Exploring Economics 7th edition Sexton Test Bank

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1. Scarcity is a problem faced by all but the wealthiest of citizens.
   a. True
   b. False
ANSWER: False
POINTS: 1
REFERENCES: p. 37
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Does Everyone Face Scarcity?

2. Resources are costly because they have alternative uses.
   a. True
   b. False
ANSWER: True
POINTS: 1
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Does Everyone Face Scarcity?

3. Tractors, shovels, copy machines and computer programming expertise are all examples of scarce resources.
   a. True
   b. False
ANSWER: True
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

4. In order to not face tradeoffs, scarcity would have to be eliminated.
   a. True
   b. False
ANSWER: True
POINTS: 1
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Does Everyone Face Scarcity?

5. Human capital consists of computers, tools and equipment owned by private individuals.
   a. True
   b. False
ANSWER: False
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

6. An entrepreneur organizes the other factors of production and bears the business risk.
   a. True
   b. False
ANSWER: True
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

7. Everyone faces scarcity.

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a. True
b. False

ANSWER: True
POINTS: 1
REFERENCES: p. 37
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Does Everyone Face Scarcity?

8. Garbage is scarce because it is abundant.
a. True
b. False

ANSWER: False
POINTS: 1
REFERENCES: p. 37
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | What Are Goods and Services?

9. If you made a wish list of things you wanted but did not now have, they you became able to have the things on that list, scarcity would be eliminated.
a. True
b. False

ANSWER: False
POINTS: 1
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Does Everyone Face Scarcity?

10. Every choice has a cost
a. True
b. False

ANSWER: True
POINTS: 1
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Does Everyone Face Scarcity?

11. A permanent change to a much higher price of gasoline would lead us to expect fewer gas guzzlers on the road, ceteris paribus.
a. True
b. False

ANSWER: True
POINTS: 1
REFERENCES: p. 44
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

12. Economists would predict that if salaries increased for engineers and decreased for MBAs, fewer people than before would go to graduate school in business and more than before would go in engineering, ceteris paribus.
a. True
b. False

ANSWER: True
POINTS: 1
REFERENCES: p. 46-47

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TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

13. Marginal cost is the additional cost incurred as a result of making an economic decision.
    a. True
    b. False

ANSWER: True
POINTS: 1
REFERENCES: p. 42-43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

14. When considering whether or not to consume a second slice of cake, an individual is following marginal thinking if she compares the total cost of consuming both the first and second slices with their total benefit before making a decision.
    a. True
    b. False

ANSWER: False
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

15. If Xavier gives up a job in which he earns $23,000 per year in order to go to college full time, his foregone income is part of the opportunity cost of going to college.
    a. True
    b. False

ANSWER: True
POINTS: 1
REFERENCES: p. 40
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | The Opportunity Cost of Going to College or Having a Child

16. The opportunity cost of attending college is likely to be higher for a high school graduate who leaves a job grilling hamburgers than it is for a high school dropout who leaves a job working as a computer network administrator.
    a. True
    b. False

ANSWER: False
POINTS: 1
REFERENCES: p. 40
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | The Opportunity Cost of Going to College or Having a Child

17. The opportunity cost of a decision is the value of the best foregone alternative to the decision-maker.
    a. True
    b. False

ANSWER: True
POINTS: 1
REFERENCES: p. 39

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TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

18. The opportunity cost of a decision is the value of all of the available alternatives that were not chosen.
    a. True
    b. False
ANSWER: False
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

19. Since it is possible to grow coffee in the United States, the U.S. would gain by creating a domestic coffee industry rather than importing coffee from Brazil.
    a. True
    b. False
ANSWER: False
POINTS: 1
REFERENCES: p. 49
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

20. A country has a comparative advantage in the production of DVD players if it can produce DVD players at a lower opportunity cost than others.
    a. True
    b. False
ANSWER: True
POINTS: 1
REFERENCES: p. 48
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Why Do People Specialize?

21. Small, developing countries must first become self-sufficient before they can benefit from international trade.
    a. True
    b. False
ANSWER: False
POINTS: 1
REFERENCES: p. 49
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

22. Market failure is a term used to describe what happens when market arrangements do not allocate resources efficiently.
    a. True
    b. False
ANSWER: True
POINTS: 1
REFERENCES: p. 54
TOPICS: 2.6 Appropriate Government Policies Can Improve Market Outcomes | Market Failure

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23. Government price controls make communication of information between buyers and sellers more effective.

a. True

b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 53

TOPICS: 2.5 Markets Can Improve Economic Efficiency | What Effect Do Price Controls Have on the Market System?

24. It is difficult to make the concept of need useful because it is difficult to define and compare "needs" among people.

a. True

b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 37

TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Human Wants Exceed Available Resources

25. The market mechanism assures full employment and stable prices

a. True

b. False

ANSWER: False

POINTS: 1

REFERENCES: p. 57

TOPICS: 2.7 Government Policies May Help Stabilize the Economy | Introduction

26. Almost everyone is affected directly or indirectly by high rates of employment or high and variable rates of inflation.

a. True

b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 57

TOPICS: 2.7 Government Policies May Help Stabilize the Economy | Introduction

27. Inflation is an increase in the overall price level in the economy.

a. True

b. False

ANSWER: True

POINTS: 1

REFERENCES: p. 58

TOPICS: 2.7 Government Policies May Help Stabilize the Economy | Inflation

28. Unemployment can be caused by downswings in the business cycle, people changing jobs, different skills needed by employers, or seasonal fluctuations in demand.

a. True

b. False

ANSWER: True

POINTS: 1

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REFERENCES: p. 58
TOPICS: 2.7 Government Policies May Help Stabilize the Economy | Unemployment

29. Sustained economic growth occurs when workers' productivity rises.
    a. True
    b. False
ANSWER: True
POINTS: 1
REFERENCES: p. 60
TOPICS: 2.8 Higher Productivity Growth Leads to Greater Long-Run Economic Growth | Defining Economic Growth

30. The only way that an economy can increase its rate of consumption in the long run is by increasing the amount that it produces.
    a. True
    b. False
ANSWER: True
POINTS: 1
REFERENCES: p. 61
TOPICS: 2.8 Higher Productivity Growth Leads to Greater Long-Run Economic Growth | Economic Growth, Productivity, and the Standard of Living

31. Economic choices or tradeoffs are the result of:
    a. human greed.
    b. scarcity.
    c. poverty.
    d. private ownership of resources.
ANSWER: b
POINTS: 1
REFERENCES: p. 38
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Trade-Offs

32. Scarcity means that:
    a. human desires are limited.
    b. resources are insufficient to satisfy all human desires.
    c. choices are unnecessary.
    d. all but the very wealthy must face choices.
ANSWER: b
POINTS: 1
REFERENCES: p. 37
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Does Everyone Face Scarcity?

33. Scarcity applies to:
    a. only the poor.
    b. the value of our time.
    c. both the rich and poor.
    d. both (b) and (c)

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ANSWER: d
POINTS: 1
REFERENCES: p. 37
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Does Everyone Face Scarcity?

34. Scarcity:
a. is only a problem in communist countries.
b. is a problem in both communist and socialist countries, but not in market economies.
c. does not exist in wealthy countries.
d. will never be eradicated because humans develop new wants as productive capabilities improve.
ANSWER: d
POINTS: 1
REFERENCES: p. 37-38
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Will Scarcity Ever Be Eradicated?

35. Scarcity:
a. exists in command economies.
b. exists in market economies.
c. exists only for the poor in any type of economy.
d. (a) and (b) above are correct
ANSWER: d
POINTS: 1
REFERENCES: p. 37
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

36. Which of the following is false?
a. A resource is anything that can be used to produce anything else we value.
b. Resources are costly because they have alternative uses.
c. Losses mean resources are not being used efficiently.
d. None of the above is false; all are true.
ANSWER: d
POINTS: 1
REFERENCES: p. 37
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

37. Which of the following is false?
a. Tangible goods are inherently more valuable than intangible goods.
b. Scarcity forces people to compete.
c. The elimination of a bad can be considered a good.
d. None of the above is false; all are true.
ANSWER: a
POINTS: 1
REFERENCES: p. 37
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | What Are Goods and Services?

38. Scarcity

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a. Can be eradicated with sufficient economic growth.
b. Could be eradicated if we could just eliminate greed.
c. Can never be eradicated
d. Both a. and b. are true

ANSWER: c
POINTS: 1
REFERENCES: p. 37
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Will Scarcity Ever Be Eradicated?

39. Scarce goods are:
a. desirable and unlimited in amount.
b. undesirable and unlimited in amount.
c. desirable and limited in amount.
d. undesirable and limited in amount.

ANSWER: c
POINTS: 1
REFERENCES: p. 37
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

40. An economy's resources:
a. include land, labor, capital, and entrepreneurial skills.
b. are unlimited in a country like the United States.
c. are always efficiently utilized in wealthy nations.
d. consist of land, labor and capital, but not entrepreneurial skills.

ANSWER: a
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

41. Which of the following is not a resource for a society?
a. capital goods, like factories and machine tools
b. entrepreneurship
c. legal institutions
d. labor

ANSWER: c
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

42. Which of the following is not a resource for a society?
a. cash
b. entrepreneurship
c. land
d. labor

ANSWER: a
POINTS: 1

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REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

43. Resources are
a. scarce for households but abundant for the whole economy
b. abundant for households but scarce for the whole economy
c. scarce for households and scarce for the whole economy.
d. abundant for households and the whole economy.
ANSWER: c
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

44. Which of the following is an example of a resource?
a. Land
b. Capital
c. Entrepreneurship
d. All of the above are resources
ANSWER: d
POINTS: 1
REFERENCES: p. 37
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

45. Which of the following is an example of a resource?
a. a river
b. a tractor
c. the chef at a restaurant
d. all of the above are resources
ANSWER: d
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

46. Which of the following is not an example of a resource?
a. an office building
b. a product's price
c. the land plowed by a farmer in order to grow corn
d. the chief executive officer of a large corporation
ANSWER: b
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

47. To economists, the resource category land includes all of the following except:
a. trees.
b. a sawmill.

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c. a water body.
d. a limestone deposit.

