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Correct answers located at the end of the chapter.

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

1) Economics is the study of how to allocate scarce resources among competing uses.
   - ◎ true
   - ◎ false

2) The quantity of capital in an economy is unlimited since more can always be produced.
   - ◎ true
   - ◎ false

3) Scarcity is not an issue in countries such as the United States since people live in nice homes and have plenty to eat.
   - ◎ true
   - ◎ false

4) Every economy faces the situation of scarcity of resources.
   - ◎ true
   - ◎ false

5) The United States is a prosperous nation because its resources are sufficient to meet the desires of its citizens.
   - ◎ true
   - ◎ false

6) When an economic choice is made, it is possible to avoid opportunity costs.
   - ◎ true
   - ◎ false

7) All economies must decide what to produce, how to produce it, and who gets the output.
   - ◎ true
   - ◎ false

8) The factors of production include the land, labor, and money used to produce goods and services.
   - ◎ true
   - ◎ false

9) Capital includes the machinery and buildings used to produce goods and services.
   - ◎ true
   - ◎ false

10) When a society is operating on the production possibilities curve, it is using its available resources efficiently in the production of goods and services.
   - ◎ true
   - ◎ false

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11) More resources and better technology shift the production possibilities curve inward.
- ◎ true
- ◎ false

12) To experience future economic growth, an economy must allocate some of its scarce resources to investment.
- ◎ true
- ◎ false

13) The *for whom* to produce question focuses on the distribution of output across the members of society.
- ◎ true
- ◎ false

14) Because the economy is so complex, it is impossible to construct a theory about how it works.
- ◎ true
- ◎ false

15) An accurate definition of the term *optimal mix* would be the production of goods and services that would satisfy all the wants and needs of the individuals in society.
- ◎ true
- ◎ false

16) The "invisible hand" refers to the price signal in a free market economy.
- ◎ true
- ◎ false

17) Adam Smith was a proponent of the doctrine of laissez-faire outside of key markets like education, health care, and defense.
- ◎ true
- ◎ false

18) The United States relies primarily on central planning to allocate resources.
- ◎ true
- ◎ false

19) Karl Marx encouraged a policy of laissez-faire because he believed that the market mechanism provided society with the best answers to the *what, how*, and *for whom* questions.
- ◎ true
- ◎ false

20) A mixed economy is one that relies solely on market signals to allocate goods and services.
- ◎ true
- ◎ false

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21) Pollution is an example of a market failure.
- ◎ true
- ◎ false

22) Government failure occurs when government intervention fails to improve economic outcomes.
- ◎ true
- ◎ false

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

23) The central problem of economics is the
- A) distribution of goods and services to those in need.
- B) fact that human wants exceed the availability of resources.
- C) inefficiency of government operations.
- D) labor unemployment visible throughout the economy.

24) The primary concern of economics is the study of
- A) why human wants exist and what motivates them.
- B) how to distribute goods and services according to human needs.
- C) how best to allocate scarce resources among competing uses.
- D) the measurement of political power in an economy.

25) Which of the following explains why economic choices must be made?
- A) The factors of production are scarce.
- B) The factors of production are expensive.
- C) The factors of production are used inefficiently.
- D) The factors of production are of inferior quality.

26) The main focus of economic studies concerns
- A) the behavior of successful businesses.
- B) the role of money in our economy.
- C) how best to allocate scarce resources.
- D) the elimination of opportunity costs.

27) If society lacks enough resources to satisfy all the desired uses of the resources, this is known as
- A) government failure.
- B) laissez-faire.
- C) scarcity.
- D) market failure.

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28) Scarcity means
A) retail stores always run out of popular products.
B) the desire for goods exceeds our capacity to produce them.
C) society will run out of the factors of production in the near future.
D) a surplus of unsold goods in a specific market will not occur.

29) Output choices are necessary within a market because of
A) inefficient use of resources.
B) high prices for goods.
C) scarcity of resources.
D) limited technology.

30) Which of the following statements about production possibilities is true?
A) Production possibilities are limited for all countries because resources are scarce.
B) The production of food does not involve opportunity costs since people must eat.
C) A reduction in productivity will expand the production possibility curve.
D) Production possibilities are only limited for a country if prices are too high.

31) All points on the production-possibilities curve
A) represent the use of all available resources.
B) are equally desirable.
C) represent the same mix of output.
D) represent the same opportunity costs.

32) Because of scarcity,
A) choices must be made.
B) there can be a sufficient supply of goods and services to satisfy everyone.
C) there are plenty of goods to go around.
D) governments must carefully manage economies.

33) An economist who says that "there is no such thing as a free lunch" means that
A) we cannot have everything we want, even if the price is $0.
B) there are sufficient resources to produce everything we want.
C) even when a meal is free, we give up the chance to do something else with that time.
D) both we cannot have everything we want, even if the price is $0, *and* even when a meal is free, we give up the chance to do something else with that time.

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34) Which of the following best describes the shift in attitudes for American adults in the years after the Great Recession of 2008–2009?
A) American adults felt increasingly positive about the capitalist economic system.
B) American adults grew more confident that another recession would not happen for many years to come.
C) More American adults felt that resource limitations would not be an issue in the future.
D) American adults became more concerned that their children would have fewer goods and services in the future.

35) Which of the following is true of American adults after the Great Recession of 2008–2009?
A) They felt more positively about the economy.
B) Their opinions about the economy did not change from before the recession.
C) They felt more negatively about the economy.
D) Many felt an increasing level of optimism.

36) Which of the following is true about the factors of production?
A) The physical limits of production are determined by the factors of production and technology.
B) Rich countries have an unlimited quantity of factors.
C) The factors include natural resources but not skilled labor.
D) Some factors are scarce but other factors are not.

37) Opportunity cost may be defined as the
A) value of the most desired goods or services that are forgone to obtain something else.
B) dollar price paid for a final good or service.
C) dollar cost of producing a particular product.
D) dollar cost of the next best alternative resources for producing a good.

38) Given that resources are scarce,
A) a "free lunch" is possible, but only for a limited number of people.
B) poor countries must make choices, but rich countries do not have to make choices.
C) opportunity costs always exist whenever choices are made.
D) some choices involve opportunity costs while other choices do not.

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39) The opportunity cost of playing tennis with your friend is
A) negative since it is good exercise.
B) zero since you already own the tennis racket and play on a public court.
C) the next-best alternative use of your time that is forgone.
D) the cost of the tennis lessons you took last year.

40) There would be no reason for students to study the concept of opportunity costs if
A) the market mechanism functioned to allocate resources.
B) the government allocated resources.
C) the production possibilities curve bowed outward.
D) resources were no longer scarce.

41) If resources are limited,
A) people will rush to buy more goods than they would otherwise.
B) businesses will sell more products than they would otherwise.
C) there will be trade-offs whenever choices are made.
D) all individuals are deprived of basic necessities.

42) When economists talk about a trade-off between "guns and butter," they mean
A) society can produce more military goods without giving up any consumer goods.
B) military goods are an inefficient use of resources.
C) the production of more military goods requires the production of fewer consumer goods.
D) consumer goods are always more costly than military goods.

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43) The following table shows the trade-off between different combinations of missile production and home construction, *ceteris paribus*. Complete the table by calculating the required opportunity costs for both missiles and houses. Then answer the indicated question.

Production of Missiles and Houses

Combination	Number of Houses	Opportunity Cost of Houses in Terms of Missiles	Number of Missiles	Opportunity Cost of Missiles in Terms of Houses
J	0		4	
K	10,000		3	
L	17,000		2	
M	21,000		1	
N	23,000		0	

In the table Production of Missiles and Houses, what is the opportunity cost of increasing the production of missiles from 1 to 2 in terms of total houses?

A) 1,000 houses
B) 3,333 houses
C) 4,000 houses
D) 17,000 houses

44) The following table shows the trade-off between different combinations of missile production and home construction, *ceteris paribus*. Complete the table by calculating the required opportunity costs for both missiles and houses. Then answer the indicated question.

Production of Missiles and Houses

Combination	Number of Houses	Opportunity Cost of Houses in Terms of Missiles	Number of Missiles	Opportunity Cost of Missiles in Terms of Houses
J	0		4	
K	10,000		3	
L	17,000		2	
M	21,000		1	
N	23,000		0	

In the table, the opportunity cost of increasing the production of houses from 10,000 to 17,000 in terms of missiles per house is

A) 0.00014 of a missile.
B) 0.00025 of a missile.
C) 2.00 missiles.
D) 4.00 missiles.

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45) The following table shows the trade-off between different combinations of missile production and home construction, *ceteris paribus*. Complete the table by calculating the required opportunity costs for both missiles and houses. Then answer the indicated question.

Combination	Number of Houses	Opportunity Cost of Houses in Terms of Missiles	Number of Missiles	Opportunity Cost of Missiles in Terms of Houses
J	0		4	
K	10,000		3	
L	17,000		2	
M	21,000		1	
N	23,000		0	

In the table, the lowest opportunity cost of houses (missiles per house) is

A) 0.00010 of a missile per house.
B) 0.00050 of a missile per house.
C) 7.00 missiles per house.
D) 10.00 missiles per house.

46) The following table shows the trade-off between different combinations of missile production and home construction, *ceteris paribus*. Complete the table by calculating the required opportunity costs for both missiles and houses. Then answer the indicated question.

