Survey of ECON 3rd edition Sexton Test Bank

SKU: 9781305657625-TEST-BANK

Chapter 02 The Economic Way of Thinking

TRUEFALSE

1. 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 : (A)

2. The opportunity cost of attending college is likely higher for a high school graduate who leaves a job grilling hamburgers than it is for someone who leaves a job working as a computer network administrator.

(A) True

(B) False

Answer : (B)

3. The opportunity cost of a decision is the value of the best foregone alternative.

(A) True

(B) False

Answer : (A)

4. The opportunity cost of a decision is the value of all the available alternatives that were not chosen.

(A) True

(B) False

Answer : (A)

5. 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 : (A)

6. Marginal cost is the additional cost incurred as a result of an economic decision.

(A) True

(B) False

Answer : (A)

7. 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 : (B)

8. Since it is possible to grow coffee in the United States, the government of the U.S. should clearly create a U.S. coffee industry and no longer import coffee from Brazil.

(A) True

(B) False

Answer : (B)

9. 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 : (A)

10. Small, developing countries must first become self-sufficient before they can benefit from international trade.

(A) True

(B) False

Answer : (B)

11. An increase in the production of one good can have zero opportunity cost only if an economy initially operated at a point inside the production possibilities curve.

(A) True

(B) False

Answer : (A)

12. An economy that has many unemployed workers and idle factories is not operating efficiently.

(A) True

(B) False

Answer : (A)

13. The production possibilities curve marks the boundary between attainable and unattainable combinations of output.

(A) True

(B) False

Answer : (A)

14. Output combinations outside the production possibilities curve are attainable in the current period only if prices decrease.

(A) True

(B) False

Answer : (B)

15. A decrease in the unemployment rate will shift an economy's production possibilities curve outward.

(A) True

(B) False

Answer : (B)

16. An increase in available resources will tend to cause a society's production possibilities curve to shift inward.

(A) True

(B) False

Answer : (B)

17. An improvement in technology will tend to cause a society's production possibilities curve to shift inward.

(A) True

(B) False

Answer : (B)

18. In a market economy, government officials make most production decisions in a centralized manner.

(A) True

(B) False

Answer : (B)

19. Consumer sovereignty means that consumers vote with their dollars in a market economy, which helps determine what is produced.

(A) True

(B) False

Answer : (A)

20. In a market economy, prices help determine the distribution of goods and services but not the allocation of resources.

(A) True

(B) False

Answer : (B)

21. High wage countries like the United States tend to use less labor-intensive production methods than low wage countries like Mexico.

(A) True

(B) False

Answer : (A)

MULTICHOICE

22. Economic choices or tradeoffs are the result of:

(A) basic human greed.

(B) scarcity.

(C) poverty.

(D) private ownership of resources.

(E) the government's intervention in production.

Answer : (B)

23. Because of scarcity, _____.

(A) we must sacrifice valuable alternatives to obtain more of the goods and services we desire

(B) the opportunity cost of consumption is zero

(C) we can obtain more of a desirable good without sacrificing other goods and services

(D) society wants a proportion of its population to remain poor

(E) the opportunity cost of production is zero

Answer : (A)

24. The opportunity cost of an action is equal to:

(A) the monetary payment received for the action.

(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 alternative actions that could have been taken.

(E) zero if the action yields an income.

Answer : (C)

25. 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.

(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.

(E) all the costs of living for that period.

Answer : (A)

26. 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.

(E) all the costs of living.

Answer : (C)

27. 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.

(E) lower during periods of inflation and higher during periods of deflation.

Answer : (B)

28. 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.

(E) The opportunity cost of producing a good is negative during inflation.

Answer : (B)

29. The opportunity cost of attending university for a year is measured by:

(A) the tuition fees incurred.

(B) the size of the student loan 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.

(E) the sum of expenditures on tuition and hostel fees.

Answer : (D)

30. Jamie and Danny both attend the same college and incur the same expenses for tuition, books, and school supplies. Jamie gave up a lucrative job modeling 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, on average, college graduates are paid much higher than high school graduates.

(E) the opportunity cost of attending college for both Jamie and Danny is equal to zero.

Answer : (B)

31. 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 the airfare paid and the highest valued use of travel time vary.

(D) is equal to the cost of traveling by bus, the next best alternative to flying.

(E) differs across passengers because of the differences in the paying capacities of passengers.

Answer : (C)

32. Table 2-1 shows possible exam scores with three alternative uses of a student's time. The student has only a few hours to prepare for two different exams in one afternoon. The opportunity cost of scoring a 94 on the economics exam rather than a 77 is a reduction of:**Table 2-1**

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

(A) 8 points on the history exam.

(B) 15 points on the history exam.

(C) 76 points on the history exam.

(D) 91 points on the history exam.

