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Name:_____ Class:_____ Date:_____

Chapter 1 - Essay

1. If economics is correct in its assumption that people are rational, why then would anyone choose to smoke cigarettes?

ANSWER: Even though the harmful effects of cigarette smoking are documented, more than 11 percent of the U.S. adult population continues to smoke. The economic model of rational choice suggests that individuals weigh the marginal benefit of smoking an additional cigarette (the pleasure obtained) against the marginal costs (the pecuniary cost, the price of the cigarette, and the risk of being afflicted by smoking-related diseases, discounted by the probability). Since the likelihood of getting a smoking-related disease increases with age, it is not surprising that more people elect to give up the habit as they get older.

2. A radio station gives "free money" to those listeners whose names are drawn and announced over the airwaves from postcards the listeners sent into the radio station. Is the money really free for the listener?

ANSWER: While most students can identify the monetary cost of the postcard and stamp, we also must consider the opportunity cost of listening to the radio. It is true that we can do other activities while the radio is on and listen attentively when a name is drawn and announced over the airwaves. But there's also the opportunity cost of not being able to listen to another station, one that might offer more preferred programming.

3. Why would a radio station give money to listeners? Does this violate the economic way of thinking?

ANSWER: Radio stations do surveys to see what types of prizes listeners want (for example, cars, boats, vacations, etc.). Overwhelmingly, people say they want cash. A radio station that gives away money attracts listeners, and the more listeners a station has, the more it can charge advertisers. The owners of the radio station clearly believe the revenue this activity generates, in terms of advertising dollars, exceeds the money given away.

4. Ajay observes that a car in 1925 sold for an average of $500 versus $20,000 for a 2005 model. He concludes that 2005 cars must be 40 times better than 1925 cars. What's wrong with this way of thinking?

ANSWER: Ajay has made several errors. First, a 1925 car differs substantially from a 2005 car. As the saying goes, he is comparing apples and oranges. Second, the value of the dollar has declined; Ajay, therefore, is using as his measure a unit that has changed sizes. This is like measuring one room with a 50-inch stick and another room with a 20-inch stick. We can give both measures in terms of sticks, but they are not very comparable.

5. Evaluate this statement: "People engaged in economizing behavior will always buy the lowest priced item they can find."

ANSWER: As long as price is the only factor, we would expect people to buy the lowest priced product. However, once we consider quality, ease of operation, performance, durability, looks, etc., it is apparent why people would not necessarily buy the lowest priced item. While people generally seek products that yield the most benefits relative to costs, a product that can provide additional benefits would lead to a willingness to pay a higher price.

6. Homeowners can deduct interest payments on their mortgages from their federal income tax. If this deduction were removed, how would the housing market be affected?

ANSWER: The deductibility of these interest payments is an attractive feature of home ownership. If this deduction were removed, we would expect fewer people choosing to own their own homes. Additionally, we would expect to see more families in rental housing.

7. If people are self-interested, why does anyone give money to public radio?

ANSWER: Since people can listen to public radio without having to contribute, we know this can create a funding problem. However, since the economic concept of enlightened self-interest is broader than a narrow, selfish view, we would find people making this choice as contributing to their own interests. These people consider public radio good for their community. They value their community's well-being and, therefore, support public radio.

8. When Mother Theresa won the Nobel Peace Prize, the monetary award was well in excess of $100,000. Did she accept

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the money? If so, what did she do with it?

ANSWER: Mother Theresa used the money to help the poor, whom she spent a lifetime assisting. While we consider Mother Theresa to have been one of the most unselfish of people, it is clear that she could have gained more of what she valued if she had more money.

9. Who is more likely to drive carelessly, Luna in her 1976 Chevrolet with bad brakes or Soojung, who has a 2024 Acura with all the most recent safety options?

ANSWER: On the surface, we might conclude that Soojung will be more careful since she appears to have more to lose (a higher priced car), but insurance likely will cover any monetary loss. Most people value their life and health more than material possessions; because of this, we expect Luna to be more careful due to her unsafe car. Soojung can afford to take more risks since her car is in better condition and has the latest safety features.

10. A popular video program, used to teach primary school children about economics, defines scarcity as "when you don't have enough of something." Evaluate this definition based on your understanding of the scarcity concept.

