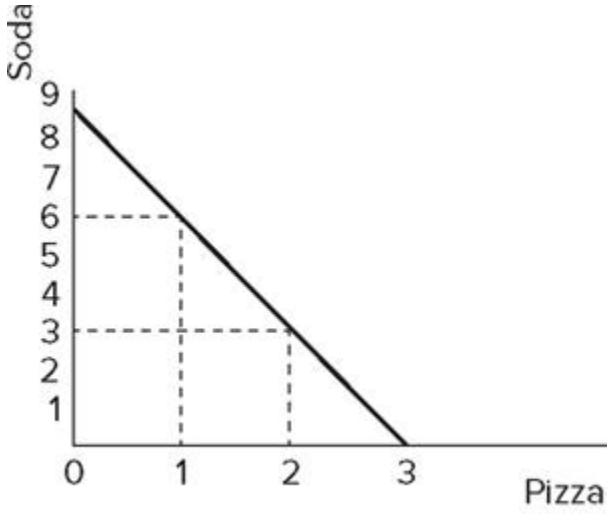


Figure 1.5

A) possible, but there would be unemployed resources.
B) possible, but only if all resources were fully employed.
C) impossible because we have the resources but do not have the technology.
D) impossible because we have the technology but do not have the resources.

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55) Using Figure 1.5, we know the production of 6 units of soda and 2 units of pizza is

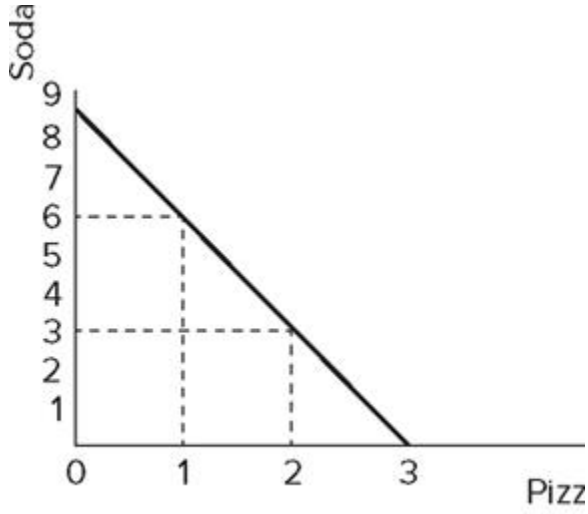


Figure 1.5

A) possible, but there would be unemployed resources.
B) possible, but only if all resources were fully employed.
C) impossible because we either do not have the resources or the technology.
D) undesirable.

56) Using Figure 1.5, we know the production of 2 units of soda and 2 units of pizza is

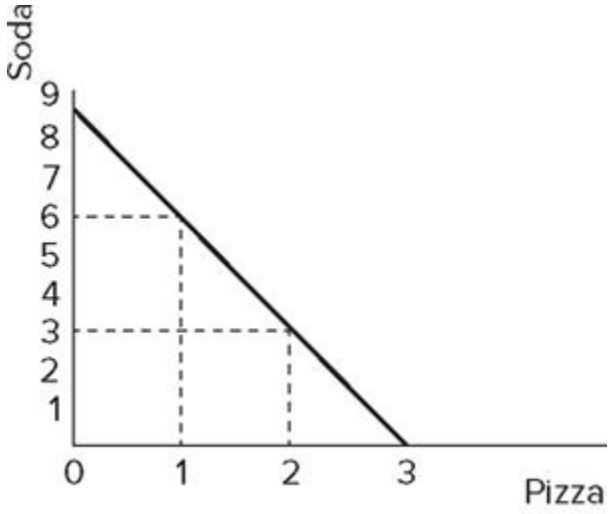


Figure 1.5

A) possible, but there would be unemployed resources.
B) possible, but only if all resources were fully employed.
C) impossible because we have the resources but do not have the technology.
D) impossible because we have the technology but do not have the resources.

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57) Referring to Figure 1.5, the opportunity cost of producing the first unit of pizza is

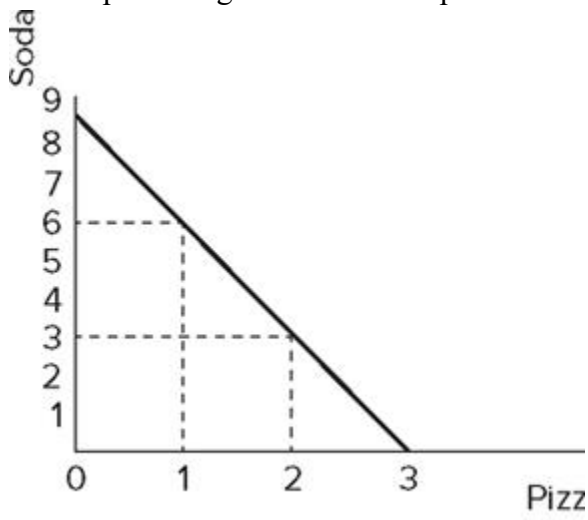


Figure 1.5

A) one unit of soda.
B) three units of soda.
C) six units of soda.
D) zero units of soda.

58) Referring to Figure 1.5, the opportunity cost of producing the second unit of pizza is

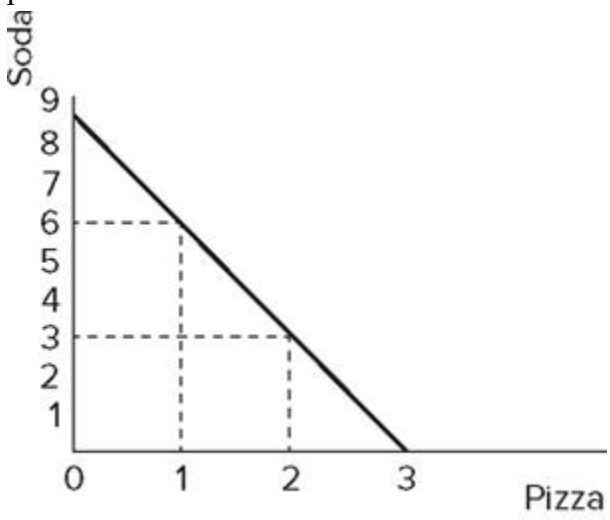


Figure 1.5

A) one unit of soda.
B) three units of soda.
C) six units of soda.
D) zero units of soda.