Production of Missiles and Houses

Combination	Number of Houses	Opportunity Cost of Houses in Terms of Missiles	Number of Missiles	Opportunity Cost of Missiles in Terms of Houses
J	0		4	
K	10,000		3	
L	17,000		2	
M	21,000		1	
N	23,000		0	

In the table, the highest opportunity cost of houses (houses per missile) is

A) 500 houses per missile.
B) 4,000 houses per missile.
C) 7,000 houses per missile.
D) 10,000 houses per missile.

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47) The following table shows the trade-off between different combinations of missile production and home construction, *ceteris paribus*. Complete the table by calculating the required opportunity costs for both missiles and houses. Then answer the indicated question.

Production of Missiles and Houses

Combination	Number of Houses	Opportunity Cost of Houses in Terms of Missiles	Number of Missiles	Opportunity Cost of Missiles in Terms of Houses
J	0		4	
K	10,000		3	
L	17,000		2	
M	21,000		1	
N	23,000		0	

In the table, the opportunity cost of missiles (houses per missile) is least

A) moving from combination K to combination J.
B) moving from combination M to combination L.
C) moving from combination L to combination K.
D) moving from combination N to combination M.

48) Which of the following is *not* an assumption under which the production possibilities curve is drawn?

A) The economy's resources are fully employed.
B) The price level is stable.
C) Technology is being held constant.
D) The supplies of factors of production are fixed.
E) The trade-off of one good for another is not constant.

49) *Ceteris paribus*, if North Korea increases the size of its military, then

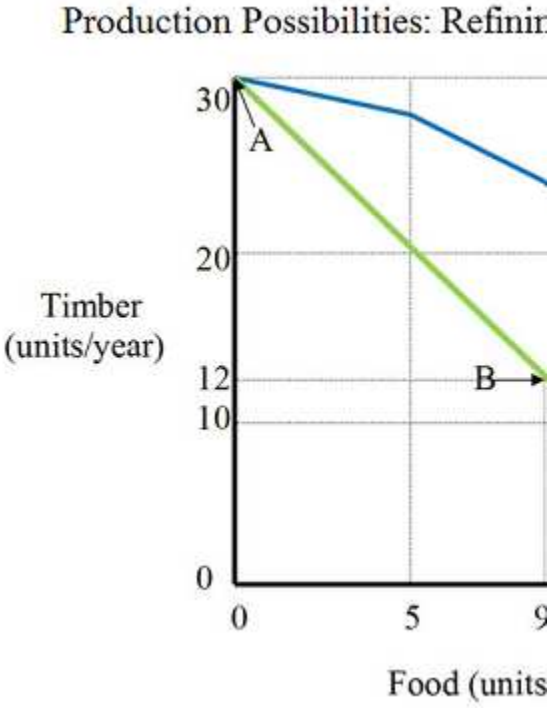
A) its production possibilities curve will shift outward.
B) its production possibilities curve will shift inward.
C) its production of consumer goods will increase.
D) its production of consumer goods will decrease.

50) Assuming the level of resources and technology are constant, if France decreases the size of its military, then

A) its production possibilities curve will shift outward.
B) its production possibilities curve will shift inward.
C) its production of consumer goods can increase.
D) its production of consumer goods must decrease.

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51) In the linear production possibilities model, we assume each of five equally-sized parcels of land contributes the same to the production of food and timber: 6 units of timber or 3 units of food.



By contrast, in the nonlinear model, we will assume that there are five different types of land in equal-sized plots and that each plot may contribute to the production of food or timber as follows:

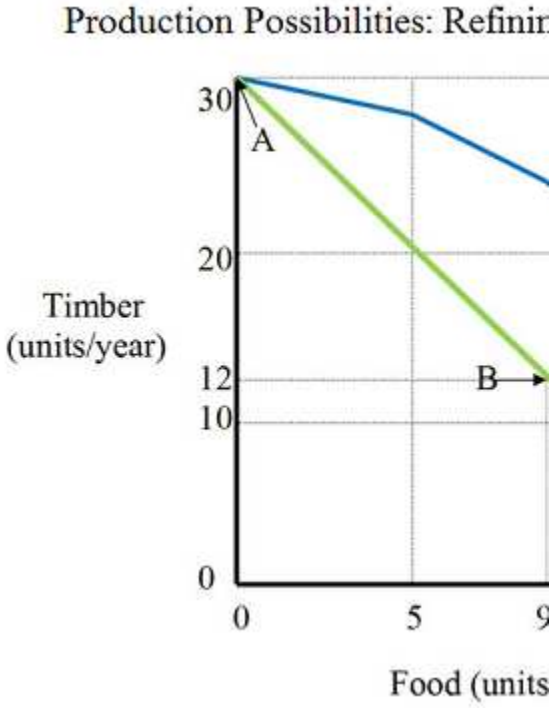
Plot	Production Quality	Potential Contribution	
	(A plot can be used for *either* food or timber.)	Food	Timber
1	Great farmland/Terrible timberland	+5 food units	+2 timber units
2	Good farmland/Poor timberland	+4 food units	+4 timber units
3	Moderate farmland/Moderate timberland	+3 food units	+6 timber units
4	Poor farmland/Good timberland	+2 food units	+8 timber units
5	Terrible farmland/Great timberland	+1 food unit	+10 timber units

Assuming all parcels of land are the same, when all land is in use, one more unit of timber produced will require

A) two more units of food produced.
B) five fewer units of food produced.
C) one-half fewer units of food produced.
D) two fewer units of food produced.

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52) In the linear production possibilities model, we assume each of five equally-sized parcels of land contributes the same to the production of food and timber: 6 units of timber or 3 units of food.



By contrast, in the nonlinear model, we will assume that there are five different types of land in equal-sized plots and that each plot may contribute to the production of food or timber as follows:

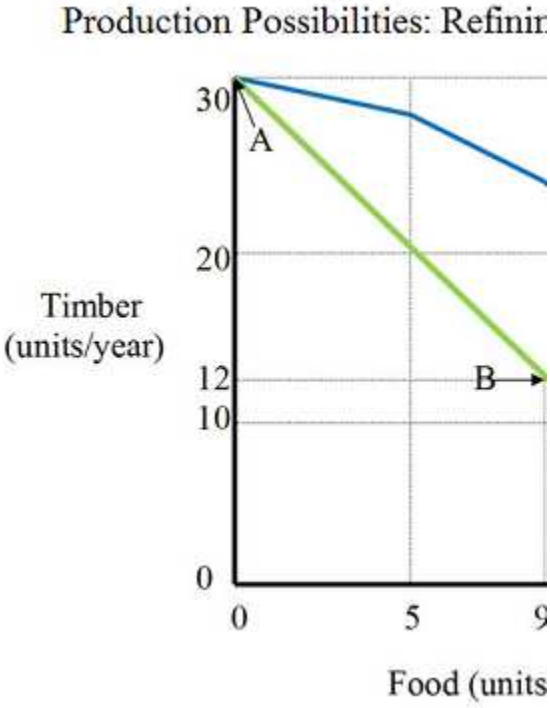
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4	Poor farmland/Good timberland	+2 food units	+8 timber units
5	Terrible farmland/Great timberland	+1 food unit	+10 timber units

Assuming all parcels of land are the same, there is a constant trade-off in the production of timber and food. When all land is in use, one more unit of food produced will require

A) two more units of timber produced.
B) five fewer units of timber produced.
C) one-half fewer units of timber produced.
D) two fewer units of timber produced.

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53) In the linear production possibilities model, we assume each of five equally-sized parcels of land contributes the same to the production of food and timber: 6 units of timber or 3 units of food.



By contrast, in the nonlinear model, we will assume that there are five different types of land in equal-sized plots and that each plot may contribute to the production of food or timber as follows:

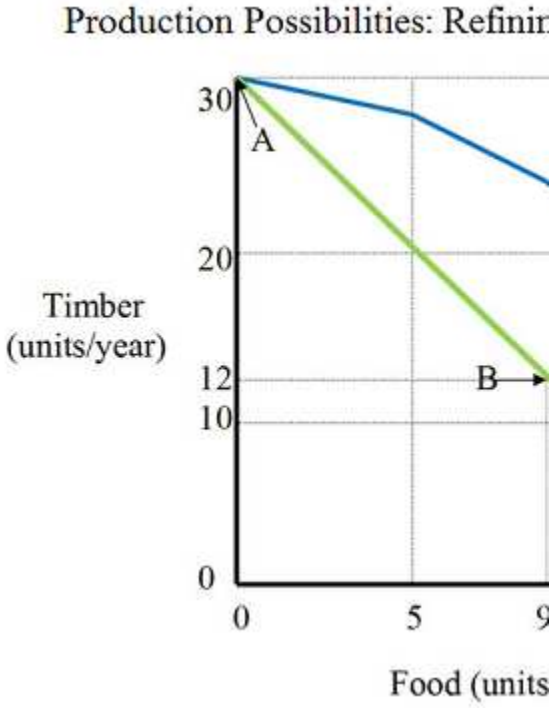
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4	Poor farmland/Good timberland	+2 food units	+8 timber units
5	Terrible farmland/Great timberland	+1 food unit	+10 timber units

Assuming all land is equally productive in either use, how much output of each type will be produced with 2 parcels of the land used in timber production and 3 parcels of the land used in food production?

