Economics 6th edition Mankiw Test Bank

SKU: 9781473786981-TEST-BANK

Name:_____ Class:_____ Date:_____

Chapter 01 What is economics

1. When the government redistributes income with taxes and welfare, the economy becomes more efficient.
   a. True
   b. False

ANSWER: False

2. When economists say, "There is no such thing as a free lunch," they mean that all economic decisions involve trade-offs.
   a. True
   b. False

ANSWER: True

3. Adam Smith's “invisible hand” concept describes how corporate business reaches into the pockets of consumers like an “invisible hand.”
   a. True
   b. False

ANSWER: False

4. Rational people act only when the marginal benefit of the action exceeds the marginal cost.
   a. True
   b. False

ANSWER: True

5. The European Union will benefit economically if we eliminate trade with Asian countries because EU citizens will be forced to produce more of their own cars and clothes.
   a. True
   b. False

ANSWER: False

6. When a jet flies overhead, the noise it generates is an externality.
   a. True
   b. False

ANSWER: True

7. Anneka is better at cleaning and Jurgen is better at cooking. It will take fewer hours to eat and clean if Jurgen specializes in cooking and Anneka specializes in cleaning than if they share the household duties evenly.
   a. True
   b. False

ANSWER: True

8. High and persistent inflation is caused by excessive growth in the quantity of money in the economy.
   a. True
   b. False

ANSWER: True

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9. In the short run, a reduction in inflation tends to cause a reduction in unemployment.
   a. True
   b. False

ANSWER: False

10. Workers in the countries of Western Europe have a relatively high standard of living because those countries have relatively high minimum wage rates.
   a. True
   b. False

ANSWER: False

11. There are three questions that any economy has to face: What goods and services should be produced? How should these goods and services be produced? _____

   a. How many goods and services should be produced?
   b. When should the goods and services be produced?
   c. Why should the goods and services be produced?
   d. Who should get the goods and services that have been produced?

ANSWER: d

12. Resources are
   a. scarce for households but plentiful for economies.
   b. plentiful for households but scarce for economies.
   c. scarce for households and scarce for economies.
   d. plentiful for households and plentiful for economies.

ANSWER: c

13. Economics deals primarily with the concept of
   a. scarcity.
   b. money.
   c. poverty.
   d. banking.

ANSWER: a

14. Which of the following involve a trade-off?
   a. Taking a nap.
   b. All of these answers involve trade-offs.
   c. Watching a football game on Saturday afternoon.
   d. Going to university.
   e. Buying a new car.

ANSWER: b

15. Trade-offs are required because wants are unlimited and resources are

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a. economical.
b. unlimited.
c. efficient.
d. marginal.
e. scarce.

ANSWER: e

16. Choices must be made in the use of resources
a. because they are limited in supply.
b. because they are limited in demand.
c. only if the resources are non-renewable.
d. because they are in infinite supply.

ANSWER: a

17. Economics is the study of how
a. society manages its unlimited resources.
b. to reduce our wants until we are satisfied.
c. society manages its scarce resources.
d. to fully satisfy our unlimited wants.
e. to avoid having to make trade-offs.

ANSWER: c

18. The opportunity cost of building an additional car park at your university is
a. the cost of the labour, concrete, etc. used to build the car park.
b. the value of the land used in its next best alternative use, and the cost of the labour, concrete, etc. used to build the car park.
c. the value of the land and resources used in all of their alternative uses.
d. infinite; we cannot estimate it.

ANSWER: b

19. Suppose you are considering going to the cinema, and you place a €12 value on your anticipated enjoyment of the film. The ticket price is €6 and you would be giving up two hours of work, where you earn €5 per hour. You would go to
a. work as the opportunity cost of the movies exceeds the expected benefit.
b. see the film as your incentive is the €6 excess expected benefit.
c. see the film as your enjoyment will exceed the lost wages by €2.
d. see the film as the benefit of €18 exceeds the lost wages.