ANSWER: b
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

48. Which of the following would be categorized as capital resources for a college or university?
a. water, trees, and the acreage a campus rests on
b. chalkboards, overhead projectors, and computers
c. exams, fuel oil (which heats the buildings), and electricity
d. the work effort of registrars, clerical assistants and teaching assistants

ANSWER: b
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

49. An example of physical capital is:
a. a $100 bill.
b. a stock certificate.
c. a chainsaw.
d. a cheeseburger.

ANSWER: c
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

50. An example of a capital resource is:
a. stock in a computer software company.
b. a bond issued by a company selling electric generators.
c. a dump truck.
d. an employee of a moving company.

ANSWER: c
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

51. Which of the following is an example of a capital resource?
a. an unskilled worker
b. a large coal deposit
c. a fishing boat
d. yellow-fin tuna

ANSWER: c
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

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52. Which of the following is not an example of a capital resource?
    a. a drill press machine
    b. a pitch fork
    c. a commercial sewing machine
    d. 100 acres of farmland in central California
ANSWER: d
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

53. Which of the following is an example of a capital resource?
    a. redwood trees
    b. unskilled labor
    c. stocks and bonds
    d. an oil rig
ANSWER: d
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

54. The function of an entrepreneur is to:
    a. bear business risks.
    b. organize the other factors of production.
    c. innovate.
    d. do all of the above.
ANSWER: d
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

55. Entrepreneurship is:
    a. human capital.
    b. another word for the financial capital that can be used to start a business.
    c. the resource that organizes the other factors of production in order to produce goods and/or services.
    d. another word for physical capital that is used to produce goods and services.
ANSWER: c
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

56. Every time an individual decides to try out new equipment, or finds better ways to manage money, he or she is exhibiting aspects of:
    a. money management.
    b. entrepreneurship.
    c. strategic management.

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d. capital management.

ANSWER: b
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

57. An example of an intangible good is:
a. an automobile.
b. a new house.
c. a snowplow.
d. friendship.

ANSWER: d
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | What Are Goods and Services?

58. All of the following are intangible except:
a. health.
b. love.
c. computer programming expertise.
d. All of the above are intangible goods.

ANSWER: d
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | What Are Goods and Services?

59. All of the following are tangible goods except:
a. a skateboard.
b. a desk.
c. a train locomotive.
d. fairness.

ANSWER: d
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | What Are Goods and Services?

60. Economic goods are:
a. only those commodities priced in monetary terms.
b. scarce products that are created from scarce resources.
c. the opposite of normative economic goods.
d. not subject to scarcity.

ANSWER: b
POINTS: 1
REFERENCES: p. 36-37
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | What Are Goods and Services?

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61. Which of the following observations regarding economic goods is incorrect?
    a. They are limited in supply.
    b. They are desirable.
    c. They are solely low-priced essential goods.
    d. They are scarce goods created from scarce resources

ANSWER: c
POINTS: 1
REFERENCES: p. 36-37
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | What Are Goods and Services?

62. The expression, "There's no such thing as a free lunch" implies that:
    a. everyone has to pay for his/her own lunch.
    b. the person consuming a good must always pay for it.
    c. costs must be incurred when resources are used to produce goods and services.
    d. no one has time for a good lunch anymore.

ANSWER: c
POINTS: 1
REFERENCES: p. 40-41
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Is That Really a Free Lunch, a Freeway, or a Free Beach?

63. Which of the following is true?
    a. Tangible goods are subject to economic analysis but intangible goods are not.
    b. Intangible goods are just an alternative term for services.
    c. Goods and services can be made costless by having the government give them away to citizens.
    d. All goods and services, whether tangible or intangible, are made from scarce resources and are subject to economic analysis.

ANSWER: d
POINTS: 1
REFERENCES: p. 36-37
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | What Are Goods and Services?

64. Trent decides to spend an hour playing basketball rather than studying. His opportunity cost is:
    a. nothing because he enjoys playing basketball more than studying.
    b. the foregone benefit to his grades from studying for an hour.
    c. the increase in skill he obtains from playing basketball for that hour.
    d. nothing because he had a free pass into the sports complex to play basketball.

ANSWER: b
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

65. Which of the following is true”
    a. To choose is to lose.
    b. Scarcity forces us to compete, but not to choose.
    c. Scarcity forces us to choose, but not to compete.

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d. Economic principles would be irrelevant if scarcity was eliminated.

ANSWER: a
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

66. The opportunity cost of an action is equal to:
a. only the monetary payment the action required.
b. the total time spent by all parties in carrying out the action.
c. the highest valued opportunity that must be sacrificed in order to take the action.
d. the value of all of the alternative actions that could have been taken.

ANSWER: c
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

67. The opportunity cost of going to college includes:
a. both tuition and the value of the student's time.
b. tuition, but not the value of the student's time, which is a non-monetary cost.
c. neither tuition nor the value of the student's time, since obtaining a college degree makes one's income higher in the future.
d. neither tuition nor the value of the student's time, at least at state-supported universities and colleges.

ANSWER: a
POINTS: 1
REFERENCES: p. 40
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | The Opportunity Cost of Going to College or Having a Child

68. Opportunity cost includes
a. monetary costs only.
b. non-monetary costs only.
c. both monetary and non-monetary costs.
d. neither monetary nor non-monetary costs.

ANSWER: c
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

69. A student has a chance to see Taylor Swift in concert. The student also has a major economics exam in the morning. If the student goes to the concert:
a. she may receive a lower grade on the economics exam.
b. the opportunity cost of the concert includes the value of the time that would otherwise have been spent studying.
c. the decision involves a tradeoff.
d. all of the above are correct.

ANSWER: d
POINTS: 1

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REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

70. The opportunity cost of an item is:
a. greater during periods of inflation and lower during periods of deflation.
b. the highest valued alternative you give up to get that item.
c. the value of all available alternatives you sacrifice to get that item.
d. always equal to the dollar value of the item.
ANSWER: b
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

71. "If I didn't have class tonight, I would save the $4 campus parking fee and spend four hours at work where I earn $10 per hour." The opportunity cost of attending class this evening is:
a. $4.
b. $40.
c. $44.
d. $0.
ANSWER: c
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

72. "If I didn't go to class tonight, I would save the $2 campus parking fee and spend three hours at work where I earn $10 per hour." The opportunity cost of attending class this evening is:
a. $0.
b. $2.
c. $30.
d. $32.
ANSWER: d
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

73. As student reasons that "If I didn't go to class tonight, I would spend three hours at work where I earn $10 per hour. In addition, my annual parking permit costs the equivalent of $2 per day." The opportunity cost to that student of attending that class this evening is:
a. $0.
b. $2.
c. $30.
d. $32.
ANSWER: c
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

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74. Which of the following statements is true?
    a. The opportunity cost of a decision is equal to the explicit cost in monetary terms.
    b. The opportunity cost of a decision is the value of the best foregone alternative.
    c. Some economic decisions have zero opportunity cost.
    d. The opportunity cost of attending college is the same for all students at the same university but may differ among students at different universities.

ANSWER: b
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

75. The opportunity cost of attending college is likely to include all except which of the following?
    a. the cost of required textbooks
    b. tuition fees
    c. the income you forego in order to attend classes
    d. the cost of haircuts received during the school term

ANSWER: d
POINTS: 1
REFERENCES: p. 40
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | The Opportunity Cost of Going to College or Having a Child

76. The opportunity cost of attending a university for a year is measured by:
    a. the tuition fees incurred.
    b. the size of the student loans the student becomes responsible for.
    c. the sum of all expenditures on rent, food, books, and tuition incurred during the school year.
    d. the value of the best opportunity or opportunities foregone in order to enroll for the year.

ANSWER: d
POINTS: 1
REFERENCES: p. 40
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | The Opportunity Cost of Going to College or Having a Child

77. Jamie and Danny both attend the same college and incur the same expenses for tuition, books, and school supplies. Jamie gave up a lucrative modeling job in Paris to attend school full-time and Danny gave up a part-time job as a sales clerk in a department store. It follows that:
    a. the opportunity cost of attending college is the same for both since they are enrolled at the same academic institution.
    b. the opportunity cost of attending college is likely greater for Jamie than for Danny.
    c. the opportunity cost of attending college is likely greater for Danny than for Jamie.
    d. the opportunity cost is minimal for both since college graduates are paid much higher than high school graduates on average.

ANSWER: b
POINTS: 1
REFERENCES: p. 40
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | The Opportunity Cost of Going to College or Having a Child

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78. The opportunity cost of an airplane flight:

a. differs across passengers only to the extent that each traveler pays a different airfare.

b. is identical for all passengers and equal to the number of hours a particular flight takes.

c. differs across passengers to the extent that both airfares paid and the highest valued use of travel time vary.

d. is equal to the cost of a bus ticket, the next best form of alternative transportation to flying.

ANSWER: c
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

Exhibit 2-1

Possibility A	Economics Score	History Score
I	94	76
II	87	84
III	77	91

79. Refer to Exhibit 2-1. A student has only a few hours to prepare for two different exams this afternoon. The above table shows alternative possible exam scores with three alternative uses of the student's time. The opportunity cost of scoring a 94 on the economics exam rather than a 77 is:

a. 8 fewer points on the history exam.

b. 15 fewer points on the history exam.

c. 76 points on the history exam.

d. 91 points on the history exam.

ANSWER: b
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

80. Refer to Exhibit 2-1. A student has only a few hours to prepare for two different exams tomorrow morning. The above table shows alternative possible exam outcomes with three alternative uses of the student's time. The opportunity cost of scoring an 84 on the history exam rather than 76 is:

a. 10 fewer points on the economics exam.

b. 7 fewer points on the economics exam.

c. 8 fewer points on the history exam.

d. 12 fewer points on the economics exam.