(E) 17 points on the history exam.

Answer : (B)

33. Table 2-1 shows possible exam scores with three alternative uses of a student's time. The student has only a few hours to prepare for two different exams in one morning. The opportunity cost of scoring an 84 on the history exam rather than a 76 is a reduction of:**Table 2-1**

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

(A) 10 points on the economics exam.

(B) 7 points on the economics exam.

(C) 8 points on the history exam.

(D) 12 points on the economics exam.

(E) 15 points on the history exam.

Answer : (B)

34. 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 the students who use it.

(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 uses of all the resources devoted to the shuttle program.

(E) the cost of the shuttle plus the gasoline expenses.

Answer : (D)

35. Airlines that restrict the use of frequent flyer miles during the holiday season likely do so because:

(A) the opportunity cost to the airlines of filling seats with frequent flyers is lower at these times.

(B) the opportunity cost to the 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) the airlines want to protect their most loyal customers from the discomfort of overcrowded airplanes.

(E) the opportunity cost to the airlines of filling seats with frequent flyers is zero.

Answer : (B)

36. Which of the following is true?

(A) Intangible services cannot be subjected to economic analysis.

(B) Wealthy individuals who decide to donate money to charity do not face the constraints of scarcity.

(C) An increase in production would enable us to eliminate scarcity.

(D) Intangible services can be subjected to economic analysis.

(E) Abundant resources are not subjected to economic analysis.

Answer : (D)

37. 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 time sacrificed.

(B) deciding to never purchase a coat made of animal skin or fur.

(C) acquiring all information relevant to a choice before making that choice.

(D) measuring all the costs of a meal against all its benefits when deciding on whether to order a second milkshake.

(E) deciding to never buy an airline ticket during the holiday period.

Answer : (A)

38. 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 costs exceed total benefits.

(D) total benefits exceed total costs.

(E) the expected average benefits are greater than the expected average costs.

Answer : (B)

39. Which of the following best defines rational behavior?

(A) Analyzing the total costs of a decision

(B) Analyzing the total benefits of a decision

(C) Undertaking an activity as long as the total benefit of all activities exceeds the total cost of all activities

(D) Undertaking activities whenever the marginal expected benefit exceeds the marginal expected cost

(E) Undertaking activities whenever the average expected benefit exceeds the average expected cost

Answer : (D)

40. The additional satisfaction received by a consumer as a result of undertaking an action is:

(A) the opportunity cost.

(B) the marginal cost.

(C) the marginal benefit.

(D) the total benefit.

(E) the average benefit.

Answer : (C)

41. The additional burden 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.

(E) the average cost.

Answer : (D)

42. The rule of rational choice suggests that one 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.

(E) the average cost incurred as a result of the activity exceeds the additional benefit received.

Answer : (D)

43. The expected marginal benefit to Todd from purchasing a new sport utility vehicle is $20,000, and the price of the new sport utility vehicle is $22,000. Given that Todd is a rational consumer, which of the following statements is true?

(A) Todd will borrow $2,000 and purchase the new sport utility vehicle.

(B) Todd will not purchase the new sport utility vehicle at this time.

(C) If Todd does not purchase the new sport utility vehicle, his net loss will be $2,000.

(D) Todd will purchase the sport utility vehicle when the marginal cost of doing so falls to $21,000.

(E) Todd will buy the sport utility vehicle and rent it to other people.

Answer : (B)

44. Individuals will only pursue an activity if:

(A) $E(MB) \leq E(MC)$.

(B) $E(MB) = E(MC)$.

(C) $E(MB) > E(MC)$.

(D) $E(MB) < E(MC)$.

(E) $E(MB) = E(MC) = 0$.

Answer : (C)

45. Rational choices:

(A) are based on a comparison between 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.

(E) are based on the experiences of the past.

Answer : (C)

46. 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.

(E) requires the availability of information on only the average benefits and costs of an activity.

Answer : (C)

47. Milk at a local grocery store is priced at one gallon for $4.00 or two gallons for $6.00. The marginal cost of buying a second gallon of milk is equal to _____.

(A) $6.00

(B) $4.00

(C) $3.00

(D) $2.00

(E) $9.00

Answer : (D)

48. Table 2-2 shows the marginal benefit to a consumer of DVD rentals. If the price of a DVD rental is $4, a consumer following the rule of rational choice will rent:

Table 2-2

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

(A) 2 DVDs per month.

(B) 3 DVDs per month.

(C) 4 DVDs per month.

(D) 5 DVDs per month.

(E) 6 DVDs per month.

Answer : (D)

49. Table 2-3 shows the marginal benefit to a consumer from viewing theatrical-release films each month. If the price of a movie ticket is $8, a consumer following the rule of rational choice will purchase:

Table 2-3

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

(A) 2 movie tickets per month.