A) 12 units of timber and 9 units of food
B) 9 units of timber and 12 units of food
C) 18 units of timber and 9 units of food
D) 9 units of timber and 18 units of food

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54) In the linear production possibilities model, we assume each of five equally-sized parcels of land contributes the same to the production of food and timber: 6 units of timber or 3 units of food.



By contrast, in the nonlinear model, we will assume that there are five different types of land in equal-sized plots and that each plot may contribute to the production of food or timber as follows:

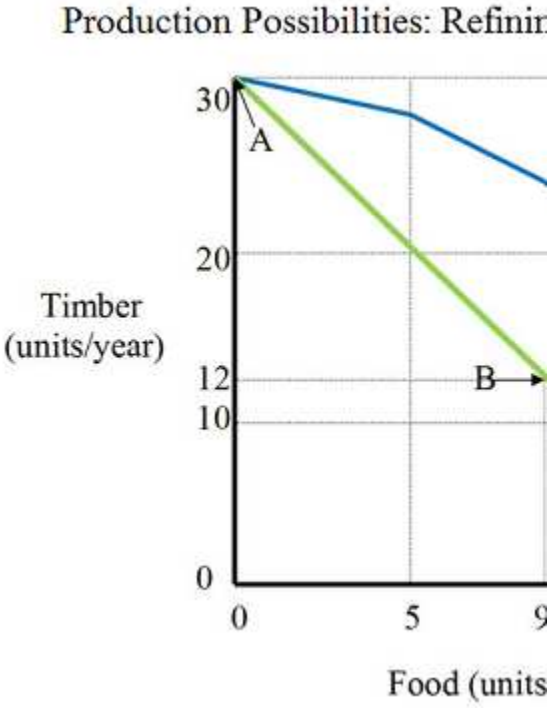
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5	Terrible farmland/Great timberland	+1 food unit	+10 timber units

Starting from point A on the production possibilities line where 30 units of timber and no food is produced, suppose that we choose to produce more food by moving one parcel of land out of timber production and into food production. In order to minimize the opportunity cost of producing more food, the first plot to be repurposed should be

A) 1.
B) 2.
C) 3.
D) 4.
E) 5.

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55) In the linear production possibilities model, we assume each of five equally-sized parcels of land contributes the same to the production of food and timber: 6 units of timber or 3 units of food.



By contrast, in the nonlinear model, we will assume that there are five different types of land in equal-sized plots and that each plot may contribute to the production of food or timber as follows:

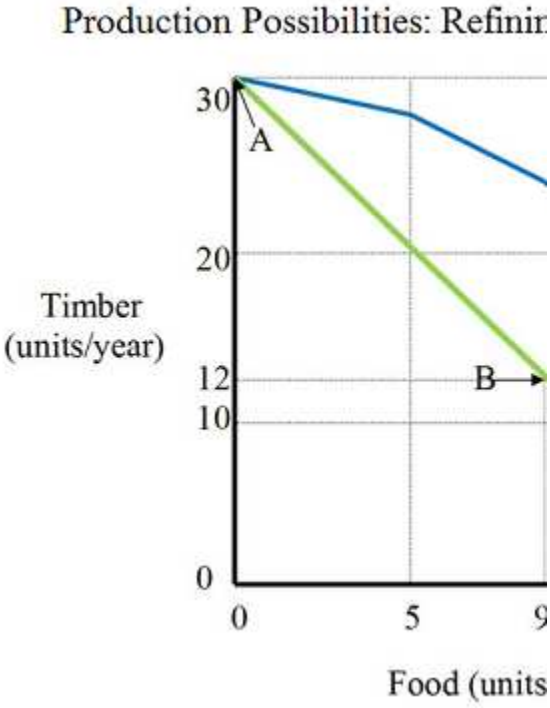
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5	Terrible farmland/Great timberland	+1 food unit	+10 timber units

In the model where we assume that all parcels of land are the same, the relationship between food and timber produced when all land is in use is

A) linear and inverse.
B) direct and linear.
C) inverse and nonlinear.
D) direct and nonlinear.

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56) In the linear production possibilities model, we assume each of five equally-sized parcels of land contributes the same to the production of food and timber: 6 units of timber or 3 units of food.



By contrast, in the nonlinear model, we will assume that there are five different types of land in equal-sized plots and that each plot may contribute to the production of food or timber as follows:

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4	Poor farmland/Good timberland	+2 food units	+8 timber units
5	Terrible farmland/Great timberland	+1 food unit	+10 timber units

In the model where we assume that all five parcels of land are not the same, the relationship between food and timber produced when all land is in use is

A) linear and inverse.
B) direct and linear.
C) inverse and nonlinear.
D) direct and nonlinear.

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57) The News Wire "Opportunity Cost: North Korea Unveils 'Most Powerful Weapon'" in the text indicates that North Korea is expanding its missile and nuclear programs. If North Korea is on its production possibilities curve and reduces its production of food so that it can increase the size of its military, this is most consistent with
A) market failure.
B) a movement along the production possibilities curve.
C) an inward shift of the production possibilities curve.
D) an expansion beyond the production possibilities curve.

58) The News Wire "Opportunity Cost: North Korea Unveils 'Most Powerful Weapon'" in the text indicates that North Korea is expanding its missile and nuclear programs. If North Korea is on its production possibilities curve and reduces food production so that it can increase the size of its military, this is an example of
A) opportunity costs.
B) laissez-faire.
C) externalities.
D) *ceteris paribus.*

59) The News Wire "Opportunity Cost: North Korea Unveils 'Most Powerful Weapon'" in the text indicates that North Korea is expanding its missile and nuclear programs. The article cites the burden of this action on North Korea's population is
A) increased radiation from nuclear tests.
B) an increasing threat to world peace.
C) the opportunity cost of food production.
D) time off taken to attend the military parade.

60) Factors of production are
A) elements that make production more difficult.
B) the technological innovations available to companies.
C) the resources used to create output.
D) the waste left over after goods are produced.

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61) Opportunity cost is
- A) the value of the least desired alternative that you give up.
- B) the value of the most desired goods and services that are forgone in order to obtain something else.
- C) what you acquire in the process of doing something.
- D) the price you pay when you perform an activity.

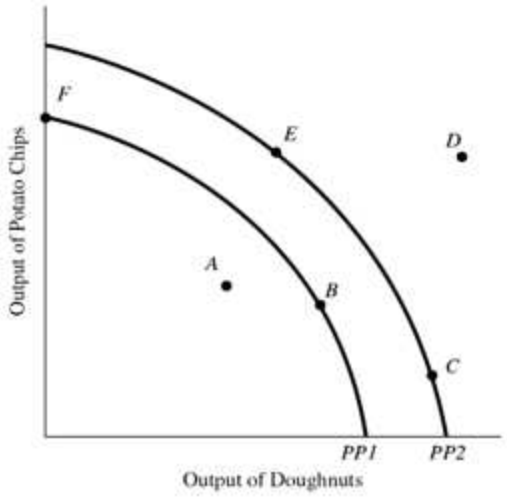


Figure 1.5

62) (Figure 1.5) If an economy has the capacity to produce represented by PP2, then point E represents
- A) an efficient use of resources.
- B) an efficient use of resources.
- C) an inefficient use of resources.
- D) an inefficient use of resources.
- E) a linear trade-off between potato chips and doughnuts.
- F) a linear trade-off between potato chips and doughnuts.
- G) a combination of potato chips and doughnuts that is not attainable.
- H) a combination of potato chips and doughnuts that is not attainable.

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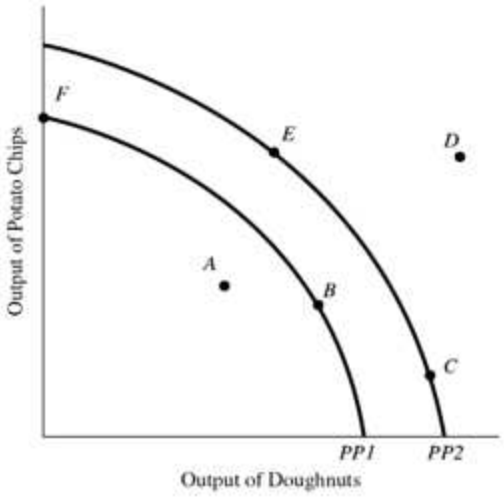


Figure 1.5

63) (Figure 1.5) If an economy has the capacity to produce represented by PP2, then point B represents
- A) an inefficient use of resources.
- B) a combination of potato chips and doughnuts that is not attainable.
- C) an efficient use of resources.
- D) a constant trade-off between potato chips and doughnuts.

64) In order to understand a particular graph, it is important to know
- A) the total number of squares in the grid.
- B) which variable is on the vertical axis and which is on the horizontal axis.
- C) where a point on the graph is.
- D) where the maximum quantity is.

65) The slope of a line is
- A) the vertical distance between the two points, divided by the horizontal distance between the two points.
- B) always positive.
- C) sometimes referred to as "run over rise."
- D) the horizontal distance between the two points, divided by the vertical distance between the two points.

66) The slope of a curve is given by the formula
- A) the percentage change in x coordinates between two points divided by the percentage change in y coordinates.
- B) the percentage change in y coordinates between two points divided by the percentage change in x coordinates.
- C) the change in x coordinates between two points divided by the change in y coordinates.
- D) the change in y coordinates between two points divided by the change in x coordinates.