ANSWER: b
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

81. Refer to Exhibit 2-1. A student has only a few hours to prepare for two different exams tomorrow morning. The above table shows alternative possible exam outcomes with three alternative uses of the student's time. The opportunity cost of scoring an 91 on the history exam rather than 76 is:

a. 10 fewer points on the economics exam.

b. 17 fewer points on the economics exam.

c. 7 fewer points on the economics exam.

d. 15 fewer points on the economics exam.

ANSWER: b

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POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

82. Opportunity costs:
a. only include explicit costs paid out-of-pocket.
b. never involve costs paid out-of-pocket.
c. may or may not involve costs paid out-of-pocket.
d. are always measured in terms of time.
ANSWER: c
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

83. The opportunity cost of an action includes:
a. the monetary expenses incurred as a result of the action.
b. the highest valued alternative use of the time spent on the action.
c. the benefits received as a result of the action.
d. only a. and b.
ANSWER: d
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

84. The opportunity cost of an action is always equal to:
a. the monetary expense incurred as a result of the action.
b. the value of any alternative use of the time expended on the action.
c. the highest valued alternatives sacrificed as a result of the action.
d. the sum of the benefits received as a result of the action.
ANSWER: c
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

85. The opportunity cost of an action:
a. can be objectively determined only by economists.
b. is a subjective valuation that can only be determined by the individual who chooses the action.
c. can be determined by adding up the dollar costs incurred as a result of the action.
d. can be determined by considering both the benefits that flow from as well as the monetary costs incurred as a result of the action.
ANSWER: b
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

86. The opportunity cost of attending a college basketball game tonight would increase if:

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a. Your friend offers to pay you more for your ticket, because he really wants to go.
b. Your favorite player on the teams is injured and will not play tonight.
c. Your economics TA decides to offer a review session, for which attendance will count 10% of your course grade, at the same time as the game
d. Either a. or c. occurs

ANSWER: d
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

87. Opportunity cost:
a. Always refers to the dollar price paid for a good.
b. Always equals the best alternative value of the time spent in going to a concert or sporting event.
c. Of any good is zero for any good that is given away free, if you wait in a line to get it.
d. Increases when the best foregone alternative becomes more valuable.

ANSWER: d
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

88. The opportunity cost of an action is:
a. the value of the best foregone alternative.
b. the difference between the benefits that result and the expenses incurred as a result of the action.
c. the same as the expected benefit of the action.
d. the same for everyone who undertakes the action.

ANSWER: a
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

89. Lance's boss offers him twice his usual wage rate to work tonight instead of taking his girlfriend on a romantic date. This offer will likely:
a. not affect the opportunity cost of going on the date.
b. reduce the opportunity cost of going on the date because giving up the additional work dollars will make his girlfriend feel even more appreciated.
c. increase the opportunity cost of going on the date.
d. reduce the opportunity cost of working.

ANSWER: c
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

90. The opportunity cost of a two-week vacation in Hawaii for an Arizona resident includes:
a. the cost of the beach resort hotel accommodations.
b. the airfare to and from Honolulu International Airport.
c. the time that could have been used to travel somewhere else.

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d. all of the above.

ANSWER: d
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

91. The opportunity cost of attending a concert would include:
a. the price you paid for the ticket and the value of your time.
b. the price you paid for the ticket, but not the value of your time.
c. the value of your time, but not the price you paid for the ticket.
d. neither the price of the ticket nor the value of your time.

ANSWER: a
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

92. A university offers a free shuttle service around campus. The opportunity cost of the shuttle service to the university is equal to:
a. zero, since it is free to students who want to ride.
b. the wages paid to the shuttle drivers.
c. the wages paid to the shuttle drivers, plus the gasoline expenses.
d. the highest valued alternative use of the resources devoted to the shuttle program.

ANSWER: d
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

93. In order to acquire more of a good we must sacrifice production of another good, because resources are in limited supply. This illustrates the concept of:
a. the division of labor.
b. *ceteris paribus*.
c. opportunity cost.
d. specialization.

ANSWER: c
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

94. Airlines that restrict members' ability to use frequent flyer miles during holiday periods likely do so because:
a. the opportunity cost to airlines of filling seats with frequent flyers is lower at these times.
b. the opportunity cost to airlines of filling seats with frequent flyers is higher at these times.
c. passengers have more transportation alternatives available to them at these times.
d. airlines want to protect their most loyal customers from the discomfort of overcrowded airplanes.

ANSWER: b
POINTS: 1
REFERENCES: p. 39

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TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

95. Marginal thinking is best demonstrated by:
    a. choosing to spend one more hour studying economics because you think the improvement in your score on the next quiz will be worth the sacrifice of time.
    b. deciding to never purchase a coat made with animal skins or furs.
    c. acquiring all the information relevant to a choice before making that choice.
    d. measuring all of the costs of a meal against all of the benefits when deciding whether to order a second milkshake.

ANSWER: a
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

96. Which of the following is false?
    a. If a choice is rational for an individual, people would all agree that it was wise.
    b. Rational choices can be wrong.
    c. When circumstances or expectations change, what is rational for an individual could change.
    d. None of the above are false; all are true.

ANSWER: d
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Do People Engage in Rational Decision Making?

97. According to the rule of rational choice, an individual will undertake an activity as long as:
    a. the expected marginal benefits are less than the expected marginal costs.
    b. the expected marginal benefits are greater than the expected marginal costs.
    c. total expected costs exceed total expected benefits.
    d. total expected benefits exceed total expected costs.

ANSWER: b
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

98. Which of the following best describes rational behavior?
    a. analyzing the total expected costs of a decision
    b. analyzing the total expected benefits of a decision
    c. Continuing to undertake an activity until its total expected benefit no longer exceeds its total expected cost
    d. undertaking activities as long as the marginal expected benefit exceeds the marginal expected cost

ANSWER: d
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

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99. The additional benefit received as a result of undertaking an action is:
a. the opportunity cost.
b. the marginal cost.
c. the marginal benefit.
d. the total benefit.

ANSWER: c
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

100. The additional cost incurred as a result of undertaking an action is:
a. the opportunity benefit.
b. the marginal benefit.
c. the total cost.
d. the marginal cost.

ANSWER: d
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

101. The marginal (dollar) cost of an additional plate of food to a patron at an "All-You-Can-Eat" restaurant is:
a. equal to the price paid for the meal divided by the number of plates of food consumed.
b. equal for every plate of food consumed during the meal.
c. equal to zero.
d. equal to the price paid for the meal (since there is no such thing as a free lunch).

ANSWER: c
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

102. Marginal analysis involves:
a. comparing the total benefits of all actions to the total costs incurred as a result of those actions.
b. abstract thinking, which is never actually utilized by consumers when making purchasing decisions.
c. holding all other variables constant when isolating the relationship between two variables.
d. comparing the additional benefit from an action to the additional cost.

ANSWER: d
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

103. An airline decides to sell 5 seats that would otherwise remain unoccupied on a flight from California to Chicago for $300 each, instead of the regular price per ticket of $450 each. We can probably conclude that:

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a. The marginal cost of providing each added seat on the flight was less than $300.
b. The average cost of providing each seat on the flight was less than $300.
c. The marginal cost of providing each seat on the flight was less than $450 but more than $300.
d. The average cost of providing each seat on the flight was $450.

ANSWER: a
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

104. Suppose you are managing a 100 room hotel that has 5 empty rooms for tonight. The cost of operating your 100 room hotel for a night is $10,000 and the average cost is $100 per room. If the marginal cost of operating one room for one night is $30 and a customer is willing to pay $50 for the night, you should
a. rent the room because the marginal benefit exceeds the marginal cost.
b. rent the room because the marginal benefit exceeds the average cost.
c. not rent the room because the marginal benefit is less than the marginal cost.
d. not rent the room because the marginal benefit is less than the average cost.

ANSWER: a
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

105. Al B. Core works at a Fresh Fish Market. The market sells fresh fish from 9 a.m. until 7 p.m. every day. The store does not sell day-old fish, so all unsold fish are thrown away at 7 p.m. each day. If Al has lots of fresh fish left at the end of the day that cost him $300 to acquire, what should Al do?
a. Lower the price of the remaining fish, even if he can't recover his $300.
b. Lower the price of the remaining fish, but under no circumstances should the price fall below $300 for the remaining fish.
c. Throw the fish away even if he could sell some of them at a discounted price.
d. Starting tomorrow, lower the price on all fish so they will all be sold by mid-day.

ANSWER: a
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

106. The rule of rational choice suggests that you will engage in more of an activity if:
a. the total benefit from that activity exceeds the total cost of the activity.
b. the total cost from that activity exceeds the total benefit of the activity.
c. the additional cost incurred as a result of the activity exceeds the additional benefit received.
d. the additional benefit received as a result of the activity exceeds the additional cost incurred.

ANSWER: d
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

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107. If a student enrolls in an additional course at the university, an economist would conclude that:
a. the total benefit that the student expects to receive as a result of completing her college degree exceeds the total cost of her college education.
b. the student is not following the rule of rational choice.
c. the student must not be involved in extracurricular campus activities.
d. the expected marginal benefit of an additional course must exceed the expected marginal cost of the course.

ANSWER: d
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

108. The price of a ticket to the latest Broadway musical is $80. You will purchase a ticket if:
a. you are acting irrationally
b. you place a lower valuation on seeing the musical than $80 but are extremely bored.
c. your expected marginal benefit from viewing the musical exceeds $80.
d. your expected marginal cost from viewing the musical exceeds $80.

ANSWER: c
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

109. The expected marginal benefit to you from purchasing a new sport utility vehicle is $20,000. The price of the new sport utility vehicle is $22,000.
a. If you are acting rationally, you will borrow $2,000 and purchase a new sport utility vehicle.
b. You will not purchase the new sport utility vehicle at this time if you are acting rationally.
c. If you do not purchase the new sport utility vehicle, your net loss will be $2,000.
d. If you are acting rationally, you will purchase sport utility vehicles until the marginal cost of doing so falls to $20,000.