(B) 3 movie tickets per month.

(C) 4 movie tickets per month.

(D) 5 movie tickets per month.

(E) 6 movie tickets per month.

Answer : (B)

50. 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.

(E) create more average costs than average benefits.

Answer : (D)

51. In the process of economic growth, achieving a perfectly clean atmosphere is not possible because:

(A) the marginal cost of achieving perfectly clean air would outweigh the marginal benefits of achieving it.

(B) the total benefit of zero air pollution would just be equal to the total cost of pollution reduction.

(C) scientifically it is impossible to achieve a zero level of air pollution.

(D) the marginal benefits of achieving perfectly clean air would outweigh the marginal costs of achieving it.

(E) the average benefit of achieving perfectly clean air outweighs the total benefit of achieving it.

Answer : (A)

52. 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 is $1, a drink is $1, but a value meal with all three is $3.80, the marginal cost to Ted of the drink is:

(A) $0.20.

(B) $0.80.

(C) $1.00.

(D) $3.80.

(E) 0.

Answer : (B)

53. Specialization is a way:

(A) for individuals to make the best use of resources by devoting themselves to one primary productive activity.

(B) for society to become wealthier while not using their resources.

(C) for people to avoid trade.

(D) of increasing the opportunity cost of an activity.

(E) for society to become more self-sufficient.

Answer : (A)

54. 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.

(E) comparative disadvantage in production.

Answer : (D)

55. Country A has a comparative advantage over Country B in the production of a particular good if Country A:

(A) can produce the good at a higher opportunity cost than Country B.

(B) is more self-sufficient than Country B.

(C) can produce the good at a lower opportunity cost than Country B.

(D) has a GDP higher than Country B.

(E) has a GDP lower than Country B.

Answer : (C)

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

(A) means that the country's opportunity cost is higher than of the other countries.

(B) discourages specialization.

(C) promotes greater self-sufficiency.

(D) permits gains from trade to be realized due to a more efficient use of resources.

(E) means that the country uses a capital intensive method of production.

Answer : (D)

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

(A) export; export

(B) import; import

(C) export; import

(D) import; export

(E) import; produce

Answer : (C)

58. Specialization:

(A) leads to greater self-sufficiency and less trade.

(B) can lead to an increase in overall production and trade.

(C) is always the result of an inefficient use of resources.

(D) allows workers to develop skills by working on a large number of tasks.

(E) allows firms to produce different varieties of products.

Answer : (B)

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

(A) one party is twice as good at 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) there is a difference in the endowment of resources in the two countries.

(E) they both produce the same good or service, but in differing amounts.

Answer : (D)

60. An advantage of specialization is that it:

(A) reduces interdependence.

(B) leads to the exploitation of comparative advantage.

(C) gives countries the ability to be self-sufficient.

(D) discourages a capitalistic economic system.

(E) encourages a closed economic system.

Answer : (B)

61. An economy's production possibilities curve is concave to the origin because of the impact of:

(A) the law of demand.

(B) the law of supply.

(C) the law of increasing opportunity cost.

(D) the law of diminishing marginal utility.

(E) the law of diminishing marginal returns.

Answer : (C)

62. The production possibilities curve illustrates:

(A) the minimum quantity of two resources necessary to produce a given level of output.

(B) that when resources are currently being used inefficiently, it is possible to increase the production of one good only by sacrificing another good.

(C) that when resources are currently being used efficiently, it is possible to increase the production of one good only by sacrificing another good.

(D) the minimum quantities of output that can be produced using available resources.

(E) the law of diminishing returns to scale.

Answer : (C)

63. When resources are used efficiently, a country can produce more of one good, ceteris paribus, only by:

(A) printing more money.

(B) charging a lower price for output.

(C) charging a higher price for output.

(D) producing less of another good.

(E) reducing the amounts of inputs.

Answer : (D)

64. A production possibilities curve is negatively sloped because:

(A) the price of a good falls as you move down along the curve.

(B) resources are wasted as you move along the curve.

(C) it is not possible to adjust production decisions at all once an economy operates on the curve.

(D) once on the frontier, it is only possible to increase production of one good by reducing production of the other.

(E) of the law of diminishing returns to scale.

Answer : (D)

65. If additional units of output could be produced at constant opportunity cost, the production possibilities curve would be:

(A) bowed inward toward the origin.

(B) bowed outward away from the origin.

(C) positively sloped with a concave curvature.