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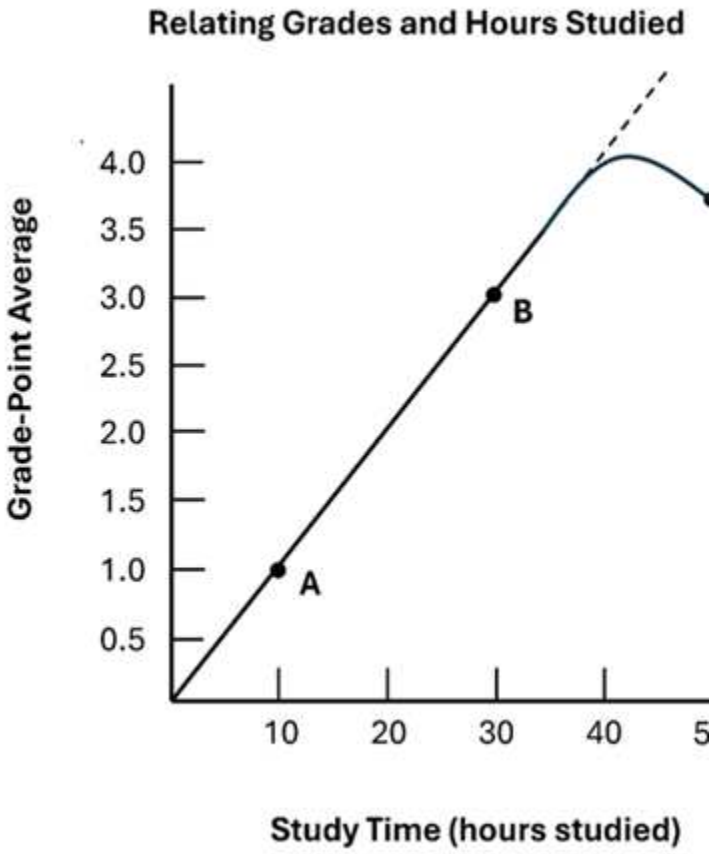
67) A shift in a curve indicates that
A) one variable has increased and the other has decreased.
B) a change has occurred in the underlying relationship between the two variables.
C) the slope has changed.
D) the two variables are now unrelated.

68) A linear curve can be distinguished by
A) the continuous change in its slope.
B) the changing relationship between the two variables.
C) the same slope throughout the curve.
D) a shift in the curve.

69) If one variable increases when the other variable decreases, then the drawn curve is
A) horizontal.
B) downward-sloping.
C) upward-sloping.
D) vertical.

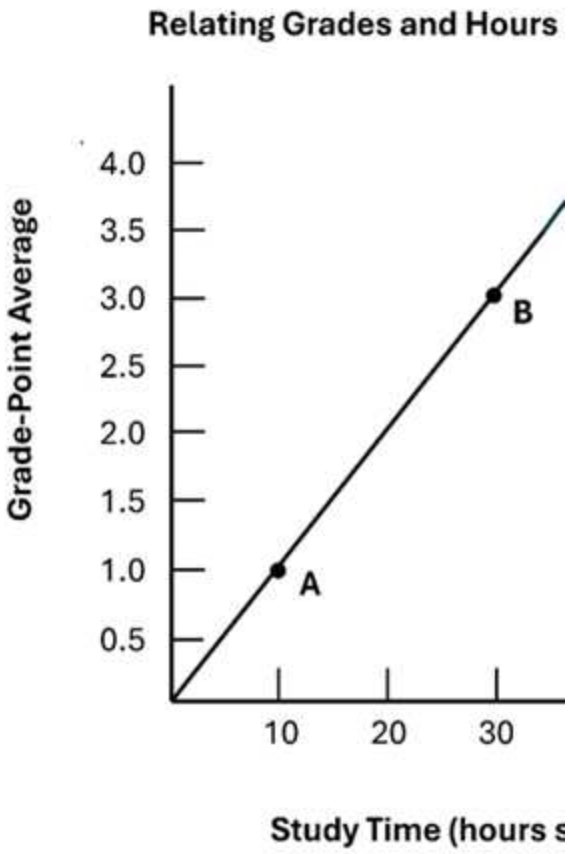
70) If one variable increases when the other variable increases, then the drawn curve is
A) upward-sloping.
B) downward-sloping.
C) horizontal.
D) vertical.

71) A line that slopes upward from left to right has a
A) negative slope.
B) positive slope.
C) slope that changes as you move along the curve.
D) slope of zero.



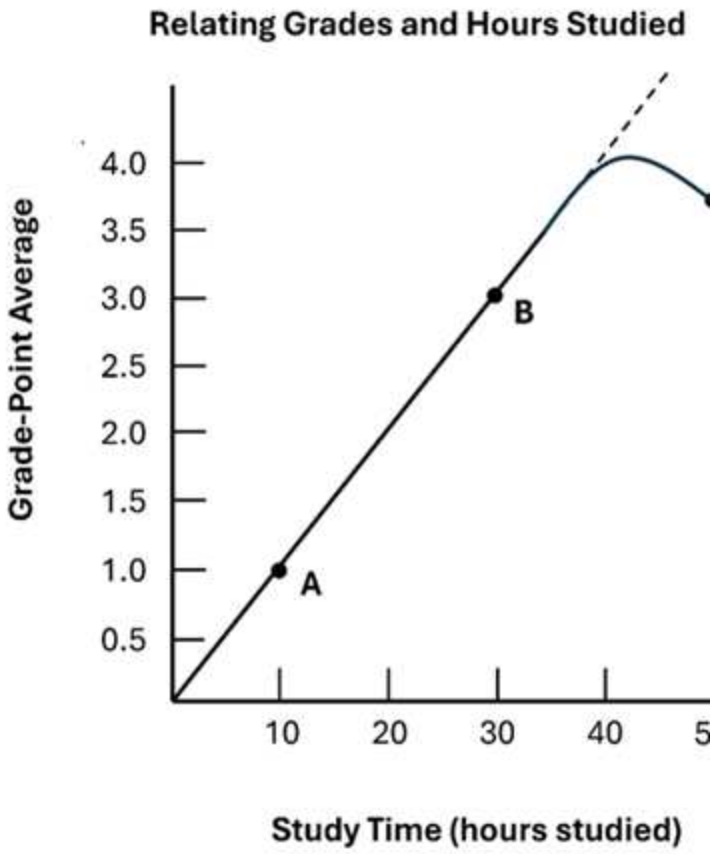
72) In the figure, a grade-point average of 3.0 is associated with how many hours of study time per week?
A) 10 hours
B) 20 hours
C) 30 hours
D) 40 hours

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73) In the figure, a grade-point average of 1.0 is associated with how many hours of study time per week?

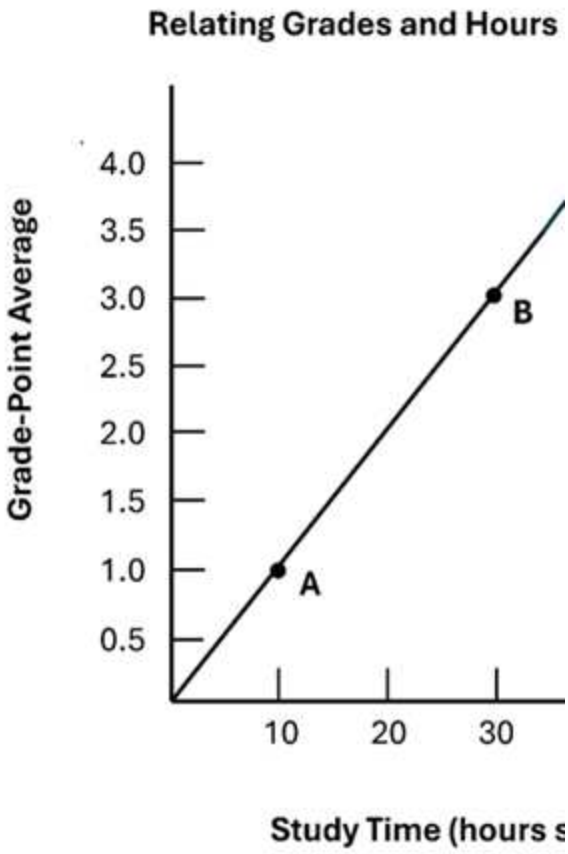
A) 10 hours
B) 20 hours
C) 30 hours
D) 40 hours



74) In the figure, study time is associated with a lower grade-point average after approximately

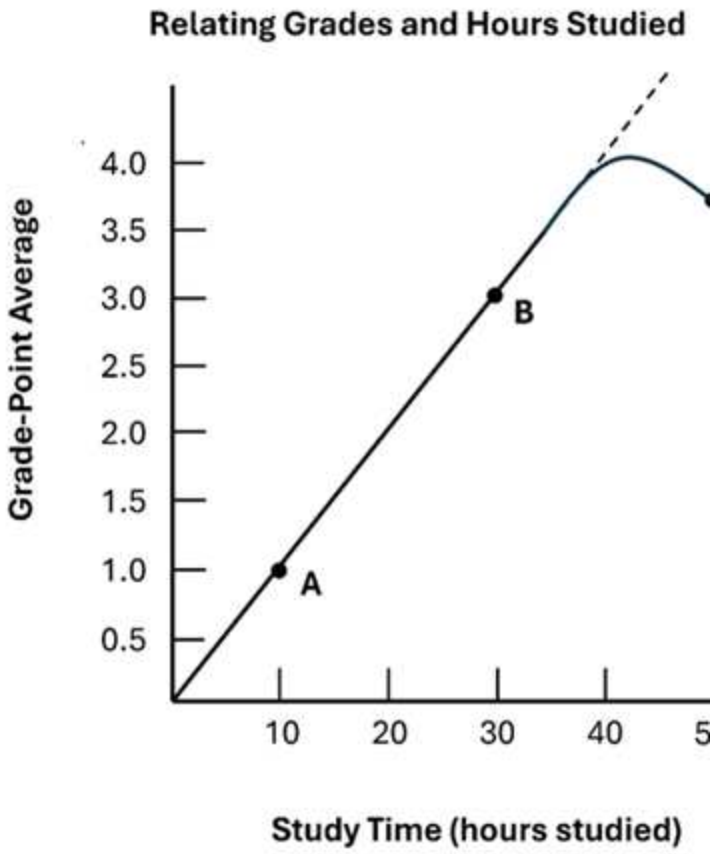
A) 10 hours.
B) 20 hours.
C) 30 hours.
D) 40 hours.