ANSWER: b
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

110. The marginal benefit to you of drinking one more bottled iced tea is $1.50. The price of a bottle of iced tea is $1.25.
a. If you purchase iced tea you will suffer a net loss of 25 cents per bottle.
b. If you purchase a bottle of iced tea, the net gain to you from doing so is 25 cents.
c. You will not purchase iced tea if you are acting rationally.
d. If you are acting rationally, you will purchase iced tea until the marginal benefit falls to 25 cents.

ANSWER: b
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

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111. Individuals will only pursue an activity if:

a. E(MB) ≤ E(MC).

b. E(MB) = E(MC).

c. E(MB) > E(MC).

d. E(MB) < E(MC).

ANSWER: c

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

112. Jared declines to purchase a new bicycle priced at $200. Therefore:

a. Jared does not enjoy riding a bicycle.

b. the expected marginal benefit of the bicycle to Jared exceeds $200 that could be spent on other things.

c. the expected marginal benefit of the bicycle to Jared is less than $200.

d. None of the above is true.

ANSWER: c

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

113. Rational choices:

a. are based on a comparison of total benefits and total costs.

b. can only be made by those who are economists.

c. are made based on expectations of the additional benefits and additional costs involved.

d. measure benefits based on the past.

ANSWER: c

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

114. The rule of rational choice:

a. requires the availability of complete information before decisions can be made.

b. can only be applied in business decisions.

c. involves "marginal thinking."

d. is the basis on which only greedy people make decisions.

ANSWER: c

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

115. Gallons of milk at a local grocery store are priced at one for $4.00, or two for $6.00. The marginal cost of buying a second gallon of milk:

a. equals $6.00.

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b. equals $4.00.
c. equals $3.00.
d. equals $2.00.

ANSWER: d
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

116. Quarts of orange juice at a local grocery store are priced at one for $3.00, or two for $5.00. The marginal cost of buying a second quart of orange juice:
a. equals $2.00.
b. equals $2.50.
c. equals $3.00.
d. equals $5.00.

ANSWER: a
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

117. The marginal benefit to Isabella of weekend vacations during the year at a local resort are given by the following schedule:

Number of Weekend Vacations	Marginal Benefit
1	$600
2	$550
3	$475
4	$325
5	$250
6	$180

If the marginal cost of a weekend vacation at the local resort is constant and equal to $240, how many weekends at the local resort is Isabella likely to enjoy?
a. 2
b. 3
c. 4
d. 5

ANSWER: b
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

118. The marginal benefit to Isabella of weekend vacations during the year at a local resort are given by the following schedule:

Number of Weekend Vacations	Marginal Benefit
1	$600
2	$550
3	$475

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4	$325
5	$250
6	$180

If the marginal cost of a weekend vacation at the local resort is constant and equal to $240, how many weekends at the local resort is Isabella likely to enjoy?

a. 3
b. 4
c. 5
d. 6

ANSWER: c
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

119. Economists believe that people respond to incentives in predictable ways. Therefore, if the government imposed a tax on each child born, you would expect that:

a. families would have the same number of children, but wait longer to begin having them.
b. more children would be born, but spaced further apart.
c. more children would be adopted.
d. fewer children would be born.

ANSWER: d
POINTS: 1
REFERENCES: p. 46-47
TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

120. If you can figure out what people's_____ are, there is a good chance you can predict their behavior.

a. birthdays
b. incentives
c. total costs
d. marginal costs

ANSWER: b
POINTS: 1
REFERENCES: p. 46-47
TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

121. The following table shows the marginal benefit to a consumer of DVD rentals.

DVD Rentals per Month	Marginal Benefit (in dollars)
1	$8.50
2	$7.50
3	$6.50
4	$5.50
5	$4.50
6	$3.50
7	$2.50
8	$1.50

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If the price of a DVD rental is $4, a consumer following the rule of rational choice will rent:

a. 2 DVDs per month.
b. 3 DVDs per month.
c. 4 DVDs per month.
d. 5 DVDs per month.

ANSWER: d
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

122. The following table shows the marginal benefit to a consumer of DVD rentals.

DVD Rentals per Month	Marginal Benefit (in dollars)
1	$8.50
2	$7.50
3	$6.50
4	$5.50
5	$4.50
6	$3.50
7	$2.50
8	$1.50

If the price of a DVD rental is $6, a consumer following the rule of rational choice will rent:

a. 2 DVDs per month.
b. 3 DVDs per month.
c. 4 DVDs per month.
d. 5 DVDs per month.

ANSWER: b
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

123. The following table shows the marginal benefit to a consumer from viewing theatrical-release films each month.

Movie Tickets per Month	Marginal Benefit (in dollars)
1	$10.50
2	$ 9.50
3	$ 8.50
4	$ 7.50
5	$ 6.50
6	$ 5.50
7	$ 4.50
8	$ 3.50

If the price of a movie ticket is $8, a consumer following the rule of rational choice will purchase:

a. 2 movie tickets per month.
b. 3 movie tickets per month.
c. 4 movie tickets per month.
d. 5 movie tickets per month.

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ANSWER: b

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

124. The following table shows the marginal benefit to a consumer from viewing theatrical-release films each month.

Movie Tickets per Month	Marginal Benefit (in dollars)
1	$10.50
2	$ 9.50
3	$ 8.50
4	$ 7.50
5	$ 6.50
6	$ 5.50
7	$ 4.50
8	$ 3.50

If the price of a movie ticket is $6, a consumer following the rule of rational choice will purchase:

a. 2 movie tickets per month.

b. 3 movie tickets per month.

c. 4 movie tickets per month.

d. 5 movie tickets per month.

ANSWER: d

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

125. The marginal cost of a vacation in the south of France is $4,500. The marginal benefit to Madeline of a vacation in the south of France is $4,800.

a. Madeline will lose $300 if she vacations in the south of France.

b. Madeline will experience a net gain of $300 if she vacations in the south of France.

c. Madeline will be worse off if she vacations in the south of France.

d. Madeline will enjoy a net gain of $4,800 if she vacations in the south of France.

ANSWER: b

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

126. The marginal cost of a vacation in Jamaica is $3,500. The marginal benefit to Jordan of a vacation in Jamaica is $3,000.

a. According to the rule of rational choice, Jordan should choose not to vacation in Jamaica at this time.

b. According to the rule of rational choice, Jordan will experience a net gain of $500 if he vacations in Jamaica.

c. According to the rule of rational choice, Jordan should borrow $500 and vacation in Jamaica.

d. According to the rule of rational choice, Jordan will experience a net gain of $3,000 if he vacations in Jamaica.

ANSWER: a

POINTS: 1

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REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

127. The marginal cost of a vacation in Jamaica is $3,000. The marginal benefit to Jordan of a vacation in Jamaica is $3,500.

a. According to the rule of rational choice, Jordan should choose not to vacation in Jamaica at this time.

b. According to the rule of rational choice, Jordan will experience a net gain of $500 if he vacations in Jamaica.

c. According to the rule of rational choice, Jordan will experience a net gain of $3,500 if he vacations in Jamaica.

d. According to the rule of rational choice, Jordan will experience a net gain of $3,000 if he vacations in Jamaica.

ANSWER: b

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

128. If people follow the rule of rational choice they will choose options that they think will:

a. create more average benefits than average costs

b. create more additional costs than additional benefits

c. create equivalent additional benefits and additional costs

d. create more additional benefits than additional costs

ANSWER: d

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

129. Despite the warning on a package of cigarettes about the potential health hazards of smoking, a man lights up a cigarette. An economist would conclude that:

a. in the man's judgment, the expected marginal cost of smoking the cigarette outweighs the expected marginal benefit.

b. the man is behaving irrationally.

c. the smoker is unconcerned about his future health.

d. in the man's judgment, the expected marginal benefit of smoking the cigarette outweighs the expected marginal cost.

ANSWER: d

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

130. Several political leaders have proposed that parents be granted a substantially larger reduction in their annual personal income taxes for each child that they raise. The economic way of thinking indicates that legislation of this type would:

a. make it more expensive for parents to provide for their children.

b. reduce the value of children to their parents and therefore lead to a reduction in the birth rate.

c. reduce the after-tax cost of raising children and therefore increase the birth rate.

d. exert no impact on either the cost of raising children or the birth rate since parenting children is a non-

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economic activity.

ANSWER: c

POINTS: 1

REFERENCES: p. 46-47

TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

131. Pollution damages the environment we live in. An economist would advise that we reduce air pollution:

a. as long as the marginal benefit from air pollution reduction outweighs the marginal cost of achieving the reduction.

b. until the total benefit from air pollution reduction just equals the total cost of pollution reduction.

c. until air pollution levels reach near-zero levels.

d. to the levels experienced in the 1950s when air was much cleaner near big cities.

ANSWER: a

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

132. Positive incentives:

a. increase benefits or reduce costs.

b. decrease the amount of affected behaviors.

c. increase the amount of affected behaviors.

d. Do both a. and c.

ANSWER: d

POINTS: 1

REFERENCES: p. 47

TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

133. Positive incentives do <u>not</u>:

a. increase benefits.

b. result in an increased level of the related activity.

c. reduce costs.

d. discourage consumption.

ANSWER: d

POINTS: 1

REFERENCES: p. 47

TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

134. Imposing a new $10 downtown parking tax

a. would be a negative incentive that might have the positive result of reducing downtown congestion.

b. would be a positive incentive that might have the positive result of reducing downtown congestion.

c. would be a negative incentive that could only have negative results.

d. None of the above is true.

ANSWER: a

POINTS: 1

REFERENCES: p. 47

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TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

135. Negative incentives:
a. increase benefits or reduce costs.
b. increase behaviors.
c. decrease benefits or increase costs.
d. include both cash subsidies and taxes.