ANSWER: This definition is a bit simplistic for college understanding. The video uses the example of three hats and four children to assert a scarcity of hats. We would more properly view this as a shortage of hats created because the hats, as presented, have no price. The shortage can be eliminated but scarcity cannot. Scarcity is the fundamental concept from which economics derives. Besides resources, virtually all other things, including your time, are scarce. Your textbook's definition will serve you better than the one from the video.

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1. Adam S Smith believed that if people were free to pursue their own interests,
   a. less would be produced than if altruism were the guiding principle.
   b. the public interest would be served quite well.
   c. they would generally apply their talents to unproductive activities that would generate little value to society.
   d. they would have little incentive to undertake productive activities.

ANSWER: b

2. Modern economics as a field of study is usually thought to have begun with
   a. Adam Smith and the writing of *The Wealth of Nations*.
   b. David Ricardo and the writing of *The Principles of Political Economy and Taxation*.
   c. Aristotle and the writing of *Politics and Ethics*.
   d. John Maynard Keynes and the writing of *The General Theory of Employment, Interest and Money*.

ANSWER: a

3. Which of the following was a key belief of Adam Smith?
   a. He felt that human goodness would provide adequate goods and services to everyone.
   b. He stressed that limited exchange and command economies would prevent the exploitation of low-income workers.
   c. He believed that individuals pursuing their own interests would direct economic activity in the most advantageous way.
   d. He lectured about the importance of gold and silver in providing a stable monetary system.

ANSWER: c

4. According to Adam Smith, individual self-interest
   a. is a powerful force for economic progress when individuals are wisely directed by a strong central government.
   b. is a powerful force for economic progress when it is directed by competitive markets.
   c. is a major factor in hindering the economic progress of humankind.
   d. could be either a positive or negative force for economic progress, depending on the moral influences of political leaders.

ANSWER: b

5. The basic ingredients in any economic decision are
   a. scarcity and choice.
   b. surpluses and shortages.
   c. market prices and the use of efficient production methods.
   d. needs and wants.

ANSWER: a

6. Economic choice and competitive behavior are the result of
   a. poverty.
   b. public ownership of resources.
   c. scarcity.
   d. private ownership of resources.

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ANSWER: c

7. For the typical student, taking an introductory course in economics should
   a. turn the student into an economist.
   b. teach the student solutions to most social problems.
   c. teach the student how to answer complex social questions.
   d. help the student learn to rationally analyze social problems.

ANSWER: d

8. When a society cannot produce all the goods and services people wish to have, it is said that the economy is experiencing
   a. scarcity.
   b. shortages.
   c. inefficiencies.
   d. inequities.

ANSWER: a

9. Which of the following is the best definition of economics?
   a. An investigation of the quantities and prices of the various goods produced by the nations of the world.
   b. An analysis of how individuals and societies deal with the problem of scarcity.
   c. An examination of the role that money plays in the economy.
   d. A study of how goods and services are distributed throughout the world.

ANSWER: b

10. Economics is primarily the study of
   a. how to make money in the stock market.
   b. how to operate a business successfully.
   c. the allocation of scarce resources in an effort to satisfy wants that are virtually unlimited.
   d. the methods business firms use to reduce their costs of production.

ANSWER: c

11. Some individuals or families can become completely saturated with a service such as television. This suggests that
   a. a highly productive economy may someday be able to satisfy all human desires
   b. desires for a single commodity can be satisfied but then the focus will switch to other goods and services
   c. resources are not truly fixed in supply as we generally assume
   d. scarcity does not exist

ANSWER: b

12. In economics, the term "scarcity" refers to the fact that
   a. everything really worthwhile costs money.
   b. even in wealthy countries like the United States, some people are facing poverty.
   c. no society can produce enough to satisfy fully the desires of people for goods and services.
   d. sometimes shortages of a good arise when its price is set below the market equilibrium.

ANSWER: c

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13. When economists say a good is scarce, they mean
    a. there are only a limited number of consumers who would be interested in purchasing the good.
    b. the human desire for the good exceeds the amount freely available from nature.
    c. most people in developing countries do not have enough of the good.
    d. the production of the good has no opportunity cost for society.

ANSWER: b

14. When economists say goods are scarce, they mean
    a. consumers lack the financial resources to afford the goods and services available.
    b. consumers are unwilling to buy goods unless they have very low prices.
    c. goods are generally freely available from nature in most countries.
    d. the desire for goods and services exceeds our ability to produce them with the limited resources available.

