Exploring Microeconomics 8th edition Sexton Test Bank

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Chapter 2: Economics: Eight Powerful Ideas

Test Bank

Multiple Choice

1. As defined in economics, why does scarcity exist?
a. Human wants exceed available resources.
b. Resources used in production are expensive.
c. Resources are desirable and unlimited.
d. The supply-demand relationship breaks down.
Ans: A
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Knowledge
Answer Location: Scarcity and Resources
Difficulty Level: Easy

2. Which of the four categories of resources used in production refers to the physical and mental effort expended by people?
a. labor
b. land
c. capital
d. entrepreneurial ability
Ans: A
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Knowledge
Answer Location: Scarcity and Resources
Difficulty Level: Easy

3. What do economists call the factor payments that go to capital?
a. wages
b. rent
c. interest
d. deposits
Ans: C
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Knowledge
Answer Location: Scarcity and Resources
Difficulty Level: Easy

4. Which of the following items are labor costs related to a sign business?
a. salaries and benefits paid to employees

b. materials on which the signs are printed
c. equipment used to print and cut the signs
d. design software used to layout the signs
Ans: A
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Application
Answer Location: Scarcity and Resources
Difficulty Level: Hard

5. Which of the four categories of resources used in production would include farmable acreage, timber, and natural gas?
a. labor
b. land
c. capital
d. costs
Ans: B
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Knowledge
Answer Location: Scarcity and Resources
Difficulty Level: Easy

6. Entrepreneurial ability is defined as the ability to _____.
a. invent economic goods that will change society
b. inspire others to reach their professional potential
c. negotiate the lowest prices for scarce resources
d. develop new products or production processes
Ans: D
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Knowledge
Answer Location: Scarcity and Resources
Difficulty Level: Easy

7. Which of the following describes the role of an entrepreneur?
a. encourages an action by increasing its benefits or reducing its costs
b. combines resources of labor, land, and capital to produce goods and services
c. dominates a market and excludes others from participating in exchange
d. holds the power to control prices, lower unemployment, or reduce inflation
Ans: B
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Comprehension
Answer Location: Scarcity and Resources
Difficulty Level: Medium

8. What is the difference between tangible goods and intangible goods? Tangible goods _____; intangible goods _____.

a. are manufactured; occur in nature
b. can be touched; cannot be touched
c. require capital; do not require capital
d. are bought in stores; are bought online
Ans: B
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Analysis
Answer Location: What Are Goods and Services?
Difficulty Level: Medium

9. Which of the following is an intangible good?
a. a television
b. a reputation
c. a smartphone
d. a textbook
Ans: B
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Application
Answer Location: What Are Goods and Services?
Difficulty Level: Medium

10. What is the term economists use to designate goods that are desirable but limited in supply?
a. economic goods
b. tangible goods
c. intangible goods
d. precious goods
Ans: A
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Knowledge
Answer Location: What Are Goods and Services?
Difficulty Level: Easy

11. There is an empty lot between a playground and a storage unit that has become filled with garbage and overgrown weeds. The lot is surrounded by a fence with a gate. Pipes run beneath it so that anything built there could have access to the city sewer and water supply. Which aspect of the empty lot would economists label as “bads”?
a. the access to water and sewer
b. the proximity to the playground and storage unit
c. the garbage and weeds
d. the fence and the gate
Ans: C
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Application
Answer Location: What Are Bads?

Difficulty Level: Hard

12. Why do economists say that everyone faces scarcity?
a. All people must share the same natural resources.
b. Everyone competes for the available goods and services.
c. People are willing to pay for goods and services.
d. No one can have all the goods and services they desire.
Ans: D
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Comprehension
Answer Location: Does Everyone Face Scarcity?
Difficulty Level: Medium

13. What economic insight is demonstrated through changing fashions in hairstyles or clothing?
a. Production improvements lead to more goods.
b. New wants develop and replace the old ones.
c. Goods are desirable but limited in supply.
d. Intangible goods cost more than tangible ones.
Ans: B
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Application
Answer Location: Will Scarcity Ever Be Eradicated?
Difficulty Level: Hard

14. In economics, one of the problems with the concept of “need” is that it ignores _____.
a. opportunity
b. efficiency
c. scarcity
d. security
Ans: C
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Comprehension
Answer Location: Wants versus Needs
Difficulty Level: Medium

15. What would it take to overcome scarcity?
a. spending more money
b. making better decisions
c. having unlimited resources
d. eliminating price controls
Ans: C
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Comprehension

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Answer Location: Scarcity Forces Us to Choose
Difficulty Level: Medium

16. In the hope of getting promoted, Inez agreed to work overtime at her job, which meant she could not meet with her study group as planned. If she impressed her boss, she would increase her paycheck. She could study for the exam on her own, even if it meant a slightly lower grade. What concept in economic decision making does this scenario represent?
a. trade-off
b. efficiency
c. net benefit
d. money cost
Ans: A
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Comprehension
Answer Location: Trade-offs
Difficulty Level: Medium

17. “To choose is to lose” is another way to describe which concept in economics?
a. scarcity of resources
b. tangible benefits
c. marginal thinking
d. opportunity cost
Ans: D
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Comprehension
Answer Location: To Choose Is to Lose
Difficulty Level: Medium

18. Luke recently attended a large pop culture convention in another state. What would be the money costs Luke incurred to attend the show?
a. the payments for the pass, airline ticket, and hotel bill
b. the time he could have spent improving his musical ability
c. the virus he caught at the crowded convention
d. the annoyance of airport lines and security checks
Ans: A
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Application
Answer Location: Money Costs and Non-money Cost
Difficulty Level: Hard

19. Distinguish between the money and non-money costs parents face when raising a child. Money costs might include _____, whereas non-money costs might include _____.
a. center-based child care fees; hiring a babysitter at home