ANSWER: c
POINTS: 1
REFERENCES: p. 47
TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

136. Which of the following is an example of a positive incentive?
a. You expect to be grounded if your grades slip below a B average.
b. You expect to receive a scholarship if your grades remain high.
c. Desserts will be unavailable at the cafeteria if you arrive after 7:00 p.m.
d. Campus police institute a policy of impounding cars parked in delivery zone spaces.

ANSWER: b
POINTS: 1
REFERENCES: p. 47
TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

137. Which of the following is likely to provide teenagers with the greatest incentive not to buy one more pack of cigarettes?
a. public service television advertisement featuring Jennifer Lopez urging kids to refrain from smoking
b. an additional $2.00 per-pack tax on cigarettes
c. citing moral grounds, Leonardo DiCaprio refuses to play any part in which he will be seen smoking
d. a law prohibits anyone from smoking in public buildings

ANSWER: b
POINTS: 1
REFERENCES: p. 47
TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

138. When government policies change it can:
a. alter incentives
b. alter trade-offs
c. change opportunity costs
d. do all of the above.

ANSWER: d
POINTS: 1
REFERENCES: p. 47
TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

139. According to the Global Watch, a recent study on Chilean bus drivers revealed that drivers who are paid by the number of passengers rather than by the hour were far more productive because:
a. bus drivers do not like to work that hard.
b. bus drivers are responding to average costs.

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c. bus drivers don't like to work on the clock—getting paid by the hour.

d. bus drivers, like most of us, respond to incentives.

ANSWER: d

POINTS: 1

REFERENCES: p. 47

TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

140. Which of the following statements is most consistent with the rule of rational choice?

a. "The Environmental Protection Agency should strive to eliminate virtually all air and water pollution."

b. "When evaluating new prescription drugs, the Food and Drug Administration should weigh each drug's potential health benefits against the potential health risks posed by known side effects."

c. "Police forces should be enlarged until virtually all crime is eliminated."

d. "Manufacturers of automobiles should seek to make cars safer, no matter the costs involved."

ANSWER: b

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

141. The following table shows the marginal benefit to an individual of consuming pints of ice cream.

Pints of ice cream	Marginal Benefit
1	$7.00
2	$5.00
3	$3.00
4	$2.00
5	$1.00
6	$0.50
7	-$1.00

If the price of each pint is $4.00 at this establishment, a rational consumer would purchase

a. 1 pint of ice cream

b. 2 pint of ice cream

c. 3 pint of ice cream

d. 5 pint of ice cream

ANSWER: b

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

142. The following table shows the marginal benefit to an individual of consuming pints of ice cream.

Pints of ice cream	Marginal Benefit
1	$5.00
2	$3.00
3	$1.00
4	$-1.00
5	$-3.00
6	$-5.00

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If the ice cream parlor was giving away ice cream for its anniversary celebration, a rational consumer would purchase
a. 3 pint of ice cream
b. 4 pints of ice cream
c. 5 pints of ice cream
d. 6 pints of ice cream

ANSWER: a
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

143. Individuals:
a. respond to incentives in predictable ways.
b. decrease the level of an activity in response to negative incentives.
c. respond to positive incentives by increasing the level of activity.
d. do all of the above.

ANSWER: d
POINTS: 1
REFERENCES: p. 47
TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

144. If airfares to Europe were to increase, other things equal, an economist would predict that:
a. most people will not change their travel and vacation plans.
b. more individuals will choose to fly to Europe because now it is a more valuable experience.
c. some individuals will substitute toward other travel destinations.
d. airlines will make significantly greater profits.

ANSWER: c
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

145. Specialization:
a. is a way for individuals to make the best use of resources by devoting themselves to one primary productive activity.
b. is a way for society to become wealthier while not using their resources.
c. is a way for people to avoid having to trade.
d. increases one's opportunity cost of the activity they choose to specialize in.

ANSWER: a
POINTS: 1
REFERENCES: p. 48
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Why Do People Specialize?

146. Which of the following is false?
a. Once a country has a comparative advantage in producing a good, that comparative advantage will always continue.
b. If you can mow the lawn at home faster than your younger brother, you have a comparative advantage over him in mowing the lawn.

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c. Restrictions on trade will reduce people's degree of specialization according to comparative advantage.

d. As practice at producing what you have a comparative advantage in makes you better at it, your comparative advantage would tend to increase.

ANSWER: a
POINTS: 1
REFERENCES: p. 48
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Why Do People Specialize?

147. Resources are used more efficiently if people, regions, and countries specialize in goods for which they have a(n):

a. disincentive to trade with others.

b. higher opportunity cost.

c. absolute advantage in production.

d. comparative advantage in production.

ANSWER: d
POINTS: 1
REFERENCES: p. 48
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Why Do People Specialize?

148. Kelly is an attorney and also an excellent typist. She can type 120 words per minute, but she is pressed for time because she has all the legal work she can handle at $75 per hour. Kelly's friend Todd works as a waiter and would like some typing work (provided that he can make at least his wage as a waiter, which is $25 per hour). Todd can only type 60 words per minute.

a. Kelly should do all the typing because she is faster.

b. Todd should do the typing as long as his earnings are more than $25 and less than $37.50 per hour.

c. Unless Todd can match Kelly's typing speed, he should remain a waiter.

d. Todd should do the typing, and Kelly should pay him $20 per hour.

ANSWER: b
POINTS: 1
REFERENCES: p. 49
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | The Advantages of Specialization

149. Sergei makes millions of dollars a year playing hockey. Sergei is also the best tailor in his hometown in Russia. Why is Sergei unlikely to make his own clothes?

a. He has already made all the clothes he will need for a few years.

b. The opportunity cost to him of making his own clothes is very high because it takes away from his lucrative hockey career.

c. Sergei just can't find the material he likes in the United States.

d. Sergei has a comparative advantage in tailoring clothes.

ANSWER: b
POINTS: 1
REFERENCES: p. 49
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | The Advantages of Specialization

150. An individual has a comparative advantage in production if that individual:

a. can produce at the highest opportunity cost.

b. is more self-sufficient than others.

c. can produce at the lowest opportunity cost.

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d. all of the above

ANSWER: c

POINTS: 1

REFERENCES: p. 48

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Why Do People Specialize?

151. When a person possesses a comparative advantage in the production of one good or service, it:

a. means that the person's opportunity cost of producing that good or service is higher than for that of other goods.

b. discourages specialization.

c. promotes greater self-sufficiency.

d. permits gains from trade to be realized due to a more efficient use of resources.

ANSWER: d

POINTS: 1

REFERENCES: p. 50

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

152. A nation has a comparative advantage in the production of cars over another nation if:

a. it can produce cars with fewer resources than the other country.

b. it can produce cars at a lower opportunity cost than the other country.

c. it can produce cars at a higher opportunity cost than the other country.

d. it can produce cars at the same opportunity cost and its consumers have a stronger preference for cars than consumers in the other country.

ANSWER: b

POINTS: 1

REFERENCES: p. 50

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

153. Mike is able to complete a tax return in two hours earning a fee of $100. As an alternative, he could pitch in at a volunteer car wash washing four cars in one hour. His roommate Joe would take four hours to complete a tax return earning a $100 fee and also can wash four cars in one hour. Both individuals could benefit if

a. Mike worked on tax returns for eight hours and paid Joe $5 for each car he washed

b. Mike worked on tax returns for eight hours and paid Joe $10 for each car he washed.

c. Mike worked on tax returns for eight hours and paid Joe $15 for each car he washed

d. Joe worked on tax returns for eight hours and paid Mike $10 for each car he washed

ANSWER: b

POINTS: 1

REFERENCES: p. 50

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

154. To obtain the greatest gains from trade, a country should specialize in and ____ those goods for which it has a comparative advantage and ____ those goods for which other countries have a comparative advantage.

a. export; export

b. import; import

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c. export; import

d. import; export

ANSWER: c

POINTS: 1

REFERENCES: p. 50

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

155. Trade

a. can make every participating nation better off.

b. makes some participating nations better off and others worse off.

c. makes a participating nation better off only if the nation cannot produce that good itself.

d. helps developed countries and hurts developing countries.

ANSWER: a

POINTS: 1

REFERENCES: p. 50

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

156. Elsie owns a dairy farm and Elmer is a baker. If Elsie trades butter and milk for some of Elmer's pies than:

a. Elsie is the only one that gains from the trade.

b. Elmer is the only one that gains from the trade.

c. Elsie and Elmer are both made better off by the trade.

d. Both Elmer and Elsie are made worse off by the trade.

ANSWER: c

POINTS: 1

REFERENCES: p. 50

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

157. Specialization and trade can create more wealth (output of goods and services):

a. when we only trade for things we could not produce ourselves.

b. when each person specializes in what they do relatively best and trade for the rest.

c. only if we gain and other countries lose.

d. only with certain nations.

ANSWER: b

POINTS: 1

REFERENCES: p. 50

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

158. Specialization:

a. leads to greater self-sufficiency.

b. can lead to an increase in overall production.

c. is always the result of an inefficient use of resources.

d. helps workers to develop skills by working on a large number of tasks.

ANSWER: b

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POINTS: 1
REFERENCES: p. 49
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | The Advantages of Specialization

159. The ability to produce at a lower opportunity cost than someone else is referred to as:
a. absolute advantage.
b. comparative advantage.
c. absolute superiority.
d. competitive disadvantage.
ANSWER: b
POINTS: 1
REFERENCES: p. 48
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Why Do People Specialize?

160. Specialization and trade benefits all participants only if:
a. They specialize in those things they have both a comparative and absolute advantage in.
b. They specialize in those things they have a comparative advantage in, even if they have an absolute disadvantage.
c. They specialize in those things they have an absolute advantage in, even if they have a comparative disadvantage.
d. Traders have the same opportunity cost of production
ANSWER: b
POINTS: 1
REFERENCES: p. 48
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Why Do People Specialize?

