Business Economics 4th edition Mankiw Test Bank

SKU: 9781473791312-TEST-BANK

Name:_____ Class:_____ Date:_____

Chapter_1_What_is_Business_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. When a jet flies overhead, the noise it generates is an externality.
   a. True
   b. False

ANSWER: True

6. A tax on alcoholic drinks raises the price of alcoholic drinks and provides an incentive for consumers to drink more.
   a. True
   b. False

ANSWER: False

7. High and persistent inflation can be caused by excessive growth in the quantity of money in the economy.
   a. True
   b. False

ANSWER: True

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

ANSWER: False

9. An individual farmer is likely to have market power in the market for wheat.
   a. True
   b. False

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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. 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

12. Trade-offs are required because wants are unlimited and resources are
    a. economical.
    b. unlimited.
    c. efficient.
    d. marginal.
    e. scarce.

ANSWER: e

13. 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

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

15. Raising taxes and increasing welfare payments to the poor
    a. reduces market power.
    b. proves that there is such a thing as a free lunch.
    c. improves efficiency at the expense of equity.

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d. none of these answers.
e. improves equity at the expense of efficiency.

ANSWER: e

16. Suppose you find €20. If you choose to use the €20 to go to a football match, your opportunity cost of going to the game is
a. nothing, because you found the money.
b. €20 (because you could have used the €20 to buy other things) plus the value of your time spent at the game.
c. €20 (because you could have used the €20 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. €20 (because you could have used the €20 to buy other things).
e. none of these answers.

ANSWER: b

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

18. 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

19. 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 her room in the student hall of residence.

ANSWER: d

20. 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

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Chapter_1_What_is_Business_Economics

21. 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 Western Europe are highly productive.

ANSWER: e

22. High and persistent inflation is caused by
    a. trade unions increasing wages too much.
    b. a government introducing a one off tax on fuel .
    c. governments increasing the quantity of money too much.
    d. regulations raising the cost of production too much.

ANSWER: c

23. You are planning to run a hot dog stand during a forthcoming fair. You originally estimated that you will generate sales revenue of €2,000 and you have already spent €1,000 building the hot dog stand. The hot dog stand is nearly completed but now you estimate total sales to be only €800 because the fair clashes with a major music festival in a nearby location. You can complete the hot dog stand for another €300. Your decision rule should be to complete the hot dog stand as long as the cost to complete the stand is less than
    a. €300.
    b. €100.
    c. €500.
    d. none of these answers.
    e. €800.

ANSWER: e

24. Which of the following is not part of the opportunity cost of going on holiday?
The money you:
    a. spent on a theatre show.
    b. could have made if you had stayed at home and worked.
    c. spent on airline tickets.
    d. spent on another opportunity.

ANSWER: d

25. 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

26. Explain why using opportunity cost as a measure of the 'cost' of something is better than using a money value to an economist.

ANSWER: Answers will vary

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27. Outline one example of the principle of 'thinking at the margin.'
ANSWER: Answers will vary

28. When are markets not a good way to organize economic activity?
ANSWER: Answers will vary

29. Explain why property rights are important for the functioning of a free market economy.
ANSWER: Answers will vary.

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