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75) The figure suggests that the relationship between the variables is

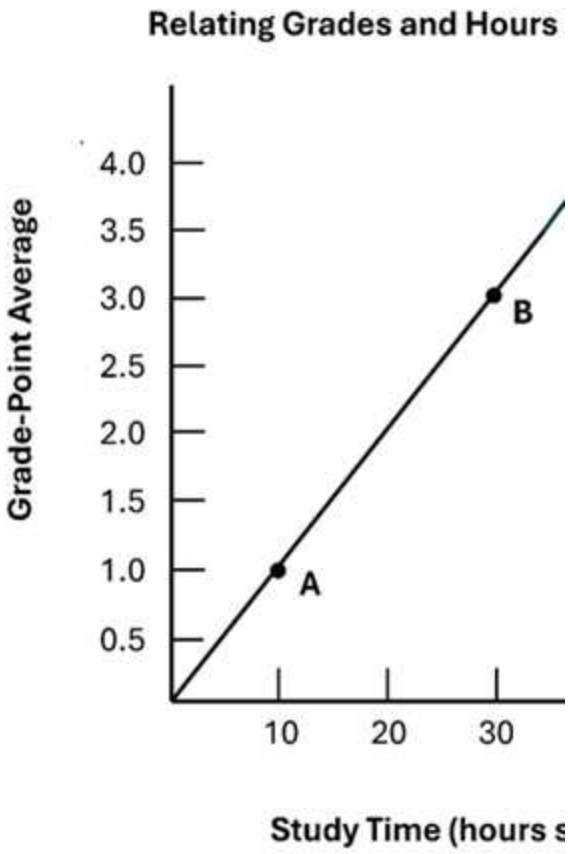
A) linear at every point.
B) linear at places and nonlinear at places.
C) linear at places and nonlinear at places but always negatively sloped.
D) negative after 30 hours of study time.



76) Based on the figure, if a student wants to achieve a grade-point average of 3.0, they should study an average of

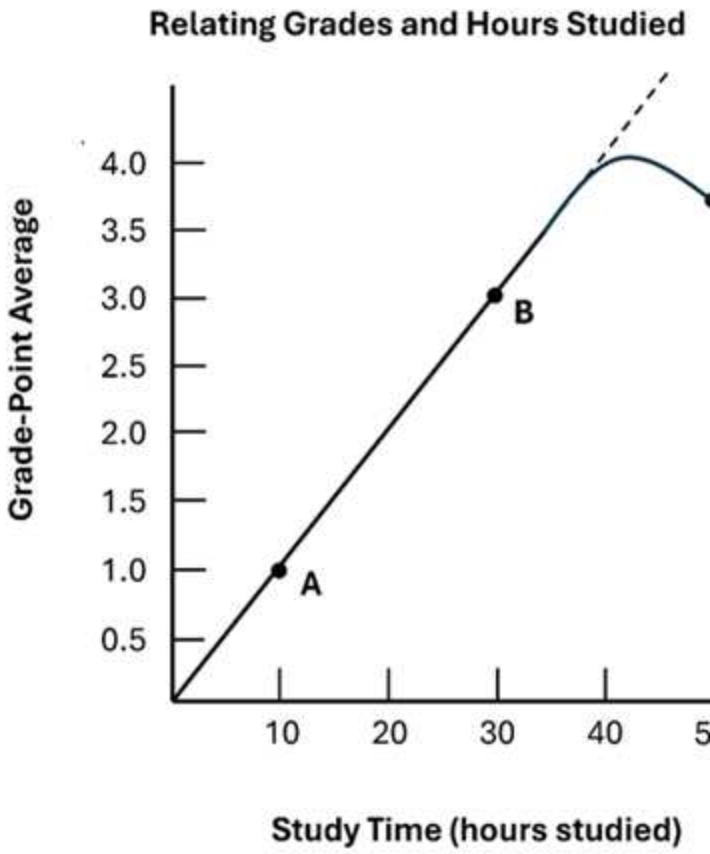
A) 40 hours per week.
B) 30 hours per week.
C) 20 hours per week.
D) 10 hours per week.

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77) Based on the figure, students who want to achieve a grade-point average of 2.0 should study an average of about

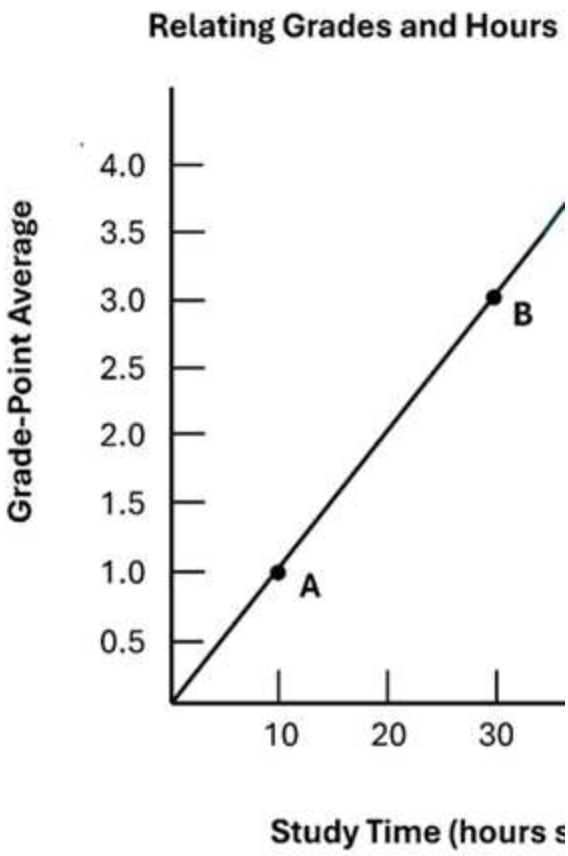
A) 40 hours per week.
B) 30 hours per week.
C) 20 hours per week.
D) 10 hours per week.



78) Based on the figure, students who study 40 hours per week will about

A) earn a grade-point average between 3.5 and 4.0.
B) earn a grade-point average of exactly 3.0.
C) drop out of school because of the stress.
D) earn a lower grade-point average than if the study time is reduced to 30 hours per week.

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79) Based on the figure, students who study 30 hours per week will
- A) earn a grade-point average of 3.0.
- B) earn a grade-point average of between 3.5 and 4.0.
- C) earn a grade-point average 2.0.
- D) drop out of school because of the stress.

80) Societies must address the question of *what* to produce because
- A) we can't produce all the goods and services we want.
- B) the amount of money in an economy is limited.
- C) we are wasteful and use resources inefficiently.
- D) our economy experiences market failures.

81) Which of the following is the best example of the *"what"* economic question?
- A) Is the production process using an efficient amount of labor and capital machinery?
- B) Who are the recipients of the goods produced?
- C) What is the most efficient method for producing goods?
- D) What is the optimal mix of output?

82) Which of the following is *not* a factor of production?
- A) a toll-bridge across a lake
- B) the money hidden in an old basement
- C) a wrecking ball used to tear down old buildings
- D) the CEO of a large corporation

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83) In economics, capital refers to
A) money.
B) savings put aside for future investment.
C) goods that can be used to produce other goods.
D) the value of a corporation's assets.