161. Specialization and trade benefits a participating country that:
a. specializes in those things they have both a comparative and absolute advantage in.
b. specializes in those things they have a comparative advantage in, even if they have an absolute disadvantage.
c. They specialize in those things they have an absolute advantage in, even if they have a comparative disadvantage.
d. Does either a. or b.
ANSWER: d
POINTS: 1
REFERENCES: p. 48
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Why Do People Specialize?

162. Which of the following would be efficient from an economic perspective?
a. Reducing the crime rate to zero
b. Changing speed limits and safety requirements so that there were no traffic fatalities or injuries each year.
c. Completely eliminating the emission of greenhouse gases
d. None of the above would be efficient from an economic perspective.
ANSWER: d
POINTS: 1
REFERENCES: p. 52
TOPICS: 2.5 Markets Can Improve Economic Efficiency | How Does the Market Work to Allocate Re-sources?

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163. Which of the following is false?
a. Markets can make products better.
b. Markets can make products cheaper.
c. Markets can create new products.
d. Markets only result in producing those goods and services that are socially desirable.

ANSWER: d
POINTS: 1
REFERENCES: p. 52
TOPICS: 2.5 Markets Can Improve Economic Efficiency | How Does the Market Work to Allocate Re-sources?

164. Which of the following is false?
a. Market prices signal the relative availability of products to buyers.
b. Market prices signal the relative value consumers place on products to sellers.
c. The information and incentives offered by market price adjustments provide the "invisible hand" toward socially desirable cooperation between consumers and producers.
d. None of the above are false; all are true.

ANSWER: d
POINTS: 1
REFERENCES: p. 52
TOPICS: 2.5 Markets Can Improve Economic Efficiency | How Does the Market Work to Allocate Re-sources?

165. Which of the following is false?
a. Property rights provide the rules of the economic game.
b. Well defined property rights give individuals the incentive to use their property efficiently.
c. Owners with property rights have an incentive to conserve their property.
d. Owners have no incentive to care what values others place on what they own.

ANSWER: d
POINTS: 1
REFERENCES: p. 54
TOPICS: 2.6 Appropriate Government Policies Can Improve Market Outcomes | Property Rights and the Legal System

166. Which of the following is true?
a. Producing too much pollution could be a market failure, but producing too little research cannot.
b. Producing too little research could be a market failure, but producing too much pollution cannot.
c. Both producing too much pollution and producing too little research could be market failures.
d. Market failures mean that government intervention in those areas will improve the results.

ANSWER: c
POINTS: 1
REFERENCES: p. 54
TOPICS: 2.6 Appropriate Government Policies Can Improve Market Outcomes | Market Failure

167. In a market system, which of the following is a symptom of market failure?
a. competition
b. falling prices
c. scarcity of resources

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d. air pollution that those exposed object to

ANSWER: d
POINTS: 1
REFERENCES: p. 54
TOPICS: 2.6 Appropriate Government Policies Can Improve Market Outcomes | Market Failure

168. Which of the following serve as the language of the market system?
a. Monetary and fiscal policies
b. Volatility
c. Market prices
d. Lawsuits

ANSWER: c
POINTS: 1
REFERENCES: p. 52
TOPICS: 2.5 Markets Can Improve Economic Efficiency | How Does the Market Work to Allocate Re-sources?

169. Prices communicate information about relative availability of products. For example, a decrease in the price of corn signals to consumers and producers that:
a. consumers are buying more corn than before.
b. corn is relatively more abundant than before.
c. corn is relatively less abundant than before.
d. consumers are stocking up on corn because of the predictions of a cold winter.

ANSWER: b
POINTS: 1
REFERENCES: p. 52
TOPICS: 2.5 Markets Can Improve Economic Efficiency | Market Prices Provide Important Information

170. In a market system, decisions about how to allocate resources are made:
a. by central planning boards in each industry.
b. by a lottery system.
c. by individuals and firms interacting in markets coordinated by market prices.
d. by large conglomerates working cooperatively with the government.

ANSWER: c
POINTS: 1
REFERENCES: p. 52
TOPICS: 2.5 Markets Can Improve Economic Efficiency | How Does the Market Work to Allocate Re-sources?

171. In markets, information about the relative value of resources is communicated through:
a. government agencies.
b. planning committees.
c. prices.
d. unions.

ANSWER: c
POINTS: 1
REFERENCES: p. 52
TOPICS: 2.5 Markets Can Improve Economic Efficiency | Market Prices Provide Important Information

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172. In a market economy, the amount of a good that is produced is primarily decided by the interaction of:
    a. buyers and sellers.
    b. all consumers.
    c. producers and input suppliers.
    d. producers and government planning committees.

ANSWER: a
POINTS: 1
REFERENCES: p. 52
TOPICS: 2.5 Markets Can Improve Economic Efficiency | Market Prices Provide Important Information

173. Market failure occurs when:
    a. the stock markets tumble due to heavy selling.
    b. the market economy fails to allocate resources efficiently.
    c. demand shows signs of slowing down.
    d. a country cannot produce a particular good or service at a lower opportunity cost than other countries.

ANSWER: b
POINTS: 1
REFERENCES: p. 54
TOPICS: 2.6 Appropriate Government Policies Can Improve Market Outcomes | Market Failure

174. Which of the following is true?
    a. Markets determine what goods are going to be produced, but not the distribution of output among members of society.
    b. Markets determine the distribution of output among members of society, but not what goods are going to be produced.
    c. Markets determine both what goods are going to be produced and the distribution of output among members of society.
    d. Government can redistribute income without changing what will be produced in a society.

ANSWER: c
POINTS: 1
REFERENCES: p. 54
TOPICS: 2.6 Appropriate Government Policies Can Improve Market Outcomes | Does the Market Distribute Income Fairly?

175. Which of the following is true?
    a. Poverty, defined as the lack of a minimum level of consumption, could be potentially eliminated, but scarcity could not.
    b. Scarcity could be potentially eliminated but poverty could not.
    c. Both scarcity and poverty could be potentially eliminated.
    d. Neither scarcity nor poverty could be potentially eliminated.

ANSWER: a
POINTS: 1
REFERENCES: p. 37-38
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Will Scarcity Ever Be Eradicated?

176. Which of the following is true of resources?

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a. Their availability is unlimited.
b. They are the inputs used to produce goods and services.
c. Increasing the amount of resources available could eliminate scarcity.
d. Both b. and c. are true.

ANSWER: b
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

177. If scarcity was not a fact,
a. people could have all they wanted of goods and services for free.
b. it would no longer be necessary to make choices.
c. poverty, defined as the lack of a minimum level of consumption would also be eliminated.
d. all of the above would be true.

ANSWER: d
POINTS: 1
REFERENCES: p. 37-38
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity Forces Us to Choose

178. Which of the following is true?
a. As long as human wants exceed available resources, scarcity will exist.
b. Scarcity ultimately leads to competition for the available goods and services.
c. Scarcity affects everyone to the same degree.
d. Both a. and b. are true.

ANSWER: d
POINTS: 1
REFERENCES: p. 37-38
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Does Everyone Face Scarcity?

179. The most essential economic problem is the existence of:
a. both an increasing population and the depletion of natural resources.
b. both limited economic resources and unlimited desires.
c. both inflation and unemployment.
d. income inequality and economic freedom.

ANSWER: b
POINTS: 1
REFERENCES: p. 35-36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Human Wants Exceed Available Resources

180. In economics, which of the following is considered part of "land"?
a. A 500 acre forest.
b. bauxite deposits.
c. underground pools of crude oil.
d. All of the above except a. are included in the category, “land.”

ANSWER: d
POINTS: 1

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REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

181. Which of the following would not be considered "capital" in economics?
a. A delivery van used by Federal Express.
b. $500 in currency.
c. A microprocessor factory
d. In economics, both (a) and (c) are considered capital.
ANSWER: d
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

182. Which of the following is true?
a. Even intangible goods can be subjected to economic analysis.
b. Wealthy individuals who decide to donate money to charity face the constraints of scarcity.
c. Increases in production would not enable us to eliminate scarcity.
d. All of the above
ANSWER: d
POINTS: 1
REFERENCES: p. 37
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Does Everyone Face Scarcity?

183. Which of the following is part of the economic way of thinking?
a. When an option becomes less beneficial, individuals will become more likely to choose it.
b. Costs are incurred whenever scarce resources are used to produce goods or services.
c. The value of a good is determined by its cost of production.
d. Both a. and b. are part of the economic way of thinking.
ANSWER: b
POINTS: 1
REFERENCES: p. 36
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Scarcity and Resources

184. Say you had an 8 A.M. economics class, and you only come to campus to attend your economics class. The cost of coming to the economics class would then include:
a. the value of the time it took to drive to campus.
b. the cost of the gasoline it took to get to campus.
c. the cost of insuring the car for that day.
d. a. and b.
ANSWER: d
POINTS: 1
REFERENCES: p. 39
TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

185. Which of the following would be likely to raise your opportunity cost of attending a big basketball game this Sunday night?
a. A friend calls you up and offers you free tickets to a concert by one of your favorite bands on Sunday night.

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b. Your employer offered you double your usual wage to work this Sunday night.

c. Late Friday afternoon, your physics professor makes a surprise announcement that there will be a major exam on Monday morning.

d. All of the above would likely raise the opportunity cost of attending the game.

ANSWER: d

POINTS: 1

REFERENCES: p. 39

TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

186. Mike can wash a car in 5 minutes and wax a car in 15 minutes. Tony can wash a car in 10 minutes and wax a car in 20 minutes. Which of the following is true?

a. Mike can wash a car faster and has comparative advantage in washing cars.

b. Mike can wax a car faster and has comparative advantage in waxing cars.

c. Tony can wash a car faster and has comparative advantage in washing cars.

d. Tony can wax a car faster and has comparative advantage in waxing cars.

ANSWER: a

POINTS: 1

REFERENCES: p. 48

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Why Do People Specialize?

187. The rule of rational choice is that in trying to make themselves better off, people alter their behavior if the expected marginal benefits to them from doing so ____ the expected marginal costs they will bear.

a. exceed.

b. equal.

c. are less than.

d. Either a. or b.