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59) Referring to Figure 1.5, the opportunity cost of producing the third unit of pizza is

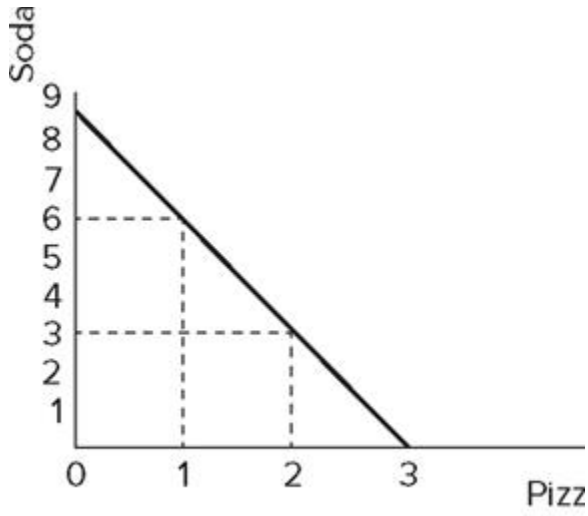


Figure 1.5

A) one unit of soda.
B) three units of soda.
C) six units of soda.
D) zero units of soda.

60) Using Figure 1.6, it is the case that

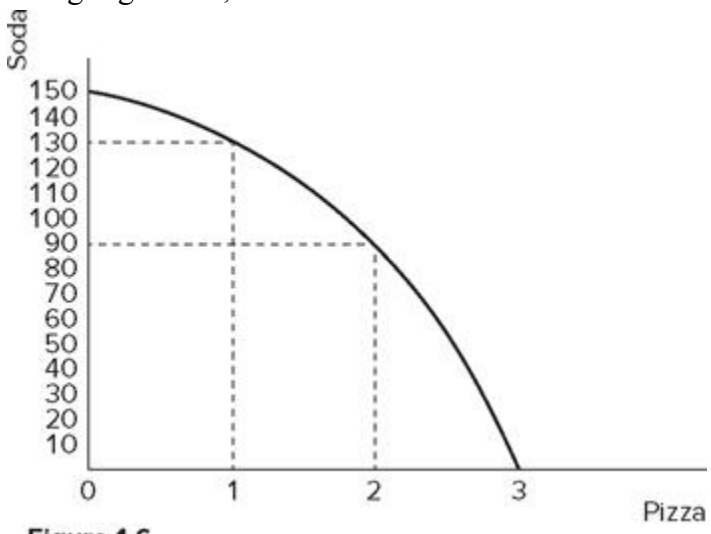


Figure 1.6

A) there are increasing opportunity costs.
B) there is unemployment.
C) there are constant opportunity costs.
D) the technology does not exist to produce 90 units of soda and 2 units of pizza.

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61) Using Figure 1.6, it is the case that

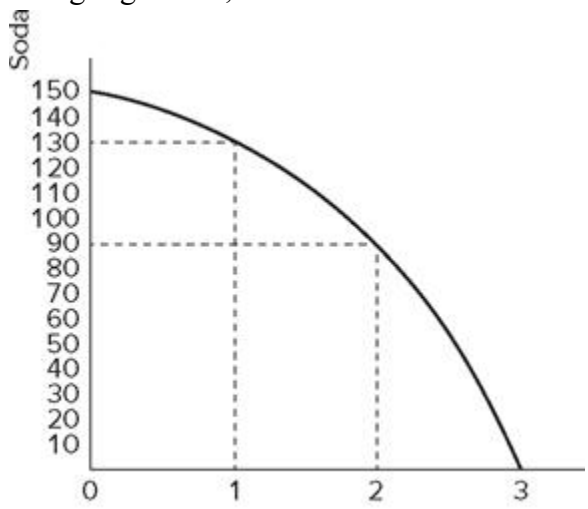


Figure 1.6

A) the technology does not exist to produce 130 units of soda and 1 unit of pizza.
B) there is unemployment.
C) there are constant opportunity costs.
D) the technology does not exist to produce 90 units of soda and 3 units of pizza.

62) Using Figure 1.6, we know the production of 90 units of soda and 2 units of pizza is

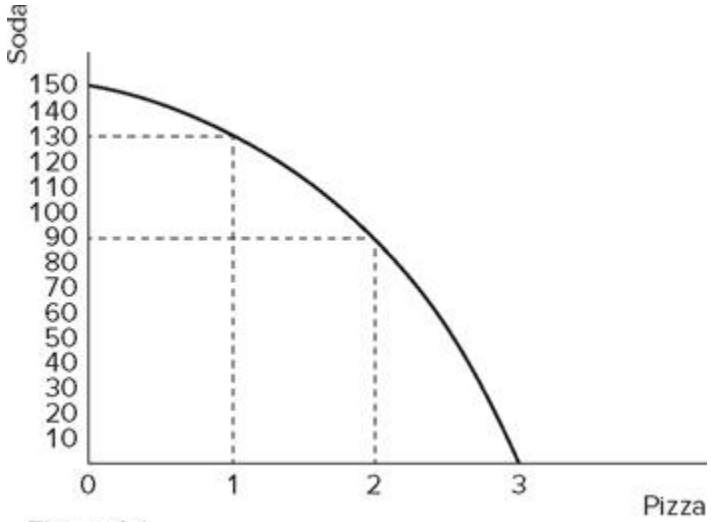


Figure 1.6

A) possible, but only if all resources were fully employed.
B) possible, but there would be unemployed resources.
C) impossible because we have the technology but do not have the resources.
D) impossible because we have the resources but do not have the technology.