ANSWER: a

20. A rational person does not act unless
a. the action is ethical.
b. the action produces marginal costs that exceed marginal benefits.

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c. the action produces marginal benefits that exceed marginal costs.
d. the action makes money for the person.
e. none of these answers.

ANSWER: c

21. Raising taxes and increasing welfare payments
a. reduces market power.
b. proves that there is such a thing as a free lunch.
c. improves efficiency at the expense of equity.
d. none of these answers.
e. improves equity at the expense of efficiency.

ANSWER: e

22. The government has just passed a law requiring that all residents earn the same annual income regardless of work effort. This law is likely to
a. increase efficiency and increase equality.
b. increase efficiency but decrease equality.
c. decrease efficiency but increase equality.
d. decrease efficiency and decrease equality.

ANSWER: c

23. Suppose you find €30. If you choose to use the €30 to go to a football match, your opportunity cost of going to the game is
a. nothing, because you found the money.
b. €30 (because you could have used the €30 to buy other things) plus the value of your time spent at the game.
c. €30 (because you could have used the €30 to buy other things) plus the value of your time spent at the game, plus the cost of the dinner you purchased at the game.
d. €30 (because you could have used the €30 to buy other things).
e. none of these answers.

ANSWER: b

24. A nation's standard of living can be increased by
a. improvements in technology and international trade.
b. improvements in technology but not international trade.
c. international trade but not improvements in technology.
d. neither international trade nor improvements in technology.

ANSWER: a

25. Foreign trade
a. increases the scarcity of resources.
b. makes a country more equitable.

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c. allows a country to have a greater variety of products at a lower cost than if it tried to produce everything at home.
d. allows a country to avoid trade-offs.

ANSWER: c

26. In a market economy
a. people are rewarded according to their family size.
b. people are rewarded according to how well they achieve the goals set by government.
c. people are rewarded according to how many hours they work.
d. people are rewarded according to their ability to produce things for which other people are willing to pay.

ANSWER: d

27. Adam Smith argues in the Wealth of Nations that an economy will produce more goods and services if
a. people act in the public interest, rather than if they act in their own self-interest.
b. people act in their own self-interest, rather than if the government directs economic activity.
c. the government controls the use of the nation's scarce resources.
d. people ignore their own interests and contribute to national wealth as a whole.

ANSWER: b

28. Since people respond to incentives, we would expect that, if the average salary of accountants increases by 50% while the average salary of teachers increases by 20%, then
a. fewer students will take degree courses in accounting and more will take education courses.
b. fewer students will take degree courses in education and more will take accounting courses.
c. fewer students will attend university.
d. none of these answers.

ANSWER: b

29. Which of the following activities is most likely to produce an externality?
A student
a. eats a hamburger in the student union.
b. reads a novel for pleasure.
c. sits at home and watches TV.
d. has a party in their room in the student hall of residence.

ANSWER: d

30. Which of the following products would be least capable of producing an externality?
a. Inoculations against disease.
b. Cigarettes.
c. Food.
d. Education.
e. Hi-fi equipment.

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Chapter 01 What is economics

ANSWER: c

31. Suppose that Rebecca throws her cola bottle out of her car window and it smashes on the road. Jim drives over the broken glass and gets a flat tyre. Rebecca's cola consumption has resulted in
    a. the production of a public good.
    b. an externality.
    c. monopoly power for Rebecca.
    d. greater efficiency in consumption.

ANSWER: b

32. Which of the following situations describes the greatest market power?
    a. Subaru's impact on the price of cars.
    b. A farmer's impact on the price of corn.
    c. Microsoft's impact on the price of desktop operating systems.
    d. A student's impact on college tuition.

ANSWER: c

33. Which of the following statements is true about a market economy?
    a. With a large enough computer, central planners could guide production more efficiently than markets.
    b. Market participants act as if guided by an invisible hand to produce outcomes that maximize social welfare.
    c. The strength of a market system is that it tends to distribute resources evenly across consumers.
    d. Taxes help prices communicate costs and benefits to producers and consumers.