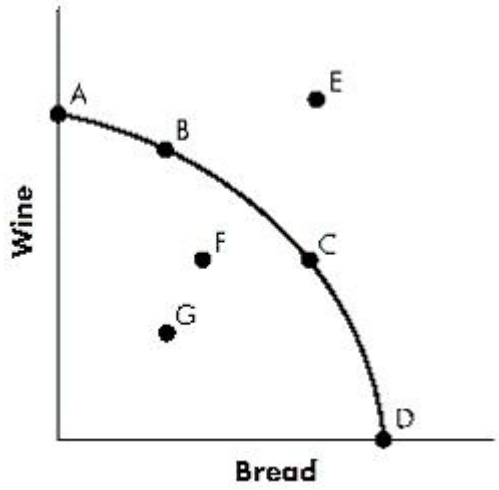
(D) a straight line with a negative slope.

(E) positively sloped with a convex curvature.

Answer : (D)

66. Figure 2-1 shows the production possibilities curve of an economy that produces bread and wine. Currently, it is not possible to produce at:

Figure 2-1



(A) Point A.

(B) Point B.

(C) Point E.

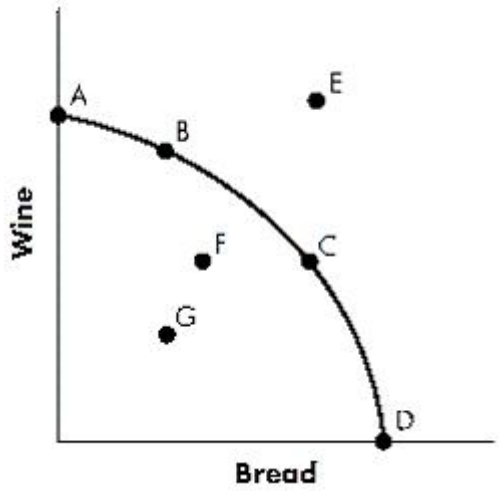
(D) Point G.

(E) Point C

Answer : (C)

67. Figure 2-1 shows the production possibilities curve of an economy that produces bread and wine. The economy was operating at full employment, and then, the workers in the bread industry were laid off. This change could be portrayed in the movement from:

Figure 2-1



(A) A to B.

(B) B to E.

(C) C to F.

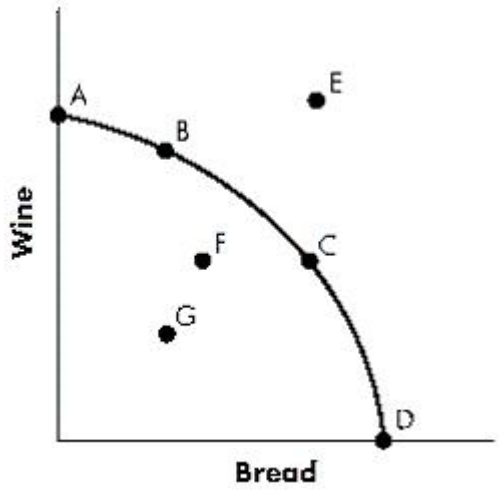
(D) G to F.

(E) B to C.

Answer : (C)

68. Figure 2-1 shows the production possibilities curve of an economy that produces bread and wine. Along the production possibilities curve, _____ is an economically efficient point of production.

Figure 2-1



(A) Point G

(B) Point F

(C) Point E

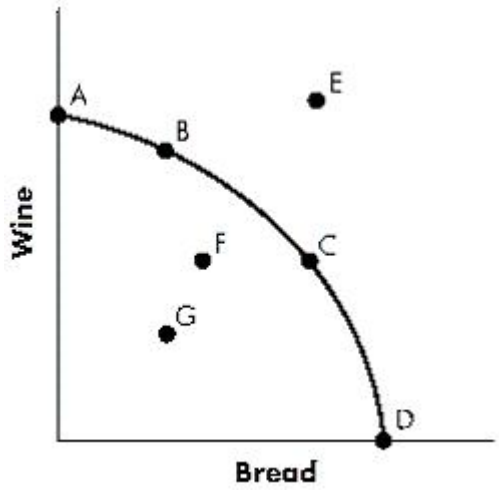
(D) Point B

(E) the origin

Answer : (D)

69. Figure 2-1 shows the production possibilities curve of an economy that produces bread and wine. The most inefficient point depicted is:.

Figure 2-1



(A) Point A.

(B) Point C.

(C) Point D.

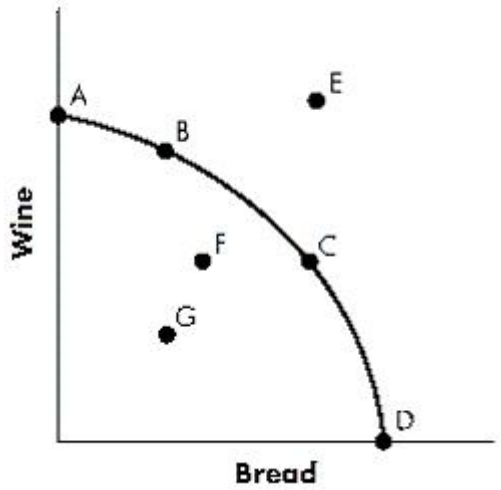
(D) Point G.