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63) Using Figure 1.6, we know the production of 130 units of soda and 1 unit of pizza is

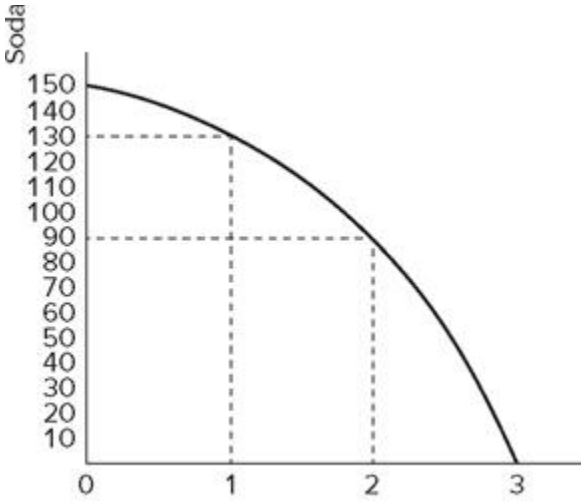


Figure 1.6

A) possible, but there would be unemployed resources.
B) possible, but only if all resources were fully employed.
C) impossible because we have the resources but do not have the technology.
D) impossible because we have the technology but do not have the resources.

64) Using Figure 1.6, we know the production of 90 units of soda and 4 units of pizza is

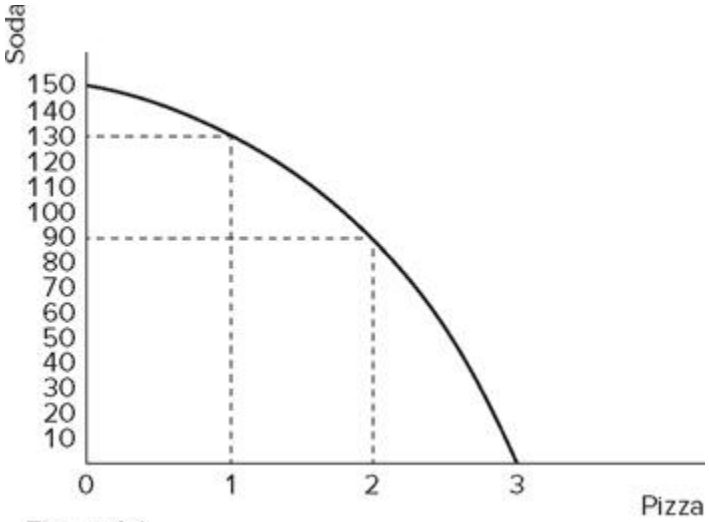


Figure 1.6

A) possible, but there would be unemployed resources.
B) possible, but only if all resources were fully employed.
C) impossible because we either do not have the resources or the technology.
D) undesirable.

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65) Using Figure 1.6, we know the production of 90 units of soda and 1 unit of pizza is

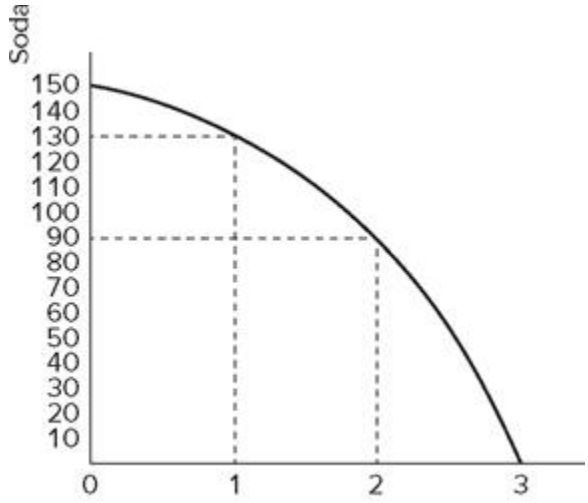


Figure 1.6

A) possible, but there would be unemployed resources.
B) possible, but only if all resources were fully employed.
C) impossible because we have the resources but do not have the technology.
D) impossible because we have the technology but do not have the resources.

66) Using Figure 1.7, it is the case that

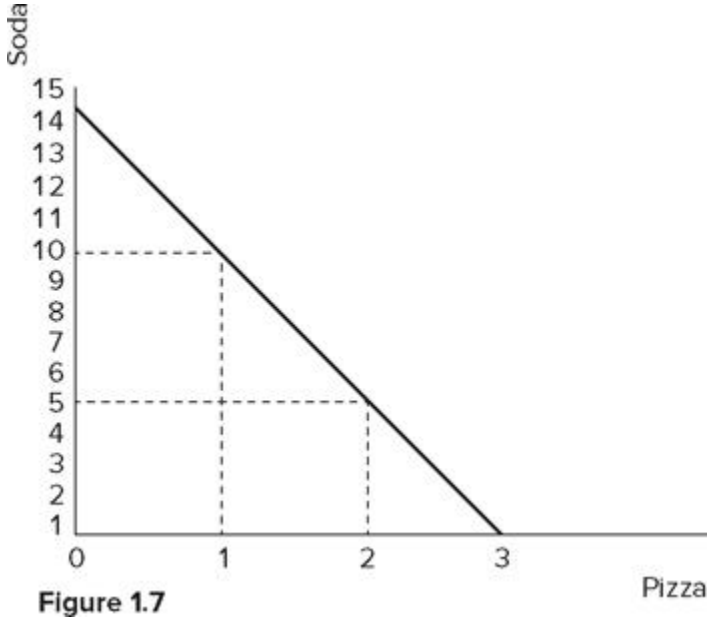


Figure 1.7

A) there are increasing opportunity costs.
B) there is unemployment.
C) there are constant opportunity costs.
D) with the current technology it is not possible to produce 10 units of soda and 1 unit of pizza.

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67) Using Figure 1.7, it is the case that

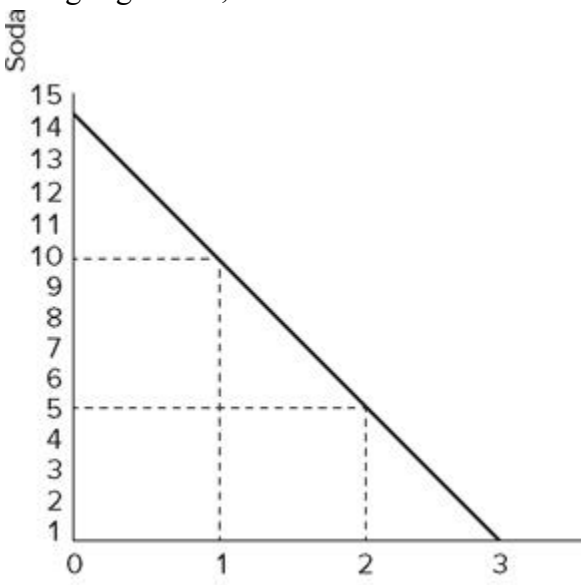


Figure 1.7

A) with the current technology it is not possible to produce 5 units of soda and 3 units of pizza.
B) there is unemployment.
C) there are increasing opportunity costs.
D) with the current technology it is not possible to produce 10 units of soda and 1 units of pizza.