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b. redecorating the child's room; making mortgage payments
c. playing yard games with the child; buying sports equipment
d. tuition for music lessons; volunteering in the child's classroom
Ans: D
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Analysis
Answer Location: The Opportunity Cost of Going to College or Having a Child
Difficulty Level: Hard

20. An underlying assumption of economic analysis is that people engage in rational decision making and _____.
a. self-promotion
b. bargain hunting
c. marginal thinking
d. economic growth
Ans: C
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Knowledge
Answer Location: Idea 2: People Engage in Rational Decision Making and Marginal Thinking
Difficulty Level: Easy

21. Which of the following assumptions best explains how people make decisions, according to economists?
a. People make the best choice they can because they do not want to make themselves worse off.
b. Money incentives matter the most because no matter how much people have they want more.
c. Few people are systematic about decision making, and many disregard their own values.
d. Individuals consider past experiences but fail to evaluate expected future circumstances.
Ans: A
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Comprehension
Answer Location: What Is Rational Decision Making?
Difficulty Level: Medium

22. Which of the following decisions best reflects marginal thinking?
a. deciding to get married
b. starting a new business
c. attending graduate school
d. switching phone carriers
Ans: D
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.

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REF: Cognitive Domain: Application
Answer Location: Many Choices We Face Involve Marginal Thinking
Difficulty Level: Hard

23. What is the difference between an “all or nothing” decision and one that involves marginal thinking?
a. how much of something to do versus how complicated it is
b. whether to do something versus how much of it to do
c. how important the matter is versus how complicated it is
d. whether to do something versus how important it is
Ans: B
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Analysis
Answer Location: Many Choices We Face Involve Marginal Thinking
Difficulty Level: Medium

24. Which of the following best describes a marginal choice?
a. how much of something to do
b. “all or nothing” decision making
c. whether or not something is legal
d. choosing the lesser of two evils
Ans: A
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Comprehension
Answer Location: Many Choices We Face Involve Marginal Thinking
Difficulty Level: Medium

25. Which of the following transactions would most likely require marginal thinking?
a. deciding how many cattle to buy at a livestock auction
b. choosing which animal to request for a puppy adoption
c. deciding whether to make an online purchase
d. choosing a painter for an art commission
Ans: A
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Application
Answer Location: Many Choices We Face Involve Marginal Thinking
Difficulty Level: Hard

26. At an antique auction, Ross hoped to purchase a mid-century coffee table for less than $400. When other bidders drove the price of the item above that level, he dropped out of the bidding. What economic concept does this story represent?
a. market efficiency
b. opportunity cost
c. marginal thinking
d. absolute advantage

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Ans: C
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Comprehension
Answer Location: Many Choices We Face Involve Marginal Thinking
Difficulty Level: Medium

27. Which of the following decisions is the best example of a business engaging in marginal thinking?
a. choosing whether or not to manufacture an entirely new product line
b. deciding to discontinue using newspaper advertising completely
c. evaluating whether it would increase profits to add a second shift at their factory
d. identifying the opportunity that will be lost when a certain action is taken
Ans: C
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Application
Answer Location: Many Choices We Face Involve Marginal Thinking
Difficulty Level: Hard

28. What economic concept is represented using the equation *E(MB) > E(MC)*?
a. comparative advantage
b. net marginal benefit
c. cost of marginal thinking
d. rule of rational choice
Ans: D
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Knowledge
Answer Location: Many Choices We Face Involve Marginal Thinking
Difficulty Level: Easy

29. What does the *M* stand for in the equation *E(MB) > E(MC)*?
a. market
b. marginal
c. methodical
d. management
Ans: B
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Knowledge
Answer Location: Many Choices We Face Involve Marginal Thinking
Difficulty Level: Easy

30. The *rule of rational choice* holds that people will alter their behavior if _____.
a. expected marginal benefits outweigh expected marginal costs
b. they can afford both the money costs and the non-money costs
c. comparative advantages are greater than absolute advantages
d. changes to their course of action are slow and incremental

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Ans: A
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Comprehension
Answer Location: Many Choices We Face Involve Marginal Thinking
Difficulty Level: Medium

31. In economic decision making, what is a net benefit?
a. the fair-market value of both the money costs and the non-money costs
b. the financial value gained from comparative advantages and absolute advantages
c. the projected difference between marginal thinking and opportunity costs
d. the difference between expected marginal benefits and expected marginal costs
Ans: D
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Knowledge
Answer Location: Many Choices We Face Involve Marginal Thinking
Difficulty Level: Easy

32. When people perceive a net benefit to a course of action, they will _____.
a. avoid that activity
b. pursue the opportunity
c. recalculate the costs
d. look for another option
Ans: B
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Comprehension
Answer Location: Many Choices We Face Involve Marginal Thinking
Difficulty Level: Medium

33. Hannah and Marla plan to drive cross-country in Marla's car after graduation and split the estimated $300 gas costs and 30 hours of driving. Their friend Sarah asks to join the trip and split the costs. Which of the following accurately describes the difference between average and marginal costs of adding a third traveler to the trip?
a. Average costs are increased from $300 to $450; marginal costs are reduced to 10 hours of driving per person.
b. Average costs of travel remain the same; marginal costs are increased by Sarah's share of beverages and snacks.
c. Average costs fall from $150 to $100 per person; marginal costs are minimal and offset by Sarah's help with driving.
d. Average costs are increased by adding a third person; marginal costs are unchanged because the car is already going.
Ans: C
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Analysis
Answer Location: Many Choices We Face Involve Marginal Thinking
Difficulty Level: Hard

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34. Which of the following marginal costs might be incurred if society chose to pursue a zero-tolerance policy regarding crime?
a. Education funds would be diverted to crime prevention.
b. Individual privacy protections would be strengthened.
c. People would have to begin growing their own food.
d. Fewer scarce resources would be used for prisons.
Ans: A
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Application
Answer Location: *Optimal (Best) Levels of Safety*
Difficulty Level: Hard