ANSWER: a

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

188. Which of the following is true?

a. The actual result of changing behavior following the rule of rational choice will always make people better off.

b. The actual result of changing behavior following the rule of rational choice will never make people better off.

c. In terms of the rule of rational choice, zero levels of pollution would be far too costly in terms of what we would have to give up to achieve them.

d. The rule of rational choice implies that it is impossible to be too safe.

ANSWER: c

POINTS: 1

REFERENCES: p. 43-44

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

189. Ted has decided to buy a burger and fries at a restaurant, but is considering whether to buy a drink as well. If the price of a burger is $2, fries are $1, drinks are $1, but a value meal with all three costs $3.80, the marginal cost to Ted of the drink is:

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a. $0.20
b. $0.80
c. $1.00
d. $3.80

ANSWER: b
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

190. Fred has decided to buy a burger and fries at a restaurant, but is considering whether to buy a drink as well. If the price of a burger is $3, fries are $2, and drinks are $1, but a value meal with all three costs $4.80, the marginal cost to Ted of the drink is:

a. $-0.20
b. $0.20
c. $0.80
d. $1.00

ANSWER: a
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

191. Which of the following demonstrates marginal thinking?

a. Deciding to never eat meat.
b. Deciding to spend one more hour studying economics tonight because you think the improvement on your next text will be large enough to make it worthwhile to you.
c. Deciding to go to a Sociology class that you usually skip because there is a guest lecturer you are really interested in hearing that day.
d. Both b. and c. demonstrate marginal thinking.

ANSWER: d
POINTS: 1
REFERENCES: p. 43
TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

192. If a university begins a policy of permanently expelling any student caught cheating in any way, you would expect that:

a. no students would cheat.
b. fewer students would cheat.
c. there would be no difference in the amount of cheating.
d. minor cases of cheating would become a larger fraction of all cases of cheating attempted.

ANSWER: b
POINTS: 1
REFERENCES: p. 46-47
TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

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193. If a university begins a policy of permanently expelling any student caught cheating in any way, you would expect that:

a. no students would cheat.

b. fewer students would cheat.

c. major cases of cheating would become a larger fraction of all cases of cheating attempted.

d. Both b. and c. would occur.

ANSWER: d

POINTS: 1

REFERENCES: p. 46-47

TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

194. Which of the following is true?

a. People specialize by concentrating their energies on the activity to which they are best suited, because they incur lower opportunity costs as a result.

b. One advantage of specialization is that workers acquire greater skill from repetition.

c. If a person, a region, or a country can produce a good or service at a lower opportunity cost than others, we say that they have a comparative advantage in the production of that good or service.

d. All of the above are true.

ANSWER: d

POINTS: 1

REFERENCES: p. 48

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Why Do People Specialize?

195. Which of the following is true?

a. Voluntary trades give both parties more in value than what they give up.

b. Without the ability to trade, people would not tend to specialize as much in those areas where they had a comparative advantage.

c. People can gain by specializing in the production of the good in which they have a comparative advantage.

d. All of the above are true.

ANSWER: d

POINTS: 1

REFERENCES: p. 49-50

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

196. Two parties can capture gains from specialization and trade whenever:

a. One party is twice as good as producing all goods as the other.

b. The opportunity costs of producing each good are the same for both parties.

c. Both parties can produce equal amounts of both goods.

d. None of the above are true.

ANSWER: d

POINTS: 1

REFERENCES: p. 49-50

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

197. The United States can benefit from voluntary trade

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a. only with nations that can produce goods the United States cannot produce.
b. only with developing nations.
c. only with nations in Europe.
d. with any nation.

ANSWER: d
POINTS: 1
REFERENCES: p. 49-50
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

198. Trade between countries tends to
a. reduce both competition and specialization.
b. reduce competition and increase specialization.
c. increase competition and reduce specialization.
d. increase both competition and specialization.

ANSWER: d
POINTS: 1
REFERENCES: p. 49-50
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

199. If a country wanted to maximize the value of its output, each job should be carried out by the person who:
a. has the highest opportunity cost.
b. has a comparative advantage in that activity.
c. can complete the particular job most rapidly.
d. enjoys that job the least.

ANSWER: b
POINTS: 1
REFERENCES: p. 48
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Why Do People Specialize?

200. If resources and goods are free to move across states and if Oregon producers choose to specialize in producing honey while California producers choose to specialize in growing almonds, then we could reasonable conclude that:
a. California has a comparative advantage in producing almonds.
b. Oregon has a comparative advantage in producing honey.
c. the opportunity cost of growing almonds is lower in California than in Oregon.
d. all of the above are true.

ANSWER: d
POINTS: 1
REFERENCES: p. 49-50
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

201. Which of the following is not true?
a. Voluntary exchange is expected to be advantageous to both parties to the exchange.
b. What one trader gains from a trade, the other must lose.
c. If one party to a potential voluntary trade decides it does not advance his interests, he can veto the potential

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trade.

d. The expectation of gain motivates people to engage in trade.

ANSWER: b

POINTS: 1

REFERENCES: p. 49-50

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

202. Advantages of specialization do not include:

a. reduced interdependence.

b. the exploitation of comparative advantage.

c. the ability to utilize more complex production processes.

d. Productivity gains from learning by doing.

ANSWER: a

POINTS: 1

REFERENCES: p. 49

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | The Advantages of Specialization

203. Tom is a castaway who washes up on a remote island. He can kill eight birds per hour or catch ten fish per day. The natives on the island can kill ten birds per day or catch twenty fish per day. Tom has a comparative advantage in:

a. hunting birds.

b. fishing.

c. both hunting birds and fishing

d. neither hunting birds or fishing.

ANSWER: a

POINTS: 1

REFERENCES: p. 48

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Why Do People Specialize?

204. Tom is a castaway who washes up on a remote island. He can kill eight birds per hour or catch ten fish per day. The natives on the island can kill ten birds per day or catch twenty fish per day. The natives have a comparative advantage in:

a. hunting birds.

b. fishing.

c. both hunting birds and fishing

d. neither hunting birds or fishing.

ANSWER: b

POINTS: 1

REFERENCES: p. 48

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Why Do People Specialize?

205. Tom is a castaway who washes up on a remote island. He can kill eight birds per hour or catch ten fish per day. The natives on the island can kill ten birds per day or catch twenty fish per day. According to comparative advantage,

a. Tom should kill more birds and fish less, then trade birds for fish.

b. Tom should kill fewer birds and fish more, then trade fish for birds.

c. Both, Tom should kill more birds and fish less.

d. Both, Tom should kill fewer birds and fish more.

ANSWER: a

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POINTS: 1
REFERENCES: p. 48
TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Why Do People Specialize?

206. Which of the following is the most critical signaling mechanism in markets?
a. quantity
b. price
c. cost
d. government regulation
ANSWER: b
POINTS: 1
REFERENCES: p. 52
TOPICS: 2.5 Markets Can Improve Economic Efficiency | Market Prices Provide Important Information

207. When the economy is getting the most from its scarce resources it is called:
a. equity.
b. efficiency.
c. equality.
d. equal shares.
ANSWER: b
POINTS: 1
REFERENCES: p. 52
TOPICS: 2.5 Markets Can Improve Economic Efficiency | Market Prices Provide Important Information

208. Government price controls
a. strip market prices of their ability to signal relative scarcities to both buyers and sellers.
b. often impose harm on at least some of the group of people they are trying to assist.
c. sometimes force prices above or below what they would be in a market economy.
d. all of the above
ANSWER: d
POINTS: 1
REFERENCES: p. 53
TOPICS: 2.5 Markets Can Improve Economic Efficiency | Market Prices Provide Important Information

209. If the government imposes price controls and prevents prices from adjusting naturally to supply and demand,
a. it equates the amount buyers are willing and able to buy with the amount sellers are willing and able to supply.
b. it adversely affects the allocation of resources.
c. it improves both equality and efficiency.
d. it improves efficiency.
ANSWER: b
POINTS: 1
REFERENCES: p. 53
TOPICS: 2.5 Markets Can Improve Economic Efficiency | Market Prices Provide Important Information

210. Which of the following would be an example of market failure?
a. Harmful second hand cigarette smoke

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b. lack of funding for private education
c. underproduction of a good by a monopoly
d. all of the above

ANSWER: d
POINTS: 1
REFERENCES: p. 54-56
TOPICS: 2.6 Appropriate Government Policies Can Improve Market Outcomes

211. If the government is successful in cutting the economic pie into more equal slices, than it is quite possible that
a. the pie gets larger.
b. the pie gets smaller.
c. it increases the reward for working hard, resulting in people producing more goods and services.
d. none of the above.

ANSWER: b
POINTS: 1
REFERENCES: p. 54-56
TOPICS: 2.6 Appropriate Government Policies Can Improve Market Outcomes

212. Government policies resulting intended to increase equality (cutting the pie into more equal slices) include
(i) the welfare system
(ii) unemployment insurance
(iii) progressive income tax
a. (i) only
b. (ii) only
c. (i) and (ii) only
d. (i), (ii), and (iii)

ANSWER: d
POINTS: 1
REFERENCES: p. 54-56
TOPICS: 2.6 Appropriate Government Policies Can Improve Market Outcomes

213. Which of the following would most likely be an example of market failure?
a. industrial water pollution
b. eBay transactions
c. tradable pollution permits
d. brokers re-selling tickets for concerts

ANSWER: a
POINTS: 1
REFERENCES: p. 54-56
TOPICS: 2.6 Appropriate Government Policies Can Improve Market Outcomes

214. A stable monetary environment will typically lead to
a. inflation.
b. producers and consumers better coordinating their decisions through markets.
c. independence of central banks.
d. increased trade deficits and limited budgets deficits.