68) Using Figure 1.7, we know the production of 5 units of soda and 2 units of pizza is

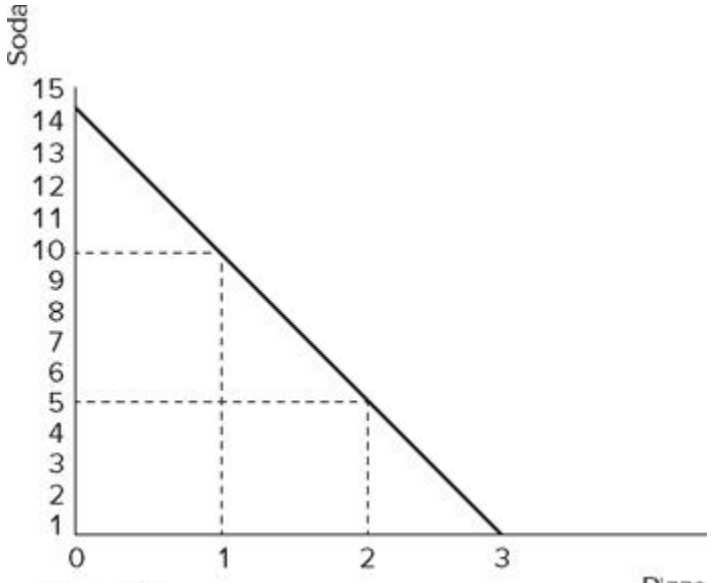


Figure 1.7

A) possible, but there would be unemployed resources.
B) possible, but only if all resources were fully employed.
C) impossible because we have the resources but do not have the technology.
D) impossible because we have the technology but do not have the resources.

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69) Using Figure 1.7, we know the production of 10 units of soda and 1 unit of pizza is

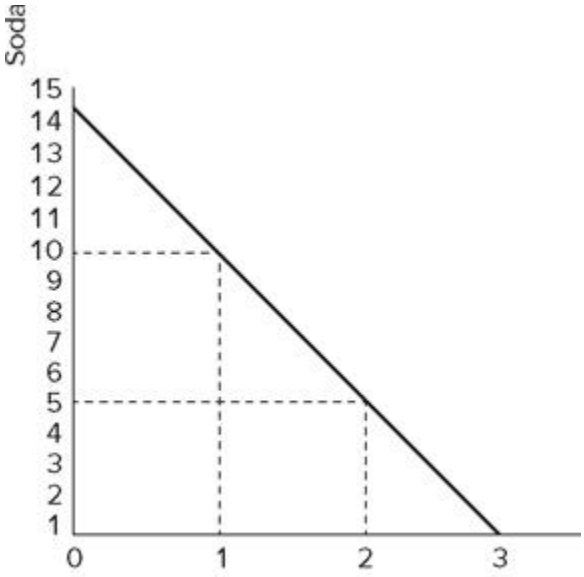


Figure 1.7

A) possible, but there would be unemployed resources.
B) possible, but only if all resources were fully employed.
C) impossible because we have the resources but do not have the technology.
D) impossible because we have the technology but do not have the resources.

70) Using Figure 1.7, we know the production of 10 units of soda and 2 units of pizza is

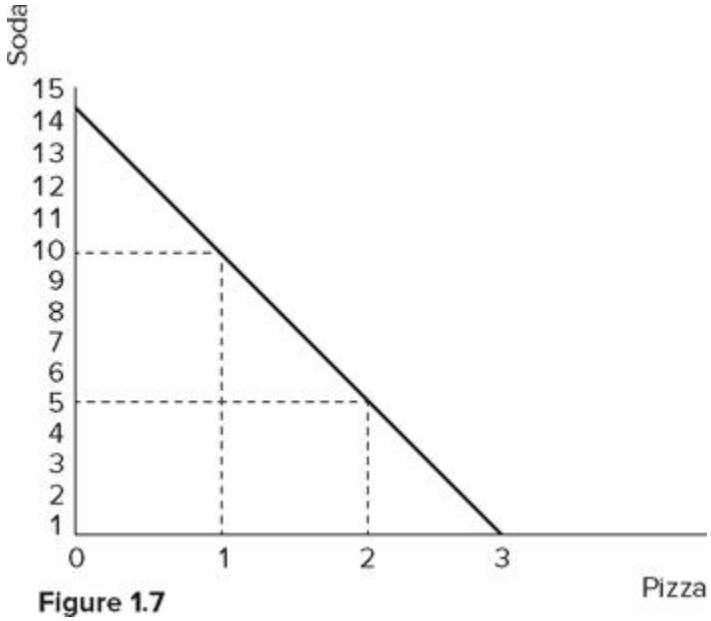


Figure 1.7

A) possible, but there would be unemployed resources.
B) possible, but only if all resources were fully employed.
C) impossible because we either do not have the resources or the technology.
D) undesirable.

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71) Using Figure 1.7, we know the production of 4 units of soda and 2 units of pizza is

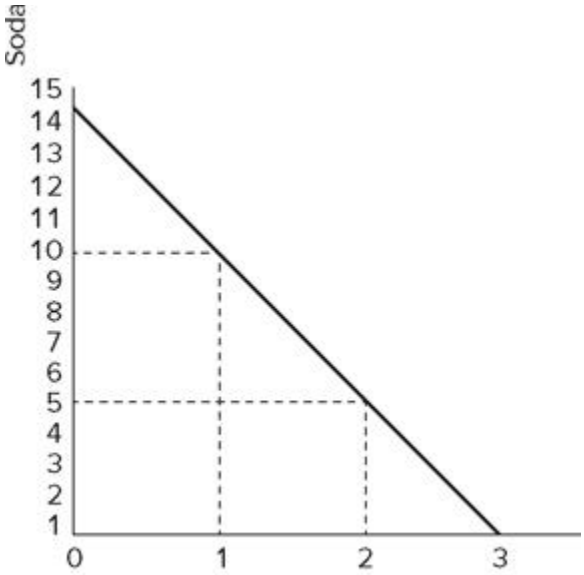


Figure 1.7

A) possible, but there would be unemployed resources.
B) possible, but only if all resources were fully employed.
C) impossible because we have the resources but do not have the technology.
D) impossible because we have the technology but do not have the resources.