35. How does marginal thinking explain the fact that creating safer products does not always have the expected favorable results? The safer you make something, _____.
a. the less desirable it will be to consumers
b. the lower the labor and capital costs
c. the more recklessly people will behave
d. the higher the opportunity costs will be
Ans: C
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Analysis
Answer Location: *Optimal (Best) Levels of Safety*
Difficulty Level: Medium

36. Which of the following activities would be considered a marginal cost of reducing environmental pollution?
a. improving urban air quality
b. driving your own vehicle
c. buying only local produce
d. reducing carbon emissions
Ans: C
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Application
Answer Location: *Zero Pollution Would Be Too Costly*
Difficulty Level: Hard

37. One of the big ideas that serve as the foundation for the study of economics is that people respond predictably to _____.
a. changes in incentives
b. market externalities
c. government policies
d. intangible benefits
Ans: A
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in

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incentives.
REF: Cognitive Domain: Knowledge
Answer Location: Changes in Incentives Change Individual Behavior
Difficulty Level: Easy

38. If you were trying to explain and predict someone's behavior, economists would say you should find out _____.
a. what their incentives are
b. how much money they make
c. where they went to school
d. who their relatives are
Ans: A
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Comprehension
Answer Location: Changes in Incentives Change Individual Behavior
Difficulty Level: Medium

39. What do economists call something that encourages an action by increasing its benefits or reducing its costs?
a. a positive incentive
b. a market externality
c. a rational choice
d. an economic good
Ans: A
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Knowledge
Answer Location: Positive and Negative Incentives
Difficulty Level: Easy

40. Which of the following would be considered a positive incentive for a farm business?
a. soil remediation costs
b. fertilizer licensing fees
c. agricultural subsidies
d. real estate taxes
Ans: C
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Application
Answer Location: Positive and Negative Incentives
Difficulty Level: Hard

41. Which of the following best describes the effect of a negative incentive?
a. a decrease in an activity

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b. an increase in a behavior
c. no change in activity
d. an unpredictable response
Ans: A
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Comprehension
Answer Location: Positive and Negative Incentives
Difficulty Level: Medium

42. Which of the following would be most likely to happen if salaries for physicians were dramatically reduced?
a. Patients would receive better care.
b. Insurance companies would merge.
c. More colleges would offer medical studies.
d. Fewer people would go to medical school.
Ans: D
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Application
Answer Location: Positive and Negative Incentives
Difficulty Level: Hard

43. To counteract steep declines in the birth rate, some countries have offered stipends to pregnant women and subsidies for parents who have a second child. These financial supports are examples of _____.
a. factor payments
b. opportunity costs
c. positive incentives
d. human capital
Ans: C
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Comprehension
Answer Location: Positive and Negative Incentives
Difficulty Level: Medium

44. A government tax on luxury goods may have unintended negative effects because _____.
a. subsidies are more effective incentives than taxes
b. use taxes are less profitable than income taxes
c. the tax might reduce consumption of those goods
d. the tax would redistribute income more unevenly
Ans: C
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in

incentives.
REF: Cognitive Domain: Analysis
Answer Location: Positive and Negative Incentives
Difficulty Level: Medium

45. Which of the following is a negative economic effect that might occur if the government instituted a special tax on luxury vehicles?
a. More of the luxury vehicles would be on the road.
b. Autoworkers making the vehicles might lose their jobs.
c. Pollution from luxury vehicles would be lower.
d. Money from the tax could be used for road repairs.
Ans: B
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Application
Answer Location: Positive and Negative Incentives
Difficulty Level: Hard

46. Which of the following is an example of a negative incentive instituted by the government?
a. a tax deduction for charitable giving
b. a “soda tax” on sugary beverages
c. a tax rebate for buying energy-efficient appliances
d. a tax credit for college tuition
Ans: B
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Application
Answer Location: Positive and Negative Incentives
Difficulty Level: Hard

47. What economic concept is exemplified by an employer offering tuition reimbursement to employees who are continuing their education?
a. marginal benefit
b. marginal cost
c. positive incentive
d. negative incentive
Ans: C
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Comprehension
Answer Location: Positive and Negative Incentives
Difficulty Level: Medium

48. Distinguish between positive and negative incentives for producers in an economy.

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A positive incentive would be _____, and a negative incentive would be _____.
a. high prices; low taxes
b. low prices; high wages
c. high prices; high taxes
d. low prices; low wages
Ans: C
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Analysis
Answer Location: Positive and Negative Incentives
Difficulty Level: Hard

49. To consumers in an economy _____ are positive incentives, whereas _____ are negative incentives.
a. high prices; low taxes
b. low prices; high wages
c. high prices; high taxes
d. low prices; high taxes
Ans: D
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Analysis
Answer Location: Positive and Negative Incentives
Difficulty Level: Hard

50. Which of the following is the best example of specialization in the economic sense??
a. A factory produces goods using high-tech equipment.
b. A factory focuses production on one type of good.
c. A factory gives workers access to many types of training.
d. A factory cross-trains workers to perform a range of tasks.
Ans: B
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Application
Answer Location: Why Do People Specialize?
Difficulty Level: Hard

51. In economics, what term is used to describe a concentration of efforts toward producing one type of goods?
a. repetition
b. specialization
c. competition
d. consumption
Ans: B

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KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Knowledge
Answer Location: Why Do People Specialize?
Difficulty Level: Easy

52. Economists believe that people specialize because it _____.
a. lets them make the best use of their limited resources
b. fosters self-esteem and leads to independence
c. is less expensive than pursuing further education
d. reflects human nature to prefer a narrow perspective
Ans: A
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Comprehension
Answer Location: Why Do People Specialize?
Difficulty Level: Medium

53. When a region can produce a good or service at a lower opportunity cost than others, it is said to have a(n) _____ advantage.
a. comparative
b. productivity
c. specialized
d. absolute
Ans: A
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Knowledge
Answer Location: Why Do People Specialize?
Difficulty Level: Easy