ANSWER: d

15. If scarcity were eliminated,
    a. individuals would have to make trade-offs.
    b. individuals would have to make many choices.
    c. individuals would have limited resources.
    d. all goods would be free.

ANSWER: d

16. If a good is scarce,
    a. there will be shortages of it if the good is rationed by markets.
    b. the good will have a price in a market setting.
    c. there will be enough of the good freely available from nature to satisfy the human desire for it.
    d. all goods are free.

ANSWER: b

17. Criteria for rationing goods and resources must be established because of
    a. the law of comparative advantage.
    b. the use of capitalism as a form of economic organization.
    c. the inability of politicians to develop efficient forms of economic organization.
    d. scarcity imposed by nature.

ANSWER: d

18. Every economy must ration goods in some way because of
    a. overpopulation.
    b. poorly-performing markets.
    c. the income gap between high-income and low-income groups.
    d. scarcity.

ANSWER: d

19. Which of the following is true of resources?

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a. Physical resources reflect the skills and productive knowledge of human beings.
b. Human resources represent the productive capabilities of tools and machinery.
c. With the passage of time, investment activities can decrease the availability of resources.
d. Resources are inputs used to produce goods and services.

ANSWER: d

20. Ex-London School of Economics student Mick Jagger sang, "You can't always get what you want, but if you try sometime, you just might find you can get what you need." These lyrics indicate that:
a. With scarcity, you may be able to satisfy your wants, but your needs will never be met.
b. While desires for goods are virtually unlimited, you can still get a lot of the things you need.
c. If you try, you can create the supply to meet your own demand.
d. If social welfare is maximized, your wants will be satisfied.

ANSWER: b

21. Capital is a term economists use to refer to
a. man-made resources used to produce other goods and services.
b. resources that are available in nature such as mineral deposits.
c. money that is used to consume goods and services, to distinguish it from money that is saved.
d. the value of the best alternative to an action.

ANSWER: a

22. The three major categories of resources are
a. human resources, physical resources, and natural resources.
b. scarce resources, capital resources, and abundant resources.
c. financial resources, global resources, and local resources.
d. common resources, private resources, and capital resources.

ANSWER: a

23. In economics, man-made resources such as tools, equipment, and structures that are used to produce other goods and services are referred to as
a. consumer goods.
b. capital.
c. marginal goods.
d. infrastructures.

ANSWER: b

24. Which of the following best describes the difference between an objective concept and a subjective concept?
a. A subjective concept is a fact based on observation that is not subject to personal opinion, while an objective concept is based on personal preferences and value judgments.
b. An objective concept is a fact based on observation that is not subject to personal opinion, while a subjective concept is based on personal preferences and value judgments.
c. A subjective concept relates to issues in microeconomics, while an objective concept relates to issues in macroeconomics.
d. An objective concept can only be illustrated in words, while a subjective concept can usually be illustrated with a graph.

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ANSWER: b

25. A fact based on observable phenomenon that is not influenced by differences in personal opinion is called
    a. an objective concept.
    b. a subjective concept.
    c. an unintended consequence.
    d. *ceteris paribus.*

ANSWER: a

26. An opinion based on personal preferences and value judgments is called
    a. an objective concept.
    b. a subjective concept.
    c. an unintended consequence.
    d. *ceteris paribus.*

ANSWER: b

27. When price is the rationing criterion, individuals have a strong incentive to
    a. ignore the wishes of others when making decisions about how to use their resources.
    b. provide services to others in exchange for income.
    c. avoid exchanges because in every exchange there will be one person who gains and another who loses.
    d. substitute promises for the consistent delivery of a quality product.

ANSWER: b

28. Economics is primarily the study of
    a. how to make money in the stock market.
    b. how to find lower cost methods of production.
    c. the choices we must make among alternatives because of scarcity.
    d. the proper form of industrial structure for the United States.

ANSWER: c

29. Which of the following is not scarce?
    a. time for leisure activities
    b. computers
    c. jeans
    d. the air we breathe

ANSWER: d

30. The economic way of thinking is
    a. a set of historical generalizations that indicates what goods should be produced.
    b. a body of statistical data that indicates how an economy should be organized.
    c. a set of basic concepts that helps one understand human choices.
    d. a set of complex, highly abstract theories that provides persons skilled in statistics with the information necessary to tell others what choices they should make.