72) Generalized growth is typically the result of an increase in the ability of resources to

A) produce all goods.
B) produce certain goods.
C) produce exported goods.
D) compete with imported goods.

73) Specialized growth is typically the result of an increase in the ability of resources to

A) produce all goods.
B) produce certain goods.
C) produce exported goods.
D) compete with imported goods.

74) The development of a new energy source that could be used to produce or transport any good would likely be a source of

A) generalized growth.
B) specialized growth.
C) concentrated growth.
D) import competing growth.

75) Large increases in the availability of labor would likely be a source of

A) generalized growth.
B) specialized growth.
C) concentrated growth.
D) import competing growth.

76) Large increases in educational attainment would likely be a source of

A) generalized growth.
B) specialized growth.
C) concentrated growth.
D) import competing growth.

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77) Referring to the four production possibilities frontiers in Figure 1.10, which depicts both specialized growth in soda and increasing opportunity cost?

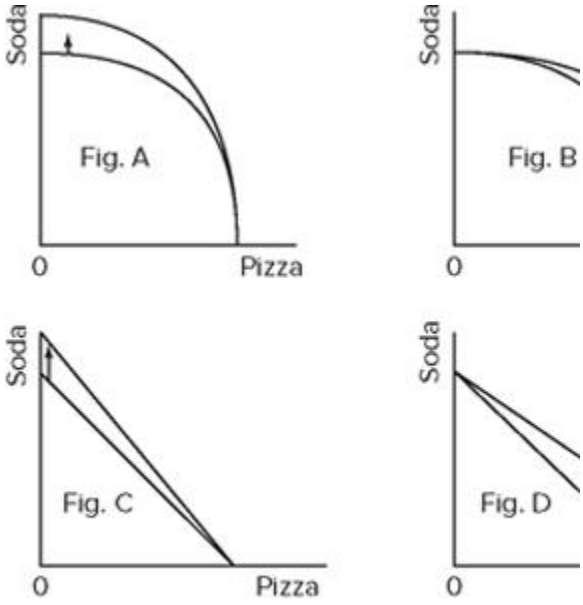


Figure 1.10

A) Figure A
B) Figure B
C) Figure C
D) Figure D

78) Referring to the four production possibilities frontiers in Figure 1.10, which depicts both specialized growth in soda and constant opportunity cost?

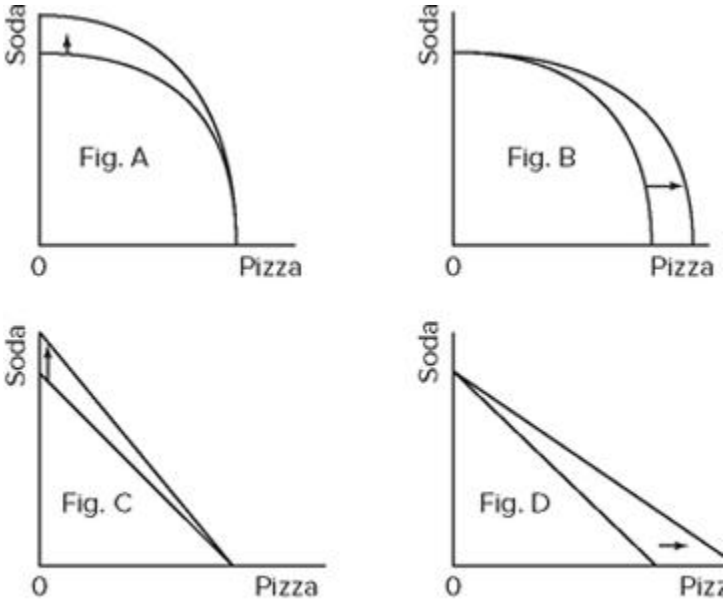


Figure 1.10

A) Figure A
B) Figure B
C) Figure C
D) Figure D

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79) Referring to the four production possibilities frontiers in Figure 1.10, which depicts both specialized growth in pizza and increasing opportunity cost?

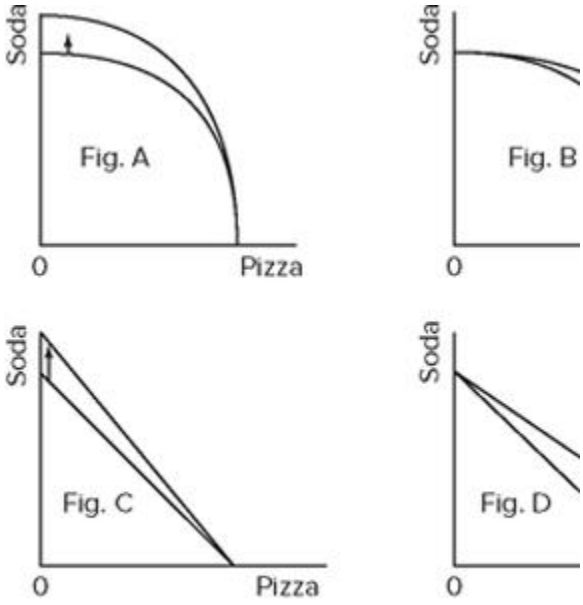


Figure 1.10

A) Figure A
B) Figure B
C) Figure C
D) Figure D

80) Referring to the four production possibilities frontiers in Figure 1.10, which depicts both specialized growth in pizza and increasing opportunity cost?