(E) Point E.

Answer : (D)

70. Figure 2-1 shows the production possibilities curve of an economy that produces bread and wine. A movement from Point B to Point C:

Figure 2-1



(A) involves sacrificing bread in order to produce a greater quantity of wine.

(B) involves sacrificing wine in order to produce a greater quantity of bread.

(C) involves no sacrifice, as the opportunity cost of production is zero everywhere along the production possibilities curve.

(D) will increase the level of unemployment in the economy.

(E) will decrease the level of unemployment in the economy.

Answer : (B)

71. Economic efficiency is defined as:

(A) the maximization of output from available resources.

(B) the maximization of revenue from available resources.

(C) the maximization of inputs using available resources.

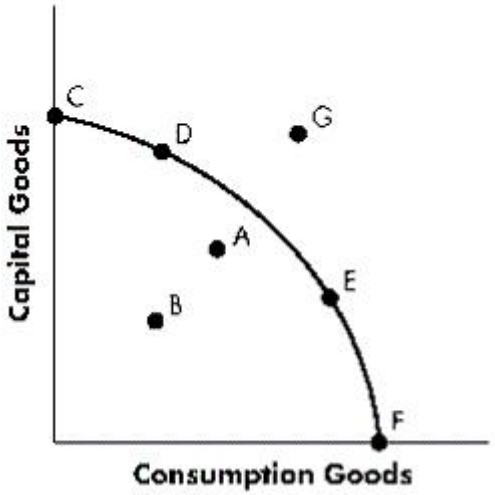
(D) the creation of a surplus using available resources.

(E) the minimization of cost using available resources.

Answer : (A)

72. Figure 2-2 shows the production possibilities curve of an economy in the production of consumption goods and capital goods. Currently, Point ____ is impossible to achieve.

Figure 2-2



(A) A

(B) C

(C) E

(D) G

(E) B

Answer : (D)

73. Economic growth can be illustrated by:

(A) a movement along the production possibilities curve.

(B) a movement from a point on the production possibilities curve to a point inside the production possibilities curve.

(C) an inward shift of the production possibilities curve.

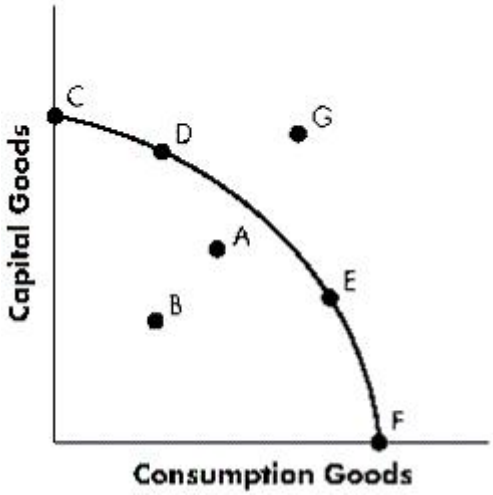
(D) an outward shift of the production possibilities curve.

(E) decrease in the curvature of the production possibilities curve.

Answer : (D)

74. Figure 2-2 shows the production possibilities curve of an economy in the production of consumption goods and capital goods. Considering only points on the frontier, the economy will experience the least amount of economic growth over time, ceteris paribus, if it chooses to produce at:

Figure 2-2



(A) Point D.

(B) Point C.

(C) Point F.

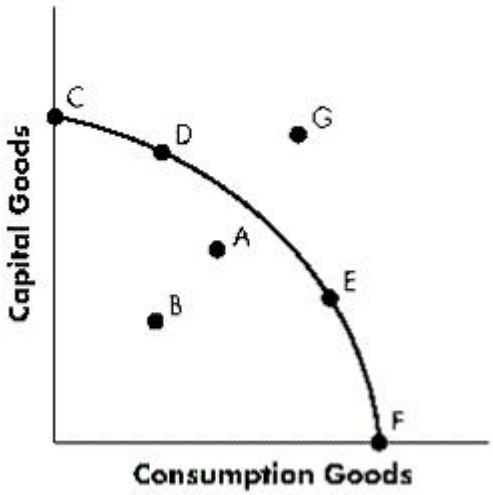
(D) Point E.

(E) Point A.

Answer : (C)

75. Figure 2-2 shows the production possibilities curve of an economy in the production of consumption goods and capital goods. Other things being equal, the economy will achieve the greatest economic growth over time if it currently operates at _____.