54. Which of the following reasons explains why economists say trade benefits everyone?
a. Trade allows countries to specialize in activities where they have a comparative advantage.
b. Trade helps keep workers occupied and thereby helps to lower crime and poverty rates.
c. Without trade, countries would have large surpluses of items that are manufactured or grown.
d. Trade is based on people using the fewest resources, so it helps to reduce environmental impact.
Ans: A
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Analysis

Answer Location: Absolute versus Comparative Advantage
Difficulty Level: Medium

55. Which of the following benefits comes from specialization?
a. Prices for scarce resources are lowered.
b. The best use is made of limited resources.
c. Opportunity costs are lowered for workers.
d. Workers are inspired to reach their potential.
Ans: B
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Comprehension
Answer Location: We All Specialize
Difficulty Level: Medium

56. The availability year-round in U.S. supermarkets of produce from Central America reflects which of the following economic concepts?
a. scarcity
b. productivity
c. specialization
d. competition
Ans: C
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Comprehension
Answer Location: We All Specialize
Difficulty Level: Medium

57. In economics, what is meant by “absolute advantage”?
a. entrepreneurial ability
b. using fewer resources
c. lower opportunity cost
d. having the most workers
Ans: B
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Knowledge
Answer Location: Absolute versus Comparative Advantage
Difficulty Level: Easy

58. In economics, what term refers to using fewer resources than a competitor?
a. absolute advantage
b. comparative advantage
c. market efficiency
d. negative incentive

Exploring Microeconomics 8th edition Sexton Test Bank

Ans: A
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Knowledge
Answer Location: Absolute versus Comparative Advantage
Difficulty Level: Easy

59. In economics, what term refers to having a lower opportunity cost than a competitor?
a. absolute advantage
b. market efficiency
c. comparative advantage
d. negative incentive
Ans: C
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Knowledge
Answer Location: Absolute versus Comparative Advantage
Difficulty Level: Easy

60. If the United States can make auto parts in less time than Mexico, then why are U.S. auto parts made in Mexico?
a. Trade is based on comparative advantage, not absolute advantage.
b. Mexico has a larger labor force and more manufacturing sites.
c. North American manufacturing is evenly divided based on treaties.
d. Mexican suppliers have an absolute advantage over U.S. companies.
Ans: A
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Analysis
Answer Location: Absolute versus Comparative Advantage
Difficulty Level: Medium

61. On an individual level, our selection of one career rather than another represents which of the following economic concepts?
a. productivity
b. externality
c. opportunity
d. specialization
Ans: D
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Comprehension
Answer Location: We All Specialize
Difficulty Level: Medium

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62. Focusing on one activity that we do well and relying on others to produce most of the goods and services we want is an application of the concept of _____.
a. externality
b. specialization
c. unemployment
d. productivity
Ans: B
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Knowledge
Answer Location: We All Specialize
Difficulty Level: Easy

63. Which of the following is the best example of an employee who is specializing?
a. Junior was required to work in every department to prepare him for inheriting the company from his father.
b. Manuela was trained on every machine in the factory so she could substitute for workers when they took breaks.
c. Keiko transferred from the accounting department to the sales department to be able to earn more money.
d. Tate went from a general assistant to someone who focuses on social media marketing.
Ans: D
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Application
Answer Location: We All Specialize
Difficulty Level: Hard

64. Economists believe that trade and exchange are good because they increase _____.
a. standards of living
b. government power
c. marginal costs
d. negative incentives
Ans: A
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Comprehension
Answer Location: Specialization and Trade Lead to Greater Wealth and Prosperity
Difficulty Level: Medium

65. Which of the following circumstances is most likely to result from a competitive market?

a. Price controls are implemented.
b. Existing products are improved.
c. Production systems remain stagnant.
d. No new products are introduced.
Ans: B
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Analysis
Answer Location: How Does the Market Work to Allocate Resources?
Difficulty Level: Medium

66. Which of the following provides a way for millions of producers and consumers to allocate scarce resources?
a. government agency
b. market economy
c. trade organization
d. price controls
Ans: B
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Comprehension
Answer Location: How Does the Market Work to Allocate Resources?
Difficulty Level: Medium

67. In economic terms, what is achieved when the economy gets the most out of its scarce resources?
a. equilibrium
b. specialization
c. efficiency
d. advantage
Ans: C
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Comprehension
Answer Location: How Does the Market Work to Allocate Resources?
Difficulty Level: Medium

68. How do prices provide incentives in a competitive market?
a. Higher prices cause buyers to purchase less of a good or service.
b. Higher prices cause producers to make less of a good or service.
c. Lower prices result in buyers and sellers dropping out of the market.
d. Lower prices inspire buyers and sellers to become entrepreneurs.
Ans: A
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Analysis
Answer Location: How Does the Market Work to Allocate Resources?
Difficulty Level: Medium

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69. When economists discuss the “efficiency” of a market economy, they are referring to _____.
a. the size of the economic pie
b. how income is distributed
c. its annual productivity rate
d. the effectiveness of incentives
Ans: A
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Comprehension
Answer Location: How Does the Market Work to Allocate Resources?
Difficulty Level: Medium

70. Which of the following is the best example of a buyer indicating his or her wants in the marketplace?
a. Ariel posts product reviews on social media sites.
b. Javier answers a marketing survey.
c. Qing avoids buying a certain high-priced product.
d. Lola enrolls in a rewards program.
Ans: C
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Application
Answer Location: How Does the Market Work to Allocate Resources?
Difficulty Level: Hard

71. What do economists consider the “language” of the market system?
a. cash incentives
b. market prices
c. sales promotions
d. credit cards
Ans: B
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Comprehension
Answer Location: How Does the Market Work to Allocate Resources?
Difficulty Level: Medium

72. The market for heroin, for example, is what economists call a(n) _____ market.
a. illegal
b. irregular
c. regulated
d. social
Ans: A
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Comprehension
Answer Location: How Does the Market Work to Allocate Resources?
Difficulty Level: Medium