84) In economics, which of the following is the best example of capital?
A) money held in a checking account
B) a computer used by a lawyer to prepare legal documents
C) investment in training for employees in an accounting firm
D) the executive producer of a new adventure movie

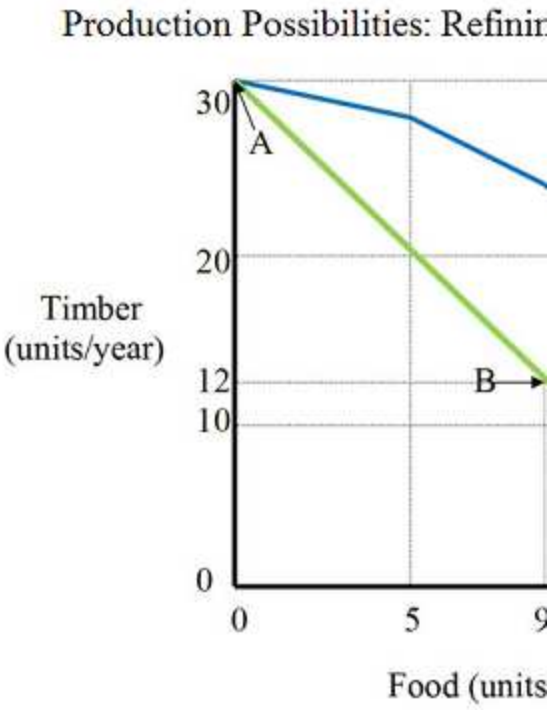
85) Which of the following is *not* an example of land or a natural resource?
A) coal
B) a river
C) natural gas
D) a homebuilder

86) Which of the following is an example of labor as a factor of production?
A) people who bring together the skills necessary for creating products and services
B) the skills and abilities of workers
C) people who are paid an hourly wage but not those paid a salary
D) a college or university that educates people

87) Entrepreneurship refers to
A) natural resources, such as land and water.
B) computer technology.
C) skilled labor.
D) the ability to see market opportunities and the will to take risk.

88) In economics, which of the following represents entrepreneurship?
A) natural resources
B) ideas about how to create new products and services
C) the skills of workers
D) machinery, buildings, and networks

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89)

In the linear production possibilities model, we assume each of five equally-sized parcels of land contributes the same to the production of food and timber: 6 units of timber or 3 units of food.

By contrast, in the nonlinear model, we will assume that there are five different types of land in equal-sized plots and that each plot may contribute as follows to the production of food or timber:

Plot	Production Quality	Potential Contribution	
	(A plot can be used for *either* food or timber.)	Food	Timber
1	Great farmland/Terrible timberland	+5 food units	+2 timber units
2	Good farmland/Poor timberland	+4 food units	+4 timber units
3	Moderate farmland/Moderate timberland	+3 food units	+6 timber units
4	Poor farmland/Good timberland	+2 food units	+8 timber units
5	Terrible farmland/Great timberland	+1 food unit	+10 timber units

The most desirable attainable mix of output for society

A) consists of the entire production possibilities curve.
B) consists of a point on the production possibilities curve.
C) consists of a point outside the production possibilities curve.
D) occurs to the left and the right of the production possibility curve.

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90) In attempting to answer the *"what"* question, a society seeks to
A) produce the optimal mix of output.
B) exploit its workers in order to produce more output.
C) produce more military goods so that the citizens will be safe.
D) distribute an equal amount of goods to all citizens.

91) Investment refers to all of the following except
A) an increase in business inventories.
B) the purchase of new equipment by a business.
C) the construction of new factories by a company.
D) the purchase of stock by an individual.

92) Which of the following is *not* an example of investment?
A) A hair salon buys additional hair dryers.
B) The campus bookstore buys new T-shirts with the college logo.
C) A business owner uses his profits to play the lottery and wins.
D) Toyota expands the size of its factories located in the United States.

93) Economic growth always takes the form of
A) an expansion of production possibilities.
B) a change in how goods are distributed.
C) a movement along the production possibilities curve.
D) higher prices.

94) Economic growth is represented by
A) an inward shift of the production possibilities curve.
B) a point inside the production possibilities curve.
C) an outward shift of the production possibilities curve.
D) a movement along the production possibilities curve.

95) The production possibilities curve shifts outward in response to
A) a decline in technology, more resources, or both.
B) a decline in technology, fewer resources, or both.
C) improved technology, more resources, or both.
D) improved technology, fewer resources, or both.

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96) *Ceteris paribus*, which of the following is likely to cause an outward shift of the production possibilities curve?
A) investment in telecommunications networks
B) the deportation of illegal immigrants
C) an increase in the unemployment rate
D) a tax increase on factors of production

97) *Ceteris paribus*, which of the following is likely to cause an outward shift of the production possibilities curve?
A) investment in telecommunications networks
B) the deportation of illegal immigrants
C) an increase in the unemployment rate
D) a tax increase on factors of production

98) *Ceteris paribus*, when technological change allows a smaller amount of a resource to be used in producing any combination of two goods, there will be
A) a movement along the production possibilities curve.
B) an outward shift of the production possibilities curve.
C) an inward shift of the production possibilities curve.
D) no change in the production possibilities curve.

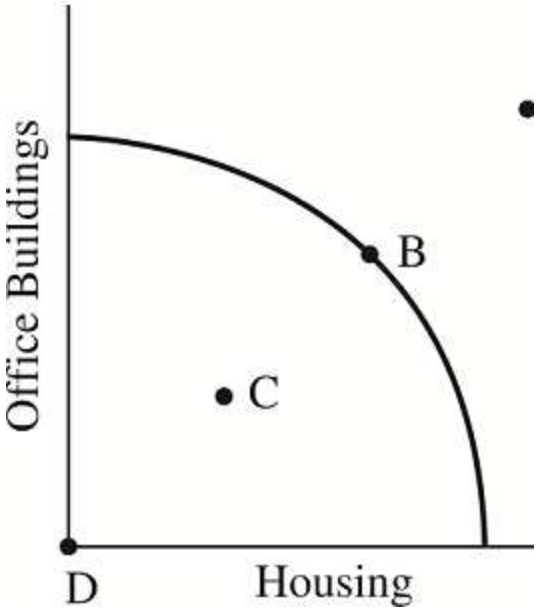
99) *Ceteris paribus*, which of the following is least likely to contribute to economic growth?
A) a greater quantity of labor
B) a greater quantity of capital
C) an increase in prices
D) improved production technology

100) *Ceteris paribus*, which of the following will most likely cause an inward shift of the production possibilities curve?
A) a decrease in the size of the labor force
B) an increase in population
C) an increase in knowledge
D) an improvement in technology

101) *Ceteris paribus*, which of the following events would most likely cause the production possibilities curve to shift inward?
A) The labor supply grows.
B) New factories are built.
C) A technological breakthrough occurs that makes production of all goods more efficient.
D) A major earthquake destroys several industrial centers.

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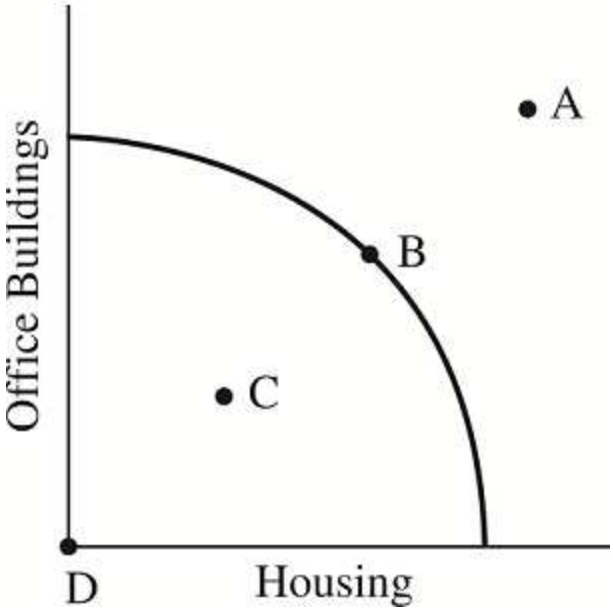
Figure – Production Possibilities Cur



102) Society is employing some of the available technology but not all of it. Select the appropriate point that could represent this situation.

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

Figure – Production Possibilities Curve

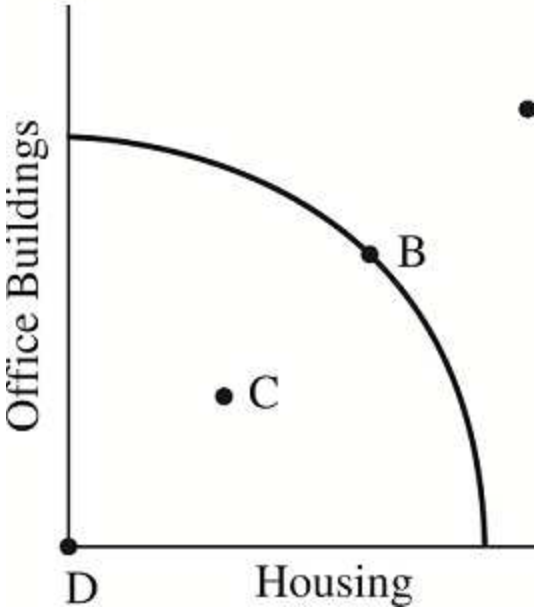


103) Society is producing some output, but some of the available resources are unemployed. Select the appropriate point that could represent this situation.

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

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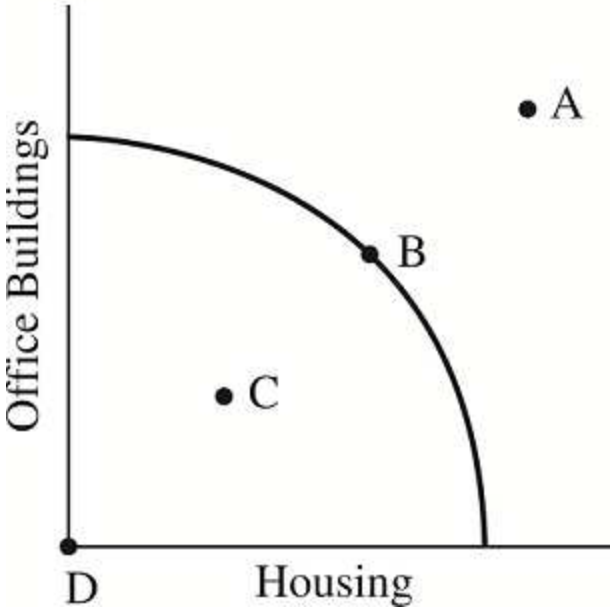
Figure – Production Possibilities Cur



104) Society is producing the maximum potential output, given its existing resources and technology. Select the appropriate point that could represent this level of production for office buildings and housing.