Figure 2-2



(A) Point A

(B) Point C

(C) Point E

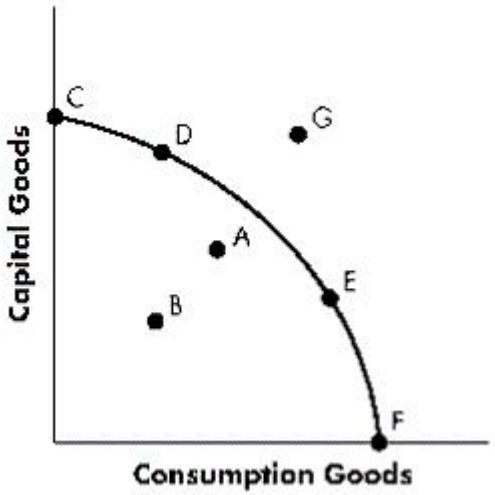
(D) Point G

(E) Point F

Answer : (B)

76. Figure 2-2 shows the production possibilities curve of an economy in the production of consumption goods and capital goods. A movement from Point ____ to Point ____ will result in an increase in the quantity of both capital and consumption goods produced in the economy.

Figure 2-2



(A) B; A

(B) F; A

(C) D; F

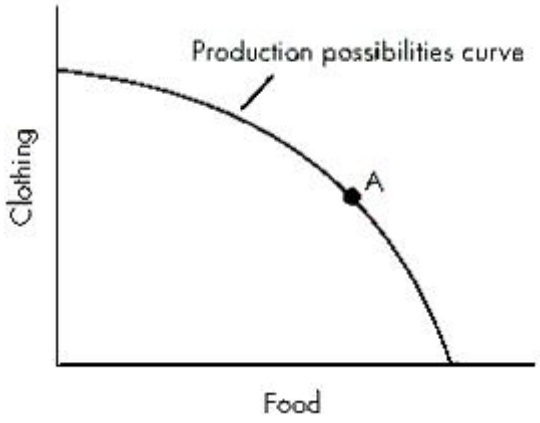
(D) F; D

(E) A; G

Answer : (A)

77. Figure 2-3 shows the production possibilities curve of an economy in the production of food and clothing. If the economy operates at Point A on the production possibilities curve shown above, then:

Figure 2-3



(A) it cannot increase its output of food.

(B) it cannot increase its output of clothing.

(C) it cannot simultaneously increase its output of both food and clothing.

(D) it is not utilizing its resources inefficiently.

(E) it cannot decrease its output of food.

Answer : (C)

78. Which of the following distinguishes a "straight-line" production possibilities curve from one that is "bowed out"?

(A) A straight-line production possibilities curve exhibits increasing opportunity costs, whereas a bowed production possibilities curve does not.

(B) A straight-line production possibilities curve exhibits decreasing opportunity costs, whereas a bowed production possibilities curve exhibits constant opportunity costs.

(C) A straight-line production possibilities curve exhibits constant opportunity costs, whereas a bowed production possibilities curve exhibits increasing opportunity costs.

(D) A straight-line production possibilities curve is upward sloping, whereas a bowed production possibilities curve is not.

(E) A straight-line production possibilities curve exhibits constant opportunity costs, whereas a bowed production possibilities curve exhibits decreasing opportunity costs.

Answer : (C)

79. A technological advancement that increases the productivity of all inputs is best illustrated as:

(A) a movement along the production possibilities curve.

(B) a flattening of the production possibilities curve.

(C) an inward shift of the production possibilities curve.

(D) an outward shift of the production possibilities curve.

(E) a change in the curvature of the production possibilities curve.

Answer : (D)

80. Which of the following scenarios would cause an outward shift in the production possibilities curve of a country?

(A) A temporary shutdown of mines due to frequent accidents

(B) The discovery of large mineral deposits

(C) A tougher environmental legislation

(D) A shortage of skilled labor

(E) A huge migration of labor from the country

Answer : (B)

81. Improving the level of education of the labor force will:

(A) move the economy from a point inside the production possibilities curve to a point on the production possibilities curve.

(B) move the economy from a point on the production possibilities curve to a point inside the production possibilities curve.

(C) shift the production possibilities curve outward.

(D) shift the production possibilities curve inward.

(E) make the production possibilities curve linear.

Answer : (C)

82. A movement from an abnormally high rate of unemployment toward a more typical level of unemployment would:

(A) shift the production possibilities curve inward.

(B) shift the production possibilities curve outward.

(C) move an economy from a point inside the production possibilities curve toward the curve.

(D) move an economy from a point on the production possibilities curve to a point beyond the production possibilities curve.

(E) decrease the productivity of the economy.

Answer : (C)

83. A market economy answers the question of what goods will be produced by focusing on:

(A) consumers' dollar votes.

(B) the least-cost method of production.

(C) who can afford these goods.

(D) the needs of the society.

(E) producers' ability to produce.

Answer : (A)

84. Three economic questions must be determined in all societies. What are they?

(A) How much will be produced? When will it be produced? How much will it cost?