73. Which of the following is an illegal market?
a. an Internet movie subscription service
b. a shop selling counterfeit designer goods
c. a retailer offering imitation leather shoes
d. a home-exchange networking website
Ans: B
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Application
Answer Location: How Does the Market Work to Allocate Resources?
Difficulty Level: Medium

74. Which of the following is reflected in the market price of a good?
a. the value the workers think it has
b. the resale value it will have
c. the length of time it will last
d. the cost to society of producing it
Ans: D
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Analysis
Answer Location: Market Prices Provide Important Information
Difficulty Level: Medium

75. Economists use the phrase “invisible hand” to describe _____.
a. how the government controls the market system as if directing traffic
b. the dignity of manual labor and the market system’s dependence on it
c. the way goods are passed from producers to buyers in the marketplace
d. how prices adjust to direct buyers and sellers to socially desirable outcomes
Ans: D
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Comprehension
Answer Location: Market Prices Provide Important Information
Difficulty Level: Medium

76. The market economy is founded on _____.
a. voluntary exchange and the price system that guides production and distribution
b. fiscal policies that include government-mandated minimum or maximum prices
c. international guidelines and treaties enforced by the World Trade Organization
d. a complex system of tariffs and taxes intended to fairly divide the economic pie
Ans: A
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Comprehension
Answer Location: Market Prices Provide Important Information
Difficulty Level: Medium

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77. What is the name for government actions that establish maximum or minimum payments for goods or services?
a. interest rates
b. price controls
c. income taxes
d. budget policies
Ans: B
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Knowledge
Answer Location: What Effect Do Price Controls Have on the Market System?
Difficulty Level: Easy

78. How might the implementation of price controls have a negative effect?
a. by strengthening the market's information-transmission system too much
b. by closely aligning the economic decisions of households and firms
c. by depriving the market price of its meaning for buyers and sellers
d. by enforcing the equitable distribution of scarce resources.
Ans: C
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Analysis
Answer Location: What Effect Do Price Controls Have on the Market System?
Difficulty Level: Hard

79. Which of the following examples is a property right?
a. the ability to worship and express religious ideas freely
b. the right to remain silent during an interrogation by police
c. the authority to transfer ownership of a car that belongs to you
d. the license to drive an interstate commercial motor vehicle
Ans: C
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Application
Answer Location: Property Rights and the Legal System
Difficulty Level: Medium

80. Which of the following is a key economic function of government?
a. protects and enforces property rights and contracts
b. issues passports, visas, and foreign travel advisories
c. researches the causes and cures of illness and disease
d. awards medals and honors for cultural achievement
Ans: A
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Comprehension
Answer Location: Property Rights and the Legal System

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Difficulty Level: Medium

81. Which of the following acts as an “umpire” in a market system?
a. the stock market
b. the government
c. corporate executives
d. entrepreneurs
Ans: B
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Comprehension
Answer Location: Property Rights and the Legal System
Difficulty Level: Medium

82. How does the government protect property rights?
a. provides subsidies and collects taxes
b. issues property insurance policies
c. uses the legal system and public policy
d. operates an online security network
Ans: C
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Comprehension
Answer Location: Property Rights and the Legal System
Difficulty Level: Medium

83. Intellectual property rights refer to rights an owner receives through _____.
a. libraries, schools, and training sites
b. government-funded research projects
c. buildings used for research or publishing
d. patents, copyrights, and trademarks
Ans: D
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Knowledge
Answer Location: Property Rights and the Legal System
Difficulty Level: Easy

84. Which of the following are examples of intellectual property?
a. stocks and bonds
b. houses, land, factories
c. clothing and jewelry
d. books, music, movies
Ans: D
KEY: Learning Objective: 2.6: Describe how government policies can improve economic

outcomes.
REF: Cognitive Domain: Application
Answer Location: Property Rights and the Legal System
Difficulty Level: Hard

85. In economics, what is an externality?
a. a government policy or program intended to lower unemployment or reduce inflation
b. a benefit or a cost that extends to those who are not consuming or producing the good
c. when one party prevents other parties from participating in mutually beneficial exchange
d. an increase in the overall price level of an economy or a slowdown in production capacity
Ans: B
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Knowledge
Answer Location: Market Failure
Difficulty Level: Medium

86. In terms of market failure, what is meant by monopoly?
a. The government holds the power to control prices, lower unemployment, or reduce inflation.
b. Most of the resources in an economy are controlled by CEOs and other business executives.
c. Technological change spurs significant growth in one economic sector while leaving others unchanged.
d. One seller dominates a market and excludes others from participating in mutually beneficial exchange.
Ans: D
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Knowledge
Answer Location: Market Failure
Difficulty Level: Easy

87. A single seller dominates the market for robotic mowers and charges a price above the competitive price. Some potential consumers do not buy mowers they would have bought at a lower price. What economic condition is represented by this scenario?
a. inventory
b. externality
c. efficiency
d. monopoly
Ans: D
KEY: Learning Objective: 2.6: Describe how government policies can improve economic

Exploring Microeconomics 8th edition Sexton Test Bank

outcomes.
REF: Cognitive Domain: Comprehension
Answer Location: Market Failure
Difficulty Level: Medium

88. Which of the following is considered a classic example of an externality?
a. pollution
b. monopoly
c. sunlight
d. inflation
Ans: A
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Application
Answer Location: Market Failure
Difficulty Level: Medium

89. In terms of market failure, underallocation means the economy _____.
a. is controlled by a single-seller
b. is controlled by the government
c. has produced too little
d. has produced too much
Ans: C
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Knowledge
Answer Location: Market Failure
Difficulty Level: Easy

90. In discussing market failure, what term do economists use to describe an economy that has produced too much?
a. ultraspecialization
b. high efficiency
c. distribution of income
d. overallocation
Ans: D
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Knowledge
Answer Location: Market Failure
Difficulty Level: Easy