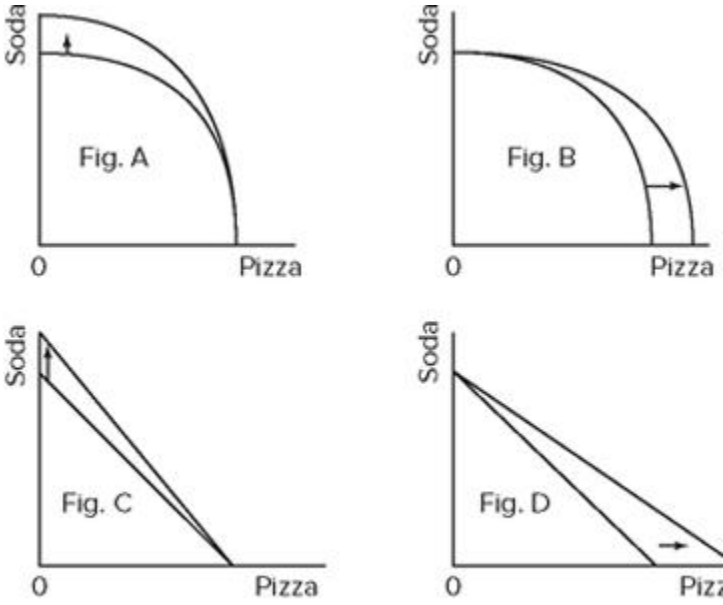
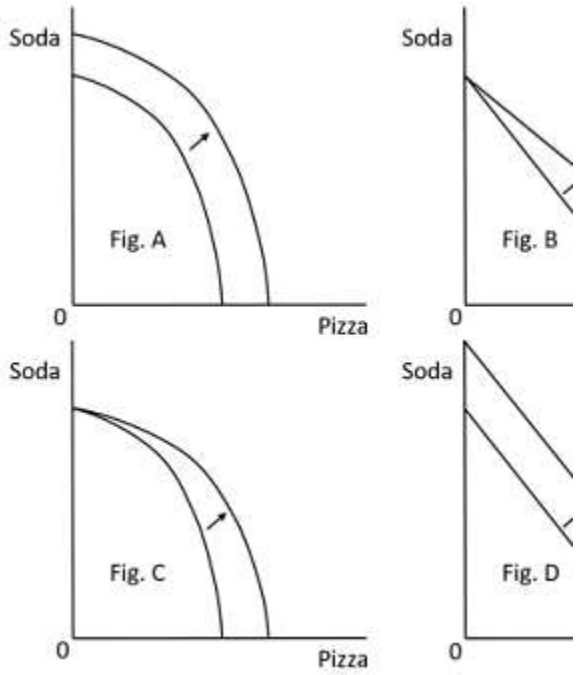


Figure 1.10

A) Figure A
B) Figure B
C) Figure C
D) Figure D

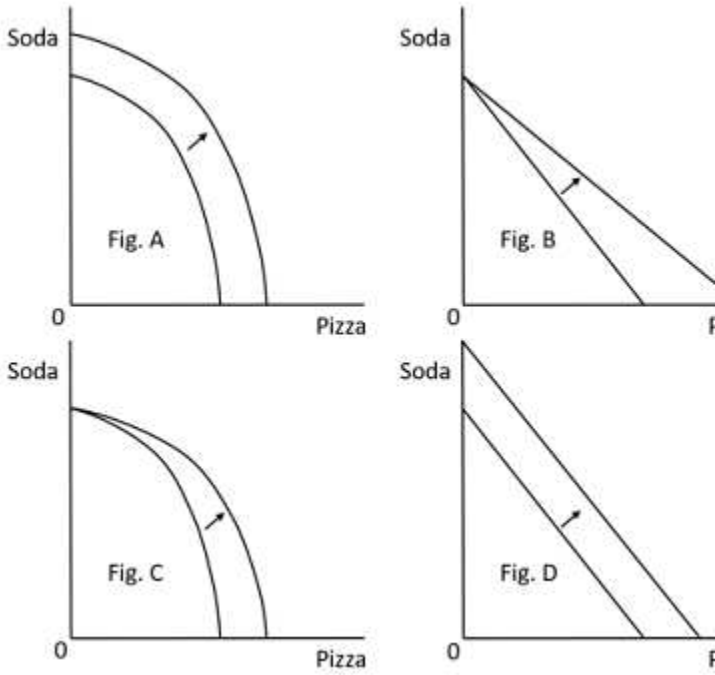
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81) Referring to the four production possibilities frontiers in Figure 1.11, which depicts generalized growth when there is increasing opportunity cost?



A) Figure A
B) Figure B
C) Figure C
D) Figure D

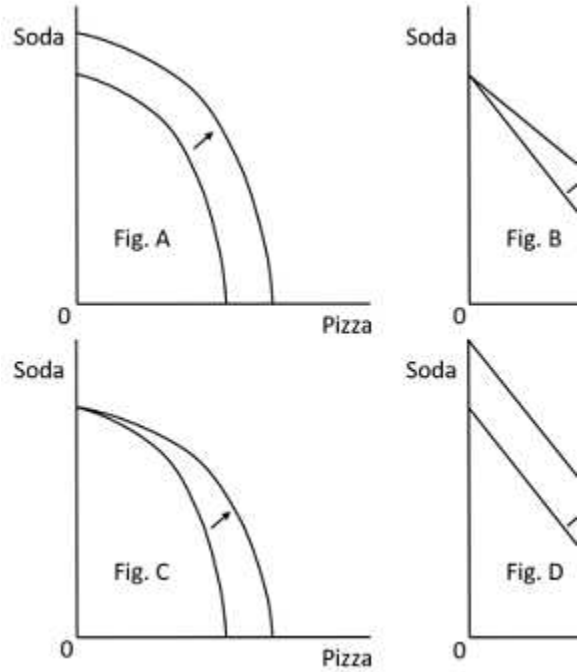
82) Referring to the four production possibilities frontiers in Figure 1.11, which depicts generalized growth when there is constant opportunity cost?