(B) What the price of each good will be? Who will produce each good? Who will consume each good?

(C) What is the opportunity cost of production? Does the society have a comparative advantage in production? Will consumers desire the goods being produced?

(D) What goods will be produced? How will goods be produced? Who will get the goods produced?

(E) Who needs the goods the most? Who will produce the goods? How will goods be produced?

Answer : (D)

85. Which of the following concepts explains how individual consumers in market economies determine what is to be produced?

(A) Competition

(B) Consumer sovereignty

(C) Efficient resource allocation

(D) Free enterprise

(E) Centralized decision-making

Answer : (B)

86. In a market economy, the goods produced go to those:

(A) who have sufficient income and are willing to pay the price asked for those goods.

(B) whom the government views as best suited for consumption.

(C) whom business firms choose to favor.

(D) who desire the goods the least.

(E) who need the goods the most.

Answer : (A)

87. When collective decision-making is utilized to resolve economic questions regarding the allocation of resources, then:

(A) everyone will receive an equal share of the output produced.

(B) the preferences of individuals are of prime importance.

(C) economic efficiency will be assured.

(D) the role of markets will be replaced by political decision-making.

(E) the disparity in income will increase.

Answer : (D)

88. A system of economic organization in which the ownership and control of productive capital assets rests with the state and resources are allocated through central planning and political decision-making is called:

(A) a market economy.

(B) a command economy.

(C) a corporate economy.

(D) capitalism.

(E) a mixed economy.

Answer : (B)

89. The private ownership of property and the use of the market system to direct and coordinate economic activity are the characteristics of:

(A) a command economy.

(B) a mixed economy.

(C) a market economy.

(D) a traditional economy.

(E) a barter economy.

Answer : (C)

90. Which of the following is a fundamental difference between a "command economy" and a "market economy"?

(A) Command economies are more efficient in the allocation of resources, while market economies are less efficient in the allocation of resources.

(B) Command economies face severe scarcity of goods and services, while market economies have adequate goods and services for consumption.

(C) Command economies are less prone to inflation, while market economies are highly vulnerable to inflation.

(D) Production and distribution decisions are made by central planners in command economies, while production and distribution are made by market forces in market economies.

(E) Command economies have a decentralized system, while market economies are highly centralized.

Answer : (D)

91. Which of the following is most limited in scope under a pure market economy?

(A) Freedom of choice

(B) Consumer sovereignty

(C) Entrepreneurship

(D) Government

(E) The labor force

Answer : (D)

ESSAY

92. Explain why each of the following is considered an economic issue.a. Deciding on whether to spend Saturday afternoon at a football game
b. Obtaining tickets to a U2 concert
c. Your university considering your application for one of 25 available scholarships

Graders Info :

Answers will vary. 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 benefit versus the marginal cost. 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 in 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 whom it allocates these scarce scholarship resources to.
REJ: Please see the section
''Marginal Thinking''
for more information.

93. Why do people generally switch channels when a movie's final credits are being displayed?

Graders Info :

Answers will vary. Individuals will only pursue an activity if expected marginal benefits are greater than the expected marginal costs. If an individual perceives the marginal benefits of watching something else to be greater than watching the credit line of the movie, he or she will choose to switch channels. REJ: Please see the section ''Marginal Thinking'' for more information.

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

Graders Info :

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. REJ: Please see the section ''Marginal Thinking'' for more information.

95. 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 Farmer Fred from specialization. What should he specialize in?

Graders Info :

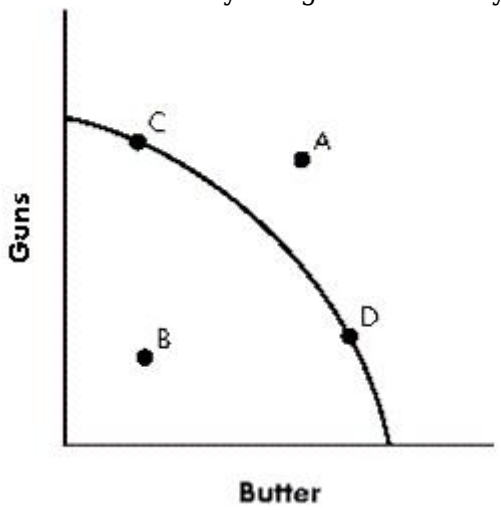
Answers will vary. Farmer Fred could make $150 if he grew only wheat and just $100 if he grew only barley. By specializing in wheat production, he will be better off. Even though he can produce more bushels of barley than he can of wheat, his opportunity cost of producing wheat (the $100 income sacrificed) is lower than the opportunity cost of producing barley ($150 in sacrificed income). REJ: Please see the section ''Specialization and Trade'' for more information.