91. What is one policy a government might use to redistribute income?
a. establish a set of price controls
b. strengthen education standards

c. institute a progressive tax system
d. raise interest rates on borrowing
Ans: C
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Application
Answer Location: What Factors Contribute to Increases in Productivity?
Difficulty Level: Medium

92. The political process might negatively affect government attempts to stabilize an economy by _____.
a. collecting policy information
b. catering to special interests
c. having a long-term view
d. assisting local businesses
Ans: B
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Analysis
Answer Location: *Government Is Not Always the Solution*
Difficulty Level: Hard

93. One of the eight big ideas underlying the study of economics is that government policies _____.
a. direct an economy like an “invisible hand”
b. may help stabilize the economy
c. generally do more harm than good
d. have little impact in a market economy
Ans: B
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Knowledge
Answer Location: Idea 7: Government Policies May Help Stabilize the Economy
Difficulty Level: Easy

94. What is the likely effect in an economy when total spending is too low?
a. inflation
b. tax increases
c. unemployment
d. efficiency
Ans: C
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Analysis
Answer Location: Idea 7: Government Policies May Help Stabilize the Economy

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Difficulty Level: Medium

95. What is the likely effect in an economy when total spending is too high?
a. inflation
b. tax decreases
c. unemployment
d. efficiency
Ans: A
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Analysis
Answer Location: Idea 7: Government Policies May Help Stabilize the Economy
Difficulty Level: Medium

96. What happens when the government prints too much money?
a. Service prices decline.
b. Money loses its value.
c. Currency supply falls.
d. Faith in money rises.
Ans: B
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Analysis
Answer Location: Inflation
Difficulty Level: Medium

97. What do economists believe causes sustained inflation?
a. government printing too much money
b. cost of living declining too rapidly
c. currency supply falling gradually
d. popular faith in paper money rising
Ans: A
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Analysis
Answer Location: Inflation
Difficulty Level: Medium

98. What might happen in a case of extreme inflation, such as in Germany following World War II?
a. Goods and metals lose their worth.
b. The money supply is diminished.
c. Productivity grows to meet demand.
d. Faith in the value of money erodes.
Ans: D

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KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Analysis
Answer Location: Inflation
Difficulty Level: Medium

99. What situation results when an economy is producing at less than its capacity?
a. unemployment
b. price controls
c. specialization
d. economic growth
Ans: A
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Knowledge
Answer Location: Unemployment
Difficulty Level: Easy

100. Government efforts to use taxes and government spending to help stabilize the economy are called _____.
a. regulatory laws
b. exchange rates
c. fiscal policies
d. income guidelines
Ans: C
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Knowledge
Answer Location: Unemployment
Difficulty Level: Easy

101. What would be the most likely reason for a government to introduce a tax decrease?
a. impeding a monopoly
b. reducing unemployment
c. lowering interest rates
d. overcoming inflation
Ans: B
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Application
Answer Location: Unemployment
Difficulty Level: Medium

102. What would be the most likely reason for a government to introduce a tax

increase?
a. impeding a monopoly
b. reducing unemployment
c. lowering interest rates
d. overcoming inflation
Ans: D
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Application
Answer Location: Unemployment
Difficulty Level: Medium

103. If there is an unemployment problem, what might policy makers *increase* to stimulate demand in an economy?
a. payroll taxes
b. government spending
c. interest rates
d. austerity measures
Ans: B
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Application
Answer Location: Unemployment
Difficulty Level: Hard

104. To overcome persistent inflation, what might policy makers *reduce* to lower demand in an economy?
a. payroll taxes
b. government spending
c. interest rates
d. customs duties
Ans: B
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Application
Answer Location: Unemployment
Difficulty Level: Hard

105. What government organization sets interest rates and controls the money supply?
a. Federal Reserve System
b. Federal Trade Commission
c. U.S. Department of the Treasury
d. U.S. Securities and Exchange Commission
Ans: A
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the

economy.
REF: Cognitive Domain: Knowledge
Answer Location: Unemployment
Difficulty Level: Easy

106. A key idea in the study of economics is that increasing _____ leads to economic growth.
a. regulation
b. productivity
c. population
d. dedication
Ans: B
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Knowledge
Answer Location: Idea 8: Increasing Productivity Leads to Economic Growth
Difficulty Level: Easy

107. What does the word “real” mean in the phrase “real output of goods and services per capita”?
a. compared to projections
b. not intellectual property
c. indexed for inflation
d. checked for mistakes
Ans: C
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Comprehension
Answer Location: Defining Economic Growth
Difficulty Level: Medium

108. Another way to say “real output of goods and services per capita” is _____.
a. output of tangible goods and services per person
b. real gross domestic product per capita
c. output of goods and services per year
d. real percentage change in economic growth
Ans: B
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Knowledge
Answer Location: Defining Economic Growth
Difficulty Level: Medium

109. What is meant by “gross domestic product”?
a. total value of tangible goods

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b. annual economic growth rate
c. output of goods and services
d. goods sold within the country
Ans: C
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Knowledge
Answer Location: Defining Economic Growth
Difficulty Level: Medium

110. What happens to standards of living over time with stagnant economic growth rates?
a. steady growth
b. little change
c. regulatory control
d. notable decrease
Ans: B
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Comprehension
Answer Location: Defining Economic Growth
Difficulty Level: Medium

111. Why are people today, in general, better fed, sheltered, and protected against disease than people were in the past?
a. increased economic growth
b. lowered production costs
c. more charitable organizations
d. less government interference
Ans: A
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Analysis
Answer Location: Defining Economic Growth
Difficulty Level: Medium

112. What is meant by economist Paul Romer's statement that "Economic growth springs from better recipes, not just from more cooking"? Better recipes _____.
a. are the result of better education and training
b. lead to innovation and permanent change
c. provide quality rather than quantity
d. require assistance and collaboration
Ans: B
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.