ANSWER: b

34. The market power that your university's bookstore has now, compared with the 1990s, is limited by
    a. new competition laws.
    b. public goods provided by the government.
    c. university policies against monopoly power.
    d. increased access to other booksellers provided by the internet.

ANSWER: d

35. Government can improve market outcomes by
    a. directing labour to priority areas.
    b. printing money.
    c. using well designed policies to reduce firms' market power.
    d. taxing everyone equally.

ANSWER: c

36. Almost all variation in living standards in different countries
    a. is attributable to variations in productivity.

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b. is attributable to differences in countries' endowments of natural resources.
c. is attributable to differences in climate.
d. is attributable to variation in population sizes.

ANSWER: a

37. Productivity is defined as the
a. amount of goods and services produced from each unit of labour input.
b. number of workers required to produce a given amount of goods and services.
c. amount of labour that can be saved by replacing workers with machines.
d. actual amount of effort workers put into an hour of working time.

ANSWER: a

38. Workers in Western Europe enjoy a high standard of living because
a. the countries of Western Europe have set high minimum wage rates.
b. unions in Western Europe keep the wage high.
c. None of these answers.
d. the countries of Western Europe have protected their industries from foreign competition.
e. workers in the Western Europe are highly productive.

ANSWER: e

39. The inflation rate is the
a. price level.
b. average price of goods and services in an economy.
c. rate of growth of the price level.
d. purchasing power of money.

ANSWER: c

40. Inflation reduces
a. the price level.
b. employment
c. the money supply.
d. the value of money.

ANSWER: d

41. High and persistent inflation is caused by
a. unions increasing wages too much.
b. OPEC raising the price of oil too much.
c. governments increasing the quantity of money too much.
d. regulations raising the cost of production too much.

ANSWER: c

42. The Phillips curve shows that

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a. the business cycle has been eliminated.
b. an increase in inflation temporarily increases unemployment.
c. inflation and unemployment are unrelated in the short run.
d. a decrease in inflation temporarily increases unemployment.
e. none of these answers.

ANSWER: d

43. An increase in the price of beef provides
a. no information because prices in a market system are managed by planning boards.
b. tells consumers to buy less pork.
c. tells producers to produce more beef.
d. tells consumers to buy more beef.

ANSWER: c

44. For which of the following individuals would the opportunity cost of going to college be highest?
a. A promising young mathematician who will command a high salary once she earns her college degree.
b. A student with average grades who has never held a job.
c. A famous, highly-paid actor who wants to take time away from show business to finish college and earn a degree.
d. A student who is the best player on his university football team, but who lacks the skills necessary to play professional football.

ANSWER: c

45. By 'opportunity cost' we mean:
a. The total amount spent by firms on factors of production.
b. The quantitative value of all the potential benefits accrued in making a purchase.
c. The amount, in the domestic currency, that has to be given up to acquire a good.
d. The sacrifice of the benefits of the next best alternative.

ANSWER: d

46. Productivity can be increased by
a. improving the education of workers.
b. raising union wages.
c. raising minimum wages.
d. restricting trade with foreign countries.

ANSWER: a

47. The business cycle is the
a. relationship between unemployment and inflation.
b. irregular fluctuations in economic activity.
c. positive relationship between the quantity of money in an economy and inflation.

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d. predictable changes in economic activity due to changes in government spending and taxes.

ANSWER: b

48. Both the production of goods and services and the unemployment rate are used to measure
a. the business cycle.
b. productivity.
c. the interest rate.
d. inflation.

ANSWER: a

49. Policy makers can affect inflation and unemployment in the short term by
a. eliminating externalities.
b. giving the central bank independence.
c. changing the amount that the government spends.
d. encouraging firms to think at the margin.

ANSWER: c

50. How does the study of economics depend upon the phenomenon of scarcity?

ANSWER: Because economics is the study of how society allocates its scarce resources, if there were no scarcity, there would be no need for economics. Everyone could have all the goods and services they wanted. No one would have to make decisions based on trade-offs, because there would be no opportunity cost associated with the decision. (It is difficult to conceive of a situation where time is not scarce, however).