96. Draw a picture of a production possibilities curve. Identify each axis as measuring either guns or

butter. Select and label Point A, which is beyond the economy's ability to produce; Point B, which represents an inefficient level of production; Point C, an efficient combination of output in which more guns are produced than units of butter; and Point D, an efficient production point in which more units of butter are produced than guns. Be sure to label each clearly.

Graders Info :

Answers will vary. Diagrams will vary. A Correct diagram should look something like the following:



97. What are the factors that can cause a shift in the production possibilities curve?

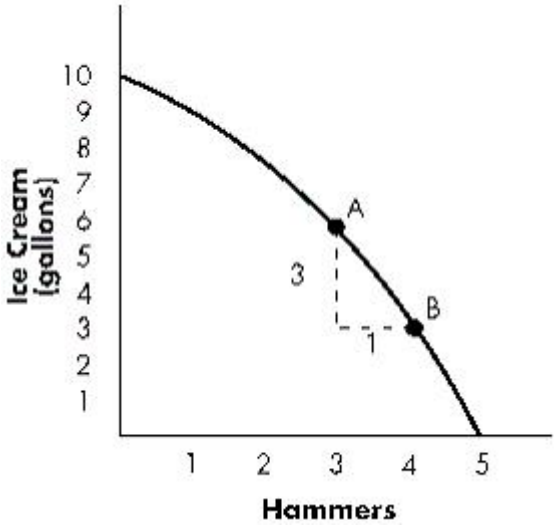
Graders Info :

Answers will vary. Advancement in technology, improvements in labor productivity, or new sources of natural resources could lead to outward shifts of the production possibilities curve. Also, growth in the size of the labor force and quantity of capital equipment can shift the production possibilities curve of an economy outward. REJ: Please see the section ''The Production Possibilities of an Economy'' for more information.

98. How can we measure the opportunity cost of producing a good? Using a bowed outward production possibilities curve between ice cream and hammers, identify graphically the opportunity cost of obtaining an additional hammer.

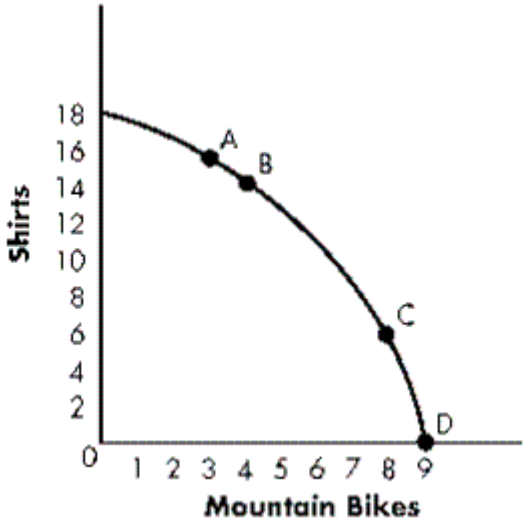
Graders Info :

Answers will vary. Diagrams will vary. A correct diagram should look something like the following:



The opportunity cost of a hammer is the quantity of ice cream that must be sacrificed in order to produce an additional hammer. For example, moving from Point A to Point B in the above diagram, we can see that 3 gallons of ice cream are sacrificed in order to produce one additional hammer. REJ: Please see the section ''The Production Possibilities of an Economy'' for more information.

99. Figure 2-4 shows the production possibilities curve of an economy for the production of mountain bikes and shirts. Why is the opportunity cost of producing a mountain bike different when moving from Point A to Point B than when moving from Point C to Point D along the production possibilities curve?**Figure 2-4**



Graders Info :

Answers will vary. Some resources are more substitutable across productive tasks than are others. In moving from Point A to Point B, resources that are useful for producing bikes but less useful for producing shirts can be reallocated from shirt manufacturing toward bike manufacturing. Further increases in mountain bike production, such as the movement from Point C to Point D, can be obtained only by reallocating resources that are less well suited for bike production away from the production of shirts. As a result, the opportunity cost (in terms of the number of shirts sacrificed) increases as mountain bike production increases. REJ: Please see the section ''The Production Possibilities of an Economy'' for more information.

100. It can be said that, ultimately, in a market economy, consumers are the driving force behind

answers to the three basic economic questions faced by societies. Explain the consumer's role in providing these answers.

Graders Info :

Answers will vary. What will be produced is directly determined by businesses. However, firms are aware that the way to succeed is to offer products that consumers find desirable. What businesses produce is determined by what they believe consumers want. How goods are produced is determined by firms that seek to reduce the costs of production. Since consumers are price conscious, they will buy lower-priced products (ceteris paribus). The consumers who have earned sufficient wealth and are willing to spend their wealth on these products are the individuals who will ultimately receive these products. REJ: Please see the section ''A Society's Three Basic Economic Questions'' for more information.