A) Figure A
B) Figure B
C) Figure C
D) Figure D

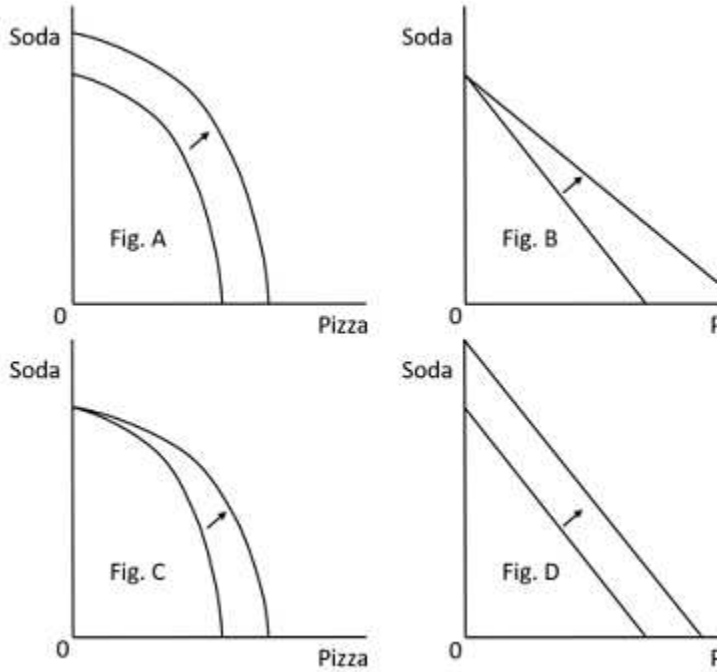
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83) Referring to the four production possibilities frontiers in Figure 1.11, which pair depict generalized growth?



A) Figure A and Figure B
B) Figure B and Figure D
C) Figure A and Figure D
D) Figure C and Figure D

84) Referring to the four production possibilities frontiers in Figure 1.11, which pair depict specialized growth?



A) Figure A and Figure B
B) Figure B and Figure D
C) Figure B and Figure C
D) Figure C and Figure D

85) Imagine an economist ordering pizza by the slice. When deciding how many slices to order, they would pick that number where the enjoyment of the _____ equals the enjoyment they could get from using the money on another good.

A) first slice of pizza
B) last slice of pizza
C) average slice of pizza
D) total number of slices of pizza

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86) When analyzing a problem, an economist will compare the _____ and choose the outcome where they are equal.
A) average benefits to the average costs
B) marginal benefits to the marginal costs
C) total benefits to the total costs
D) fixed benefits to the fixed costs

87) When analyzing a problem, an economist will attempt to
A) maximize the net benefit of an action, and this occurs where the marginal benefit equals the marginal cost.
B) maximize the total benefit of an action.
C) minimize the total cost of an action.
D) maximize the net benefit of an action, and this occurs where the average benefit equals the average cost.

88) Economic incentives can come from
A) markets.
B) government programs.
C) taxes.
D) markets, government programs, or taxes.

89) Evaluate the statement that "since a farmer will make more money if they have a bumper crop means that all farmers would make more money if they all had bumper crops." This is an example of
A) the fallacy that correlation is the same as causation.
B) the fallacy of composition.
C) truth in an obvious form.
D) the fallacy that correlation is the same as causation and the fallacy of composition.

90) Logging companies are always more profitable if they are able to harvest more (rather than less) lumber in a month. If you concluded from that fact that the logging industry is more profitable if all of the firms in the industry harvest more, then you would be
A) right.
B) wrong because causation and correlation are not the same.
C) wrong and have fallen victim to the fallacy of composition.
D) wrong because firms operate on jealousy.

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91) Every worker is better off making more money and having better benefits. If you concluded from that fact that all workers would be better off if a law were passed requiring a 25 percent increase in wages and benefits, then you would be
A) right.
B) wrong because causation and correlation are not the same.
C) wrong and have fallen victim to the fallacy of composition.
D) wrong because workers operate on jealousy.

92) Many forms of seafood (lobster, crab legs, etc.) are consumed by dipping the meat in melted garlic butter. If someone suggested that it would therefore be equally appealing to drink melted butter after having eaten garlic and unseasoned seafood, you would know they had
A) fallen victim to the fallacy that correlation is the same as causation.
B) fallen victim to the fallacy of composition.
C) mistaken increasing opportunity cost for constant opportunity cost.
D) mistaken constant opportunity cost for increasing opportunity cost.

93) Of course, all individual students are better off if they get better grades. If you were to conclude that all students would be better off if everyone received an "A", you would
A) have fallen victim to the fallacy of scarcity.
B) be right.
C) have fallen victim to the fallacy of composition.
D) be mistaking correlation with causation.

94) The fact that snow cones sales fall when snow accumulated from the sky suggests that snow cones sales and snow on the ground are
A) directly correlated.
B) inversely correlated.
C) neither directly correlated nor inversely correlated.
D) both directly correlated and inversely correlated.

95) If you were to conclude, after carefully examining data and using proper evaluation techniques, that a tax credit for attending college benefits college students from families with low incomes more than a tax deduction (of equal total cost to the government) would, you would have engaged in _____ analysis to reach that conclusion.
A) contra-indicative
B) positive
C) normative
D) creative

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96) When analyzing a problem, if an economist is attempting to understand why something happened without considering whether or not the action was fair or just, the economist is thinking
A) positively.
B) negatively.
C) normatively.
D) justifiably.

97) When analyzing a problem, if an economist is attempting to understand what caused something to happen without considering whether or not the action was fair or just, the economist is thinking
A) positively.
B) negatively.
C) normatively.
D) justifiably.

98) When analyzing a problem, if an economist is attempting to understand whether or not an action was fair or just, the economist is thinking
A) positively.
B) negatively.
C) normatively.
D) justifiably.

99) When analyzing a problem, if an economist is attempting to understand what the future implications of an action are without considering whether or not the action was fair or just, the economist is thinking
A) positively.
B) negatively.
C) normatively.
D) justifiably.

100) Some suggest that when economists claim to be thinking _____, they are _____.
A) normatively; deluding themselves
B) positively; deluding themselves
C) normatively; really thinking positively
D) negatively; deluding themselves

101) The fact that when the temperature rises, snow shovel sales fall, suggests the two are
A) directly correlated.
B) inversely correlated.
C) neither directly correlated nor inversely correlated.
D) both directly correlated and inversely correlated.

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102) The fact that when temperature rises, snow cone sales rise, suggests the two are
A) directly correlated.
B) inversely correlated.
C) neither directly correlated nor inversely correlated.
D) both directly correlated and inversely correlated.

103) The fact that as snow accumulates, snow shovel sales rise, suggests the two are
A) directly correlated.
B) inversely correlated.
C) neither directly correlated nor inversely correlated.
D) both directly correlated and inversely correlated.

104) The statement that Congress passed a tax bill and two months later a recession began, so the bill must have been poor policy is an example of
A) the fallacy that correlation is the same as causation.
B) the fallacy of composition.
C) truth in an obvious form.
D) the fallacy that correlation is the same as causation and the fallacy of composition.