51. One trade-off society faces is between efficiency and equality. Define each term. If the UK government redistributes income from the rich to the poor, explain how this action affects equality as well as efficiency in the economy.

ANSWER: Efficiency is the property of society getting the most it can from its scarce resources. Equality is defined as the property of distributing economic prosperity evenly among the members of society. Often, these two goals conflict. When the government redistributes income from the rich to the poor, it reduces the reward for working hard. Fewer goods and services are produced, and the economic pie gets smaller. When the government tries to cut the economic pie into more equal slices, the pie gets smaller. Policies aimed at achieving a more equal distribution of economic well-being, such as the welfare system, try to help those members of society who are most in need. The individual income tax asks the financially successful to contribute more than others to support the government.

52. Define opportunity cost. What is the opportunity cost to you of attending college? What was your opportunity cost of coming to class today?

ANSWER: Whatever must be given up to obtain some item it its opportunity cost. Basically, this would be a person's second choice. The opportunity cost of a person attending college is the value of the best alternative use of that person's time, as well as the additional costs the person incurs by making the choice to attend college. For most students this would be the income the student gives up by not working, plus the cost of tuition and books, and any other costs they incur by attending college that they would not incur if they chose not to attend college. A student's opportunity cost of coming to

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class was the value of the best opportunity the student gave up. (For most students, that seems to be sleep.)

53. Outline one example of the principle of 'thinking at the margin.'

ANSWER: Rational people think at the margin. They make decisions based on small changes. A rational decision maker takes action only if the marginal benefit of that action exceeds the marginal cost. For example, a theatre may have only sold 80 per cent of the seats before the day of the performance. By thinking at the margin, it can make more profit. For example, it can offer last minute seats at quite a low price such a €10 or even €5 because the extra cost of selling the empty seat is much smaller that the reduced ticket price.

54. With the understanding that people respond to incentives, outline the possible outcome for teachers if school holidays are reduced.

ANSWER: The concept of working longer per year would be perceived by many teachers as a definite increase in the cost of teaching. Even with additional compensation, many teachers look at school holidays as a major benefit of the education profession. If this benefit were eliminated or diminished, some teachers may perceive that the marginal cost of teaching would now be greater than the marginal benefit and would choose to leave teaching.

55. When are markets not a good way to organize economic activity?

ANSWER: Markets are a poor way to organize economic activity when the scarce resources are not allocated to their most efficient use. One such cause of a market failure would be the presence of significant externalities, such as a business causing pollution affecting a third party. Another cause of market failure would be where there is excessive market power. For example, a monopoly supplier can and often will influence market prices.

56. Under what conditions might government intervention in a market economy improve the economy's performance?

ANSWER: If there is a market failure, such as an externality or monopoly, government regulation might improve the well-being of society by promoting efficiency. If the distribution of income or wealth is considered to be unfair by society, government intervention might achieve a more equal distribution of economic well-being.

57. Why is a high quality education system important in raising living standards for future generations?

ANSWER: A high quality educational system will raise future living standards since there will be improved labour productivity. This measures the amount of goods and services produced from each hour of worker's time. Increases in productivity lead to increases in people's standard of living.

58. Explain why there is a short-run trade-off between inflation and unemployment.

ANSWER: Over a period of a year or two, many economic policies push inflation and unemployment in opposite directions. This means there is a trade-off in the short run. For example, changing the amount the government spends such as by printing money, the government can reduce unemployment. However, printing money is inflationary.

59. Explain how an attempt by the government to lower inflation could cause unemployment to increase in the short-run.

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ANSWER: To lower inflation, the government may choose to reduce the money supply in the economy. When the money supply is reduced, prices don't adjust immediately. Lower spending, combined with prices that are too high, reduces sales and causes workers to be laid off. Hence, the lower price level is associated with higher unemployment.

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