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REF: Cognitive Domain: Comprehension
Answer Location: Defining Economic Growth
Difficulty Level: Medium

113. What would be shown through a sustained increase in real output per capita?
a. the size of budget surpluses
b. efficient use of scarce resources
c. the value of human capital
d. long-term economic growth
Ans: D
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Analysis
Answer Location: Defining Economic Growth
Difficulty Level: Hard

114. Output per worker is used to measure which economic indicator?
a. inflation
b. specialization
c. unemployment
d. productivity
Ans: D
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Comprehension
Answer Location: Defining Economic Growth
Difficulty Level: Medium

115. In economic terms, what is the main reason why the standard of living is higher today than it was 100 years ago?
a. Governments have learned how to control the economy.
b. A smaller number of people are living paycheck to paycheck.
c. Sustained economic growth leads to higher living standards.
d. In general, people are living longer, healthier, and happier lives.
Ans: C
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Comprehension
Answer Location: *Small Differences in Growth Rates Matter*
Difficulty Level: Medium

116. Even small differences in annual growth rates matter because _____.
a. considerable sums of money are involved
b. they provide key indicators for the future
c. governments use them to set tax rates

d. differences are compounded over time
Ans: D
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Comprehension
Answer Location: *Small Differences in Growth Rates Matter*
Difficulty Level: Medium

117. Growth in standards of living over time depends for the most part on _____.
a. price controls
b. stock markets
c. unemployment
d. productivity
Ans: D
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Comprehension
Answer Location: Economic Growth, Productivity, and the Standard of Living
Difficulty Level: Medium

118. In economic terms, “productivity” means the number of goods and services _____
a. a worker can produce per hour
b. the fastest worker produces per hour
c. produced per full-time employee
d. sold in an economy per year
Ans: A
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Knowledge
Answer Location: Economic Growth, Productivity, and the Standard of Living
Difficulty Level: Easy

119. How can government policies reduce market failure?
a. Price controls allot resources fairly.
d. Business incentives promote efficiency.
b. Regulations satisfy special interests.
c. Sales taxes distort market price signals.
Ans: B
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Application
Answer Location: *Does the Market Distribute Income Fairly?*
Difficulty Level: Hard

120. Productivity growth is most affected by which of the following factors?

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a. human capital
b. income distribution
c. population size
d. price controls
Ans: A
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Analysis
Answer Location: What Factors Contribute to Increases in Productivity?
Difficulty Level: Medium

True/False

1. Multimillionaires do not experience scarcity because they can afford all the goods and services they desire.
Ans: F
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Comprehension
Answer Location: Does Everyone Face Scarcity?
Difficulty Level: Medium

2. Economists consider the concept of need difficult to define because it is hard to compare “needs” among people.
Ans: T
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Comprehension
Answer Location: Wants versus Needs
Difficulty Level: Medium

3. “Average cost” is another name for “marginal cost.”
Ans: F
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Knowledge
Answer Location: Many Choices We Face Involve Marginal Thinking
Difficulty Level: Easy

4. Economists assume that people make the best choice they can because they do not want to make themselves worse off.
Ans: T
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Comprehension
Answer Location: What Is Rational Decision Making?
Difficulty Level: Medium

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5. You can often predict people's behavior if you know what their incentives are.
Ans: T
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Knowledge
Answer Location: Changes in Incentives Change Individual Behavior
Difficulty Level: Easy

6. Lower prices are negative incentives to producers but positive incentives to consumers.
Ans: T
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Comprehension
Answer Location: Positive and Negative Incentives
Difficulty Level: Medium

7. Positive incentives are generally considered more effective than negative incentives.
Ans: F
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Comprehension
Answer Location: Positive and Negative Incentives
Difficulty Level: Medium

8. An absolute advantage occurs when a person, a region, or country can produce a good or service at a lower opportunity cost than others.
Ans: F
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Knowledge
Answer Location: Why Do People Specialize?
Difficulty Level: Easy

9. A country or region's comparative advantage is based on its natural resources and therefore does not change over time.
Ans: F
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Knowledge
Answer Location: Why Do People Specialize?
Difficulty Level: Easy

10. Because cocaine and stolen identity information are illegal, there are no markets for these items.

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Ans: F
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Comprehension
Answer Location: How Does the Market Work to Allocate Resources?
Difficulty Level: Medium

11. The market price reflects the value buyers place on a good or service and the cost to society of producing it.
Ans: T
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Knowledge
Answer Location: Market Prices Provide Important Information
Difficulty Level: Easy

12. Government price controls effectively endow the market price with meaning for buyers and sellers.
Ans: F
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Comprehension
Answer Location: What Effect Do Price Controls Have on the Market System?
Difficulty Level: Medium

13. In a market economy, CEOs and other top executives own most of the resources.
Ans: F
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Comprehension
Answer Location: Property Rights and the Legal System
Difficulty Level: Medium

14. The market system can work only if the government enforces the rules.
Ans: T
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Comprehension
Answer Location: Property Rights and the Legal System
Difficulty Level: Medium

15. Inflation is defined as an increase in the overall price level in an economy.
Ans: T
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Knowledge
Answer Location: Inflation
Difficulty Level: Easy

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16. Unemployment can occur because of seasonal fluctuations in demand.
Ans: T
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Knowledge
Answer Location: Unemployment
Difficulty Level: Easy

17. Government policies play only a limited role in stabilizing the economy.
Ans: F
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Comprehension
Answer Location: Unemployment
Difficulty Level: Medium

18. All else being the same, an increase in population would lower the standard of living because more people would be sharing the same output of goods and services.
Ans: T
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Comprehension
Answer Location: Defining Economic Growth
Difficulty Level: Medium

19. Economic growth rates provide a good measure of the distribution of output and income.
Ans: F
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Knowledge
Answer Location: Defining Economic Growth
Difficulty Level: Easy

20. Productivity growth rates are higher in countries that provide incentives for innovation and investment in research and development.
Ans: T
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Comprehension
Answer Location: What Factors Contribute to Increases in Productivity?
Difficulty Level: Medium