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ANSWER: b
POINTS: 1
REFERENCES: p. 58
TOPICS: 2.7 Government Policies May Help Stabilize the Economy | Inflation

215. Which of the following are consequences of inflation?
a. It increases the burdens on people with fixed incomes when inflation is not anticipated.
b. It hurts savers who did not anticipate how high the inflation was, but helps those who have borrowed at a fixed rate before the inflation became apparent.
c. Inflation imposes costs on people who devote resources to protecting themselves from expected inflation.
d. all of the above
ANSWER: d
POINTS: 1
REFERENCES: p. 58
TOPICS: 2.7 Government Policies May Help Stabilize the Economy | Inflation

216. Government policies that use taxes and government spending in an attempt to stabilize the economy are known as
a. Trade policy.
b. Regulatory policy.
c. monetary policy.
d. fiscal policy.
ANSWER: d
POINTS: 1
REFERENCES: p. 58
TOPICS: 2.7 Government Policies May Help Stabilize the Economy | Unemployment

217. The most meaningful measure of economic growth is
a. the employment rate.
b. the unemployment rate.
c. real GDP.
d. real GDP per capita.
ANSWER: d
POINTS: 1
REFERENCES: p. 60
TOPICS: 2.8 Higher Productivity Growth Leads to Greater Long-Run Economic Growth | Defining Economic Growth

218. Which of the following is true with regard to economic growth?
a. Real GDP could grow in a society at the same time that real per capita GDP did not.
b. For a given population, real GDP growth implies real per capital GDP growth.
c. If the population grew at the same rate as real GDP, real per capita GDP would not change.
d. All of the above are true.
ANSWER: d
POINTS: 1
REFERENCES: p. 62
TOPICS: 2.8 Higher Productivity Growth Leads to Greater Long-Run Economic Growth | Defining Economic

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Growth

219. Which of the following is true with regard to economic growth?
a. Small differences in economic growth rates make small differences in Real GDP over time.
b. Once a country is richer than other countries, it will remain richer regardless of differences in economic growth rates.
c. Economic growth rates tell us nothing about the distribution of output and income in a country.
d. All of the above are true.

ANSWER: c
POINTS: 1
REFERENCES: p. 62
TOPICS: 2.8 Higher Productivity Growth Leads to Greater Long-Run Economic Growth | Defining Economic Growth

220. Which of the following do not contribute to long-term economic growth?
a. substantial increases in the money supply
b. increased productivity
c. savings and investment
d. new production technologies

ANSWER: a
POINTS: 1
REFERENCES: p. 62
TOPICS: 2.8 Higher Productivity Growth Leads to Greater Long-Run Economic Growth | Defining Economic Growth

221. Which of the following contribute to increases in productivity?
a. incentives for innovation
b. more physical capital
c. an improved education system
d. all of the above

ANSWER: d
POINTS: 1
REFERENCES: p. 62
TOPICS: 2.8 Higher Productivity Growth Leads to Greater Long-Run Economic Growth | Defining Economic Growth

222. Assume that Colombia can produce 1,000 pounds of coffee in one day or produce 200 pounds of bananas in one day. In addition, assume that Ecuador can produce 300 pounds of coffee in one day or produce 100 pounds of bananas in one day. Which country has the comparative advantage in coffee and which has the comparative advantage in bananas? Determine a pattern of trade regarding these countries and these goods that would benefit both countries.

ANSWER: Colombia has the comparative advantage in coffee because its opportunity cost of one pound of coffee is only 0.2 pounds of bananas while Ecuador's is 0.33 pounds of bananas. Ecuador has the comparative advantage in bananas because its opportunity cost of one pound of bananas is only three pounds of coffee while Colombia's is five pounds of bananas. If Ecuador traded one pound of bananas to Colombia for between three and five pounds of coffee, both countries could enjoy greater consumption and be better off.

POINTS: 1

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REFERENCES: p. 51

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | Specialization and Trade Lead to Greater Wealth and Prosperity

223. How would an economist respond to the following statement: "Wanting more goods makes us greedy."

ANSWER: Economists do not view the unlimited human desire for goods and services to be an indication of "greediness." Economists assume that all individuals want more resources in order to reach greater levels of satisfaction (whether to benefit yourself, your family, or others).

POINTS: 1

REFERENCES: p. 38

TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Are Those Who Want More Greedy?

224. Explain the difference between poverty and scarcity.

ANSWER: People living in poverty have access to few resources, which limits the goods and services that can be consumed. When an individual faces scarcity it means not having enough resources to consume all that is desired (necessitating that choices be made). While not everyone lives in poverty, everyone does face scarcity. Even the rich face scarcity (since as wealth increases, so do human wants).

POINTS: 1

REFERENCES: p. 38-39

TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | Does Everyone Face Scarcity?

225. Explain why each of the following is considered an economic issue:

a. whether to spend Saturday afternoon at a football game
b. obtaining tickets to a U2 concert
c. your university considers your application for one of 25 available scholarships

ANSWER: Each of the following are economic issues that illustrate scarcity and the necessity of making choices:

a. The decision as to whether to spend Saturday afternoon at a football game involves weighing the marginal expected benefit versus the marginal expectedcost. There is an opportunity cost associated with going to the football game since you could spend the time in other ways, such as studying or working.
b. Attending a U2 concert requires a sacrifice of both money and time. Individuals face a tradeoff between what could be done with the time and the dollars expended acquiring tickets and attending the concert.
c. Since there are a limited number of scholarships and many students who would wish to receive one, the university must decide to whom to allocate these scarce scholarship resources.

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking

226. Why do people commonly switch channels on their TVs when the final credits of a movie they were watching on it are being displayed?

ANSWER: Individuals will only pursue an activity if expected marginal benefits are greater than the expected marginal costs. If you perceive the marginal benefits of watching something else to be greater than watching the credit line of the movie, you may choose to switch channels.

POINTS: 1

REFERENCES: p. 43

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TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

227. Would it make good sense for a community to seek to reduce its levels of pollution to zero? Why or why not?

ANSWER: In general it would not make sense for a community to seek to reduce pollution levels to zero because the costs involved would exceed the benefits received.

POINTS: 1

REFERENCES: p. 43-45

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

228. Differentiate between positive and negative incentives.

ANSWER: Positive incentives either increase benefits or reduce costs and thus result in an increased level of the related activity or behavior. Negative incentives either reduce benefits or increase costs, resulting in a decreased level of the related activity or behavior.

POINTS: 1

REFERENCES: p. 47

TOPICS: 2.3 People Respond Predictably to Changes in Incentives | Positive and Negative Incentives

229. If race-car driving is dangerous, why would any rational person choose to be a race-car driver?

ANSWER: A rational person might choose to drive race cars if, after assessing the potential dangers, he or she believes the expected marginal benefit from racing outweighs the expected marginal cost.

POINTS: 1

REFERENCES: p. 43

TOPICS: 2.2 People Engage in Rational Decision Making and Marginal Thinking | Many Choices We Face Involve Marginal Thinking

230. Farmer Fred could grow wheat and barley. He could grow 75 bushels of wheat or 125 bushels of barley using the same resources on an acre of his land. The price of wheat is $2.00 per bushel and the price of barley $ 0.80. Show the benefits to Fred from specialization. What should he specialize in?

ANSWER: Farmer Fred could make $150 if he grew only wheat and just $100 if he grew only barley. By specializing in wheat production he will be better off. Even though he can produce more bushels of barley than he can bushels of wheat, his opportunity cost of producing wheat (the $100 income sacrificed. is lower than the opportunity cost of producing barley ($150 in sacrificed income).

POINTS: 1

REFERENCES: p. 49-50

TOPICS: 2.4 Specialization and Trade Can Make Everyone Better Off | The Advantages of Specialization

231. Maggie is a potter who likes to dig her own clay for producing pots, cups and other ceramic items. She is aware of two places where she can obtain the right clay for her work. The first field is quite close, just at the edge of town. The second field is 15 miles away and (since there are no access roads) requires a half-day of travel just to get there. Compare the opportunity cost of producing pots using clay from each of these fields.

ANSWER: The opportunity cost of the clay necessary for her work is higher at the second field. Maggie would have to spend more time traveling, consume more gasoline, and use extra time and energy to dig from the second field.

POINTS: 1

REFERENCES: p. 40-41

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TOPICS: 2.1 People Face Scarcity and Costly Trade-offs | To Choose Is to Lose

232. Prices communicate information about the relative value of resources in the marketplace. Which of the following would cause the marginal value and, hence, the price, of oranges to rise?

a. A freeze wipes out half of the Florida citrus groves.
b. Orange juice is shown to reduce blood cholesterol levels.
c. The price of grape, cranberry, and pineapple juice falls dramatically.

ANSWER: a. and b. would result in higher orange prices. The freeze in some orange groves would cause the price of the remaining oranges to increase. A stronger preference for orange juice would likely result once the cholesterol-reducing health benefits of orange juice become known, increasing the price of orange juice. A reduction in the price of substitute juices would decrease the price of oranges (as consumers switch to alternative fruit sources).

POINTS: 1

REFERENCES: p. 52-53

TOPICS: 2.6 Appropriate Government Policies Can Improve Market Outcomes | Market Prices Provide Important Information

233. How do price controls undermine the market as a communication device?

ANSWER: The imposition of price controls (which restrict prices above or below market clearing prices) sends incorrect signals to both consumers and producers about the relative scarcities of goods and services.

POINTS: 1

REFERENCES: p. 53

TOPICS: 2.6 Appropriate Government Policies Can Improve Market Outcomes | What Effect Do Price Controls Have on the Market System?

234. How can market failure occur in the market for hybrid automobiles? What could the government try to do to improve the situation?

ANSWER: An unregulated market could produce too few hybrid autos since these cars produce benefits for someone other than the buyers and sellers. As such, the government could provide a subsidy or tax credit to those consumers who purchase hybrid or other fuel efficient autos in an effort to promote more purchases and usage of fuel efficient vehicles.

POINTS: 1

REFERENCES: p. 53-54

TOPICS: 2.6 Appropriate Government Policies Can Improve Market Outcomes | Market Failure

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