105) The statement that Congress passed a tax bill and two months later a recession ended, so the bill must have been good policy is an example of
A) the fallacy that correlation is the same as causation.
B) the fallacy of composition.
C) truth in an obvious form.
D) the fallacy that correlation is the same as causation and the fallacy of composition.

106) If you concluded from the fact that the last three recessions have occurred while a member of the Republican party was President that their fiscal policies create recessions then you would be
A) right.
B) wrong because causation and correlation are not the same.
C) wrong and have fallen victim to the fallacy of composition.
D) wrong because Democrats are much worse.

107) An example of an incentive designed to promote savings would be
A) a tax provision that reduces the effective interest rate garnered by savings.
B) an increase in the sales tax.
C) an increase in the capital gains tax rate.
D) an increase in the exclusion from taxable income of the first $100 of dividends.

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108) Each person is better off with a bigger tax return than with a small tax return. That means that everyone would be better off if all taxes were zero. A person saying that is
A) right.
B) wrong because causation and correlation are not the same.
C) wrong and have fallen victim to the fallacy of composition.
D) wrong because firms operate on jealousy.

109) Suppose you heard a person speaking about two graphs. You couldn't make out quite what they were saying, but you saw that since 1920, the variable on the left graph showed a decreasing value, and the variable on the right graph showed an increasing value. If they asserted that the left graph variable's decrease therefore caused the right variable's increase, you would be
A) convinced of the soundness of their argument.
B) not yet convinced because you understand that causation and correlation are not the same.
C) not yet convinced because you understand the fallacy of composition.
D) correctly convinced that they were wrong.

110) Every worker is better off making more money and having better benefits. If you concluded from that fact that all workers would be better off if a law were passed requiring a 25 percent increase in wages and benefits, then you would be
A) right.
B) wrong because causation and correlation are not the same.
C) wrong and have fallen victim to the fallacy of composition.
D) wrong because workers operate on jealousy.

111) Any mechanism by which buyers and sellers negotiate an exchange is a
A) corporation.
B) market.
C) negotiable instrument.
D) brokerage.

112) A mechanism by which buyers and sellers of labor and financial capital negotiate an exchange is a
A) stock market.
B) bond market.
C) factor market.
D) brokerage.

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113) A mechanism by which buyers and sellers of goods and services negotiate an exchange is a
A) goods and services market.
B) goods and services convention.
C) goods and services union.
D) factor market.

114) A mechanism by which buyers and sellers of the currencies of the various countries negotiate an exchange is a
A) foreign bank.
B) foreign stock market.
C) foreign exchange market.
D) foreign currency reserve.

115) Buyers and sellers in the foreign exchange market negotiate an exchange of
A) foreign stocks.
B) foreign banks.
C) foreign government bonds.
D) currencies of various countries.

116) Buyers and sellers in a factor market might be negotiating an exchange of
A) labor or financial capital.
B) goods for use by final consumers.
C) services provided to final consumers.
D) either goods for use by final consumers or services provided to final consumers.

117) Buyers and sellers in the market for goods and services might be negotiating an exchange of
A) labor or financial capital.
B) goods for use by final consumers.
C) services provided to final consumers.
D) either goods for use by final consumers or services provided to final consumers.

118) If the (steadily decreasing) marginal benefit of another day spent in the hospital exceeds the (steadily increasing) marginal cost of an additional day spent in the hospital, the rational consumer of hospital services would be predicted to
A) check out of the hospital immediately.
B) stay in the hospital for at least that additional day.
C) demand a refund from the hospital for the previous day's stay.
D) complain about the hospital food.

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119) If the (steadily increasing) marginal cost of another day spent in the hospital exceeds the (steadily decreasing) marginal benefit of an additional day spent in the hospital, the rational consumer of health care services would be predicted to
A) choose not to stay in the hospital for that additional day.
B) stay in the hospital for at least that additional day.
C) demand a private hospital room.
D) regret having ever entered that hospital.

120) If the (steadily decreasing) marginal benefit of another day spent in the hospital is larger than the (steadily increasing) marginal cost of an additional day spent in the hospital, the
A) net benefit from the hospital stay must be positive.
B) net benefit from the hospital stay must be decreasing.
C) net benefit from the hospital stay must be increasing.
D) net benefit from the hospital stay is maximized.

121) If the (steadily decreasing) marginal benefit of another day spent in the hospital is smaller than the (steadily increasing) marginal cost of an additional day spent in the hospital, the
A) net benefit from the hospital stay must be negative.
B) net benefit from the hospital stay must be decreasing.
C) net benefit from the hospital stay must be increasing.
D) net benefit from the hospital stay is maximized.

122) If the (steadily decreasing) marginal benefit of another day spent in the hospital is equal to the (steadily increasing) marginal cost of an additional day spent in the hospital, the
A) net benefit from the hospital stay must be positive.
B) net benefit from the hospital stay must be negative.
C) net benefit from the hospital stay must be increasing.
D) net benefit from the hospital stay is maximized.

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Answer Key

Test name: Chapter 01

1) D
2) A
3) D
4) A
5) B
6) B
7) A
8) A
9) B
10) C
11) C
12) C
13) C
14) C
15) A
16) A
17) D
18) B
19) D
20) C
21) A
22) D
23) C
24) D
25) C
26) A
27) D
28) C
29) D
30) D
31) B
32) B
33) D
34) B
35) C
36) A
37) B
38) C
39) A
40) B
41) A
42) A
43) D
44) B
45) B
46) C
47) A
48) A
49) B
50) C
51) C
52) D
53) B
54) B
55) C
56) A
57) B
58) B
59) B
60) A
61) D
62) A
63) B
64) C
65) A
66) C
67) A
68) B
69) B
70) C
71) A
72) A
73) B
74) A
75) A
76) A
77) A

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78) C
79) B
80) B
81) A
82) D
83) C
84) C
85) B
86) B
87) A
88) D
89) B
90) C
91) C
92) B
93) C
94) B
95) B
96) A
97) A
98) C
99) A
100) B
101) B
102) A
103) A
104) A
105) A
106) B
107) D
108) C
109) B
110) C
111) B
112) C
113) A
114) C
115) D
116) A
117) D
118) B
119) A
120) C
121) B
122) D

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