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Short Answer

1. Why are entrepreneurs important in a market economy?
Ans: Entrepreneurs look for ways to create new products, improve existing products, or improve production processes, and they assume the risk of bringing goods and services to the market.
KEY: Learning Objective: 2.1: Define and explain the concept of opportunity cost.
REF: Cognitive Domain: Analysis
Answer Location: Scarcity and Resources
Difficulty Level: Medium

2. What do economists mean by the “rule of rational choice”?
Ans: The rule of rational choice is that in trying to make themselves better off, people alter their behavior if the expected marginal benefits from doing so outweigh the expected marginal costs they will bear. If the expected marginal benefits of an action exceed the expected marginal costs, a person will do more of that action; if the expected marginal benefits of an action are less than the expected marginal costs, a person will do less of that action.
KEY: Learning Objective: 2.2: Explain the importance of marginal thinking in economics.
REF: Cognitive Domain: Comprehension
Answer Location: Many Choices We Face Involve Marginal Thinking
Difficulty Level: Medium

3. Describe the difference between positive and negative incentives. Give an example of each.
Ans: Student examples will vary. A sample answer follows: Positive incentives increase benefits or reduce costs, motivating an increase in a given activity or behavior. An example of a positive incentive is a raise for superior productivity. Negative incentives decrease benefits or increase costs, motivating a decrease in the activity or behavior. An example of a negative incentive is a high tax on an item such as cigarettes that the government wants people to buy less of because of its harmful effects.
KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Analysis
Answer Location: Positive and Negative Incentives
Difficulty Level: Hard

4. Give an example of how someone might respond predictably to an incentive.
Ans: Student examples will vary. A sample answer follows. Most people seek opportunities to make themselves better off, so they respond in predictable ways to both positive and negative incentives. For example, the government offers a positive incentive for people to be homeowners by allowing mortgage interest to be a tax deduction. This reduces homeowners’ taxes, making home ownership more affordable, so people who might otherwise rent a place to live are more likely to buy, and home ownership increases.

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KEY: Learning Objective: 2.3: Discuss why people respond predictably to changes in incentives.
REF: Cognitive Domain: Application
Answer Location: Positive and Negative Incentives
Difficulty Level: Hard

5. Explain the difference between comparative advantage and absolute advantage. Give an example of each.
Ans: Student examples will vary. A sample response follows. Comparative advantage refers to being able to produce something at a lower opportunity cost, whereas absolute advantage refers to being able to produce something using fewer resources. For example, I'm a weightlifter, so I am stronger than the other employees at the fast food restaurant where I work. I have an absolute advantage in moving boxes from the stock room to the kitchen. I am also better at both speaking Spanish and making burgers quickly than my coworker Katie, who often works the same shift I do. However, Katie is much worse at speaking Spanish than she is at making burgers quickly. Therefore, I have a comparative advantage at speaking Spanish, so I usually take orders, and she has a comparative advantage at making burgers, so she usually cooks.
KEY: Learning Objective: 2.4: Describe why specialization and trade are so important to economic growth.
REF: Cognitive Domain: Application
Answer Location: Why Do People Specialize?
Difficulty Level: Hard

6. Describe how prices provide different incentives for buyers and sellers?
Ans: Higher prices for a good or service provide an incentive for buyers to purchase less of that good or service and provide producers with an incentive to make or sell more of it. Lower prices for a good or service provide an incentive for buyers to purchase more of that good or service and provide producers an incentive to make or sell less of it.
KEY: Learning Objective: 2.5: Explain how markets can improve economic efficiency.
REF: Cognitive Domain: Analysis
Answer Location: How Does the Market Work to Allocate Resources
Difficulty Level: Hard

7. What changes to fiscal and monetary policy might the government use to overcome unemployment? Explain how each action might affect the problem.
Ans: To overcome unemployment the government could lower taxes, increase government spending, lower interest rates, or increase the money supply. Lowering taxes, lowering interest rates, and increasing the money supply all help consumers and firms have more money to spend, so they will buy more goods and services, which means firms will need to hire more workers to produce them. An increase in government spending will have a similar effect EXCEPT that it will be the government who buys more goods and services.
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the

economy.
REF: Cognitive Domain: Application
Answer Location: Unemployment
Difficulty Level: Hard

8. Name at least three causes of unemployment.
Ans: Some unemployment results from a slowdown in the economy or from seasonal fluctuations in demand. Other reasons include people changing jobs or employers requiring different skills than job candidates have.
KEY: Learning Objective: 2.7: Explain how government policies may stabilize the economy.
REF: Cognitive Domain: Comprehension
Answer Location: Unemployment
Difficulty Level: Medium

9. Name and describe two forms of market failure. Give an example of each.
Ans: Two forms of market failure are externalities and monopolies. An externality causes market failure by pushing the costs or benefits of a product onto those who are not producing or consuming the good. For example, pollution might cause people who live near a factory to become ill and thus suffer some of the costs of that problem. A monopoly causes market failure when a single seller dominates the market and keeps others from participating in mutually beneficial exchange. Monopolies are able to keep prices artificially high because of the lack of competition, so some consumers will be unable to afford to purchase the product or service.
KEY: Learning Objective: 2.6: Describe how government policies can improve economic outcomes.
REF: Cognitive Domain: Application
Answer Location: Market Failure
Difficulty Level: Hard

10. How is productivity tied to standard of living?
Ans: Productivity is the number of goods and services a worker can produce per hour. In countries where workers can produce a large quantity of goods and services per hour, most people will experience a higher standard of living because increases in productivity lead to higher wages, and higher wages allow people to buy more of the goods and services that improve their lives. Thus, improved productivity leads to increases in standard of living.
KEY: Learning Objective: 2.8: Discuss how increasing productivity leads to higher economic growth.
REF: Cognitive Domain: Analysis
Answer Location: Economic Growth, Productivity, and the Standard of Living
Difficulty Level: Medium

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