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

Figure – Production Possibilities Curve

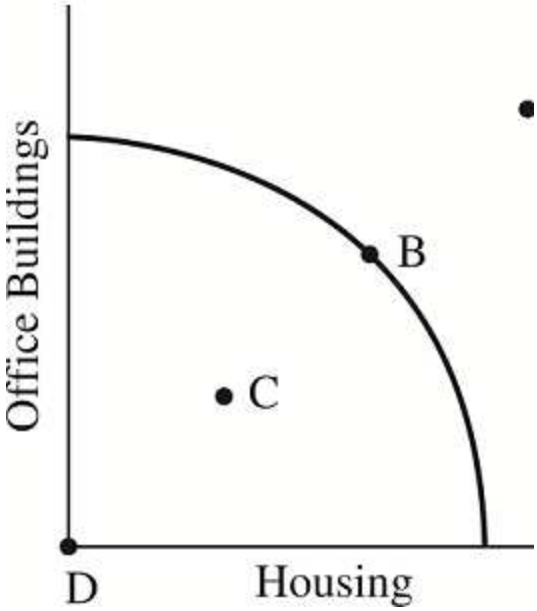


105) Society might be able to produce this combination if new resources were discovered but cannot produce it with current resources. Select the appropriate point that would represent the production possibilities after this discovery.

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

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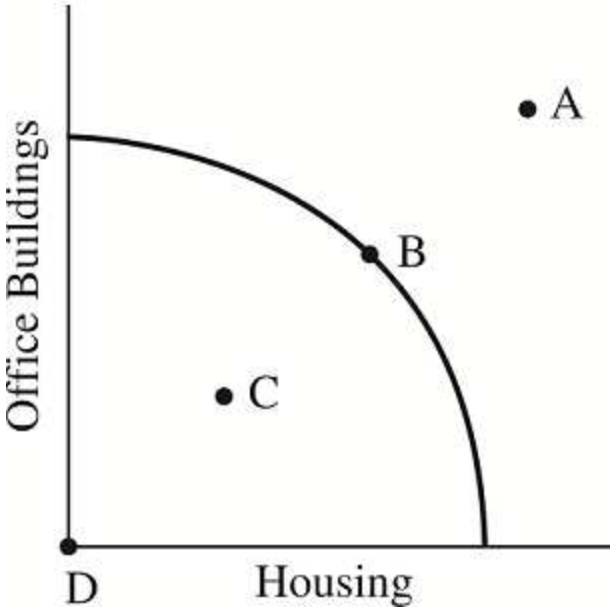
Figure – Production Possibilities Cur



106) It is not possible for society to produce this combination of office buildings and housing with current resources and technology. Which of the following points in the figure could represent this combination?

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

Figure – Production Possibilities Curve



107) Society is not producing either good because of extreme inefficiencies. Select a point that would represent this combination of office buildings and housing.

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

108) When society searches for the optimal method of producing goods and services, it is responding to the

A) *"what"*question.
B) *"how"*question.
C) *"for whom"*question.
D) *"why"*question.

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109) When society struggles with how to divide up the "economic pie," it is responding to the
A) *"for whom"*question.
B) *"how"*question.
C) *"what"*question.
D) *"why"* question.

110) Welfare programs are designed to address the
A) *"how"*question.
B) *"for whom"* question.
C) issue of scarce resources.
D) *"what"*question.

111) Which of the following groups of words best represents macroeconomic goals?
A) full employment, price stability, economic growth
B) rate of production, choice of factors of production, and the pricing of specific goods
C) welfare of individual consumers and business firms
D) land, labor, and capital

112) Macroeconomics focuses on
A) government failure.
B) the behavior of individuals, firms, and government agencies.
C) land, labor, and capital.
D) the economy as a whole.

113) Microeconomics focuses on
A) full employment, price stability, and economic growth.
B) the behavior of individuals, firms, and government agencies.
C) land, labor, and capital.
D) centrally planned economies.

114) Which of the following is associated with microeconomics?
A) an increase in sales for a chain of pet supply stores
B) a decrease in the unemployment rate for the nation
C) an increase in the inflation rate for the entire economy
D) a decrease in the level of economic growth for the country

115) Which of the following is associated with microeconomics?
A) an economy's overall output level
B) the country's unemployment rate
C) a specific U.S. industry's sales figures
D) the economy's rate of growth

116) Economic theories can be used to do all of the following *except*
A) evaluate economic policy.
B) design economic policy.
C) explain consumer and market behavior.
D) determine exact economic outcomes.

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117) Economic models
A) focus on details about the economy.
B) focus on basic relationships.
C) cannot be constructed because of the complexity of the economy.
D) can be used to predict market behavior but not consumer behavior.

118) According to the Latin phrase *ceteris paribus,*
A) resources are limited.
B) things do not remain equal.
C) there is no government intervention.
D) nothing else changes.

119) *Ceteris paribus* means
A) leave the market alone.
B) noninterference by the government.
C) other things remaining equal.
D) things are always changing.

120) The News Wire "Future Living Standards? Will Your Kids Be Better Off?" in the text asks, "Do you feel confident that life for our children's generation will be better than it has been for us?" What is necessary for the standard of living to rise?
A) economic growth
B) a greater allocation of resources to consumption
C) an inward shift in the production possibilities curve
D) a less equitable distribution of income

121) Which of the three basic economic questions deals with choosing the correct mix of output?
A) what to produce
B) how to produce
C) for whom to produce
D) how much to charge

122) Economic growth means
A) an increase in imports.
B) an expansion of production possibilities outward.
C) an increase in population.
D) both an increase in imports and an expansion of production possibilities outward.

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123) *Ceteris paribus*, which of the following events would most likely cause the production possibilities curve to shift inward?
A) The labor supply grows.
B) New factories are built.
C) A technological breakthrough occurs that makes production of all goods more efficient.
D) A major pandemic requires a closure of people-facing services like restaurants and schools.

124) *Ceteris paribus*, which of the following events would most likely cause the production possibilities curve to shift outward?
A) The labor supply decreases.
B) New broadband infrastructure increases productivity.
C) Global warming causes increased fires and floods and destroys buildings and machines.
D) A major pandemic requires a "lockdown" of people-facing services like restaurants and schools.

125) Which of these is *not* one of the three basic economic questions?
A) what to produce
B) how to produce
C) for whom to produce
D) how much to charge

126) Which of the following is the best example of land?
A) the water used to make a soft drink
B) a factory that produces new goods and services
C) a barber's chair
D) the ethanol refined from corn

127) Which of the following is the best example of land?
A) the trees in a rainforest
B) the training programs required of employees at a company
C) the blast furnaces used to produce steel
D) the innovative ideas of a product developer

128) Which of the following is *not* a macroeconomic statement?
A) Jenny's wage rate rose, and, in response, she decided to work more hours.
B) The United States has begun trading more with China.
C) The Federal Reserve raised interest rates to combat rising prices.
D) Unemployment has been declining for the past several months.

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129) Which of the following is *not* a macroeconomic statement?
A) Rising gas prices caused Chris to consider purchasing an electric car.
B) The Federal Reserve lowered interest rates at its last meeting.
C) The unemployment rate for the United States rose to 5 percent in the last quarter.
D) Congress passed a stimulus package to aid the faltering economy.

130) Which of the following best describes what allocates resources in the U.S. economy?
A) rules
B) markets
C) regulations
D) government

131) The market mechanism
A) works through central planning by the government.
B) eliminates market failures created by the government.
C) uses prices as a means of communication between consumers and producers.
D) is very inefficient since consumers cannot communicate directly with producers.

132) The market mechanism
A) is an inefficient means of communicating consumer wants to producers.
B) relies on government control and planning.
C) eliminates the market failures caused by government.
D) relies on prices and sales to communicate consumer wants to producers.

133) The essential signal of the market mechanism is
A) income.
B) price.
C) property.
D) government directive.

134) The price of a good or service
A) never has an impact on the market mechanism.
B) serves as the essential signal of the market mechanism.
C) sometimes plays a role in the market mechanism.
D) rarely has an impact on the market mechanism.

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135) Which of the following best describes the "invisible hand"?
A) Price signals drive the market mechanism.
B) Government regulations influence the allocation of society's scarce resources.
C) The Internal Revenue Service enforces the nation's tax laws.
D) Lobbyists influence which laws are passed by Congress.

136) The essential feature of the market mechanism is
A) that every consumer is concerned about the welfare of others.
B) the price signal for both consumers and producers.
C) equity in the distribution of income and housing.
D) government taxation of profits.

137) Laissez-faire refers to
A) the belief that government can make better choices than the market about the mix of output.
B) the economic theory of Karl Marx.
C) a belief of non-intervention by government in the market mechanism.
D) a preference for central planning.

138) Which of the following is most consistent with a market economy?
A) shortages
B) central planners
C) government directives
D) laissez-faire

139) Which of the following individuals is typically associated with a laissez-faire economic policy?
A) Adam Smith
B) Karl Marx
C) The Chairperson of the Federal Reserve
D) John Maynard Keynes

140) Which of the following statements is consistent with central planning?
A) The economy relies heavily on the market mechanism to allocate resources.
B) Government planners play the dominant role in deciding how resources are allocated.
C) Economic decisions are made by large competitive firms.
D) Market prices are used to guide production and consumption activities.

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141) Karl Marx wrote
A) *Das Kapital,* which was used as the rationale for centrally planned economies.
B) *Das Kapital*, which described the virtues of market-based economies.
C) *The Wealth of Nations,* which provided the rationale for centrally planned economies.
D) *The Wealth of Nations,* which described the virtues of market-based economies.

142) Central planning is the principal method for making economic decisions in
A) the United States.
B) Singapore.
C) New Zealand.
D) North Korea.

143) The economy of the United States is best characterized as
A) centrally planned.
B) a laissez-faire model.
C) a mixed economy.
D) a democratic socialist economy.

144) Which of the following factors determines how the market mechanism allocates economic activity?
A) the price of the good
B) the government
C) the presence of foreigners
D) the quantity of the good

145) Consumers play a part in the market mechanism by
A) writing letters to firms asking for certain products.
B) buying goods that they both desire and can afford.
C) voting for their favorite politician.
D) producing the output that firms pay them to produce.

146) Karl Marx viewed _____ as the major flaw within capitalism.
A) state-controlled production
B) labor unions
C) private property ownership
D) social classes

147) Which of the following is *not* a reason why the U.S. government intervenes in the economy?
A) to ensure the safety of products
B) to reduce pollution
C) to make a profit for the government
D) to improve the mix of output

148) If the market mechanism causes the economy to arrive at the wrong mix of output, there is
A) market failure.
B) mixed economy failure.
C) government failure.
D) laissez-faire.

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149) Market failure means
A) government solutions fail to improve economic outcomes.
B) the market mechanism does not produce the best mix of output.
C) the market allocates goods more efficiently than does the government.
D) the market is responsive to consumer demand.

150) When unregulated companies pollute the environment as they produce, then
A) market failure exists.
B) a government failure exists.
C) government regulation is inevitable.
D) the market mechanism is working well.

151) The fact that "the visible hand of the government" may not be any better than the "invisible hand of the marketplace" implies the existence of
A) market failures.
B) microeconomic theory.
C) government failures.
D) macroeconomic theory.

152) Pollution is an example of
A) inefficiency by the polluting firm.
B) market failure.
C) government transfers.
D) economic instability.

153) If government intervention fails to improve economic outcomes, the result is known as
A) government failure.
B) market failure.
C) mixed economy failure.
D) laissez-faire.

154) Government intervention designed to address market failure
A) may either improve or worsen the mix of output produced.
B) will definitely worsen the mix of output produced.
C) will definitely improve the mix of output produced.
D) never has an impact on the mix of output produced.

155) Which of the following is an example of government failure?
A) pollution from production
B) an increase in bureaucracy that fails to improve economic outcomes
C) an increase in airline safety
D) an increase in the costs of production and an improvement in economic outcomes

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156) If government intervention makes the economy worse off, this is referred to as
A) scarce resources.
B) central planning.
C) market failure.
D) government failure.

157) Most Americans do not trust the federal government to do the right thing. If they are correct, then government intervention results in
A) a decrease in opportunity costs.
B) a less desirable mix of output.
C) market failure.
D) less unemployment.

158) Which of these is an example of a market failure?
A) too few doctors and hospitals in rural areas
B) too much pollution in urban areas
C) too many people living in poverty
D) All of these choices are correct.

159) A market failure occurs
A) when the market does not provide the "best" answers to the basic economic questions.
B) when the market doesn't always produce the "right" amount of output.
C) when the government fails to improve market outcomes.
D) both when the market fails to provide the "best" answers to the basic economic questions and when the market doesn't always produce the "right" amount of output.

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160) Which of these scenarios will cause an outward shift of the PPC, representing an increase in production capacity?

A) The 2011 Tōhoku Earthquake and Tsunami in Japan caused widespread destruction, including damage to nuclear power plants, infrastructure, and manufacturing facilities.

B) Germany's robust vocational training and apprenticeship system has helped develop a highly skilled workforce. This system combines theoretical education with practical training and equips workers with specialized skills.

C) Overfishing in the Grand Banks off Newfoundland, Canada, in the early 1990s led to a drastic reduction in fish stocks, which are a natural resource.

D) The COVID-19 pandemic led to widespread economic disruptions globally, including lockdowns, supply chain interruptions, and a reduced workforce.

161) The 2024 National Defense Authorization Act (NDAA) increased military spending by $886 billion, including a 5.2% increase in salaries to administrative staff in the Pentagon, aimed at enhancing national security for the United States. Which of the following outcomes most accurately represents the possible economic trade-offs resulting from this legislation concerning the optimal output mix on the production possibilities curve (PPC)?

A) The production of consumer goods and military goods increased, reflecting a reallocation of resources toward defense priorities and significant movement along the PPC toward the optimal output mix.

B) Production of consumer goods decreased and production of military goods increased, reflecting a reallocation of resources toward defense priorities with movement along the PPC. However, the optimal output mix was not necessarily reached.

C) Production of military goods decreased, allowing more resources to be allocated to consumer goods, ensuring a balanced economy and movement along the PPC toward the optimal output mix.

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D) There will be no change in the production of either military or consumer goods, as a large part of the budget allocation is going toward increasing military administrative salaries.

162) A country is grappling with a significant decrease in its labor force, which is the result of a change in immigration policy that reduces immigration by 300,000 people, 500,000 more deaths than the usual annual rate due to COVID, and the unexpected occurrence of 1,200,000 retirements during a pandemic. What will be the impact of this significant decrease in the labor force on the country's production-possibilities curve (PPC)?

A) The PPC will shift outward because the remaining labor force will work more hours.
B) The PPC will shift inward, reflecting a decrease in the economy's productive capacity because fewer workers can't produce as much output.
C) The PPC will not shift. There will only be movement along the PPC as the mix of output changes.
D) The PPC will not shift. The decrease in the labor force does not affect potential output or the output mix.

163) The first manned mission to Mars makes a groundbreaking discovery of a vast deposit of dilithium crystals. This discovery paves the way for the development of matter–antimatter reactors, a revolutionary technology that could power all manufacturing plants on earth with affordable, clean energy. This not only promises a significant reduction in production costs but also a substantial increase in production efficiency across all industries, ushering in a new era of economic prosperity. How will this technological advance affect the country's production possibilities curve (PPC)?

A) Shift the PPC outward, indicating increased potential output due to lower production costs.
B) Shift the PPC inward, indicating decreased potential output because less labor will be needed in production processes.
C) No shift in the PPC, but a change in the allocation of resources to change the mix of output indicated by movement along the PPC.
D) The PPC will become linear, indicating perfect substitution between goods.

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164) State and federal governments pass legislation that provides increased funding for scholarships and grants to make attending public colleges or receiving vocational training more affordable. How will this additional funding likely affect the country's production-possibilities curve (PPC)?
A) The PPC will shift inward, indicating a loss in productive capacity because everyone will want to go to school instead of work.
B) The PPC will remain unchanged, as education and training do not directly affect output.
C) The PPC will shift outward, reflecting increased productivity and potential output because the labor force is better trained and skilled.
D) The PPC will become convex, indicating increased specialization in production.

165) When President Biden made health care a top priority of his administration, which factor of production was he most interested in bolstering?
A) land
B) labor
C) capital
D) entrepreneurship

166) As spending on health care increased due to President Biden's policies in the wake of the pandemic, the production possibilities model suggests that
A) spending on all other goods must have risen.
B) the production possibility curve shifted outward.
C) spending on all other goods must have fallen.
D) the production possibility curve shifted inward.

167) The reason some people objected to President Biden's focus on increased health care spending can best be described by which of the following statements?
A) Resources are scarce.
B) The government never fails.
C) The market never fails.
D) Opportunity costs only sometimes exist.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

168) Explain opportunity cost. Give one example of an opportunity cost.

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169) What are the factors of production? How do these factors play a role in an economy answering the three Basic Economic Questions?

170) Define market mechanism and discuss Adam Smith's explanation of the "invisible hand."

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Answer Key

Test name: Chapter 01

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

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78) A
79) A
80) A
81) D
82) B
83) C
84) B
85) D
86) B
87) D
88) B
89) B
90) A
91) D
92) C
93) A
94) C
95) C
96) A
97) A
98) B
99) C
100) A
101) D
102) C
103) C
104) B
105) A
106) A
107) D
108) B
109) A
110) B
111) A
112) D
113) B
114) A
115) C
116) D
117) B
118) D
119) C
120) A
121) A
122) B
123) D
124) B
125) D
126) A
127) A
128) A
129) A
130) B
131) C
132) D
133) B
134) B
135) A
136) B
137) C
138) D
139) A
140) B
141) A
142) D
143) C
144) A
145) B
146) C
147) C
148) A
149) B
150) A
151) C
152) B
153) A
154) A
155) B
156) D
157) B

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158) D
159) D
160) B
161) B
162) B
163) A
164) C
165) B
166) C
167) A
168) Essay
169) Essay
170) Essay

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