ANSWER: c

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31. Economic theory
    a. is a set of definitions, postulates, and principles assembled in a manner that helps make cause-and-effect relationships clear in economics.
    b. focuses primarily on the usage of capital within a society.
    c. focuses primarily on the roles and responsibilities of government in a society.
    d. is a set of definitions, postulates, and principles that help maximize opportunity costs of a society.

ANSWER: a

32. Which of the following is part of the economic way of thinking?
    a. Opportunity costs will not be incurred when scarce resources are used to produce a good.
    b. When the cost of an option increases, individuals will be less likely to choose it.
    c. Changes in incentives generally have no effect on human behavior.
    d. Economic thinking focuses primarily on the usage of labor within a society.

ANSWER: b

33. Which of the following is part of the economic way of thinking?
    a. The accuracy of the assumptions is the best test of an economic theory.
    b. When an option becomes more expensive, people will be less likely to choose it.
    c. The value of a good can be determined objectively by measuring the amount of labor required for its production.
    d. A body of statistical data that indicates how an economy should be organized.

ANSWER: b

34. The expression "There's no such thing as a free lunch" means
    a. if one person gains, someone else must lose.
    b. each person must pay for exactly what they receive.
    c. the use of resources to produce a good has an opportunity cost because of scarcity.
    d. you cannot have a free lunch at the expense of someone else.

ANSWER: c

35. "There is no such thing as a free lunch." This statement best reflects the fact that
    a. consumers are unwilling to pay for a good unless it provides them with value.
    b. an opportunity cost is always present when scarce resources are used to produce a good.
    c. it generally requires enormous effort to search out the best place to eat lunch.
    d. the value of a good to consumers will decrease as they have more of it.

ANSWER: b

36. Which of the following statements is correct about the economic way of thinking?
    a. If the buyer of a good gains, the seller must lose an equal amount.
    b. The value of goods is objective; it is equal to the cost of supplying the good.
    c. Opportunity costs will always be incurred when scarce resources are used to produce a good.
    d. Changes in incentives generally have no effect on human behavior.

ANSWER: c

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37. Which of the following statements most accurately reflects the application of the scientific method to economics?
    a. The use of modern electronic testing equipment to understand the world.
    b. The unbiased development and testing of theories about how the world works.
    c. The use of controlled laboratory experiments to understand the way the world works.
    d. Finding evidence to support preconceived theories about how the world works.

ANSWER: b

38. Economists make assumptions in order to
    a. mimic the methodologies employed by other scientists.
    b. minimize the number of experiments that yield no useful data.
    c. minimize the likelihood that some aspect of the problem at hand is being overlooked.
    d. focus their thinking on the most important elements of the problem at hand.

ANSWER: d

39. Rational choice requires that opportunity cost be
    a. considered for individual choices, but not for societal choices.
    b. computed, but not actually used in making a decision.
    c. used as the sole decision criterion.
    d. considered as part of making a decision.

ANSWER: d

40. During a war, governments will sometimes draft people, most of whom are presently employed, into the army. An economist, computing the real cost of the war, would be sure to include which of the following items?
    a. The value of the civilian goods no longer produced by the new soldiers.
    b. The cost of feeding and clothing the new soldiers.
    c. The dollar cost of the payroll.
    d. The higher prices of civilian goods due to wartime shortages.

ANSWER: a

41. Ethan washes and irons his own shirts. Tiana, his boss, sends her clothes to a laundry. Which is the most plausible economic explanation for this difference?
    a. Ethan must enjoy ironing more than Tiana does.
    b. Ethan must be better at ironing than Tiana is.
    c. The opportunity cost of ironing is greater for Ethan.
    d. Tiana has a higher opportunity cost of laundering her clothes than Ethan does.

ANSWER: d

42. The opportunity cost of an action is
    a. the monetary payment the action required.
    b. the total time spent by all parties in carrying out the action.
    c. the value of the best opportunity that must be sacrificed in order to take the action.
    d. the cost of all alternative actions that could have been taken, added together.

ANSWER: c

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43. The highest valued alternative that must be given up in order to choose an option is called
    a. opportunity cost.
    b. utility.
    c. scarcity.
    d. disutility.

ANSWER: a

44. A tradeoff exists between a clean environment and a higher level of income in that
    a. studies show that individuals with higher levels of income actually pollute less than low-income individuals.
    b. efforts to reduce pollution typically are not completely successful.
    c. regulations that reduce pollution raise costs of production and reduce incomes.
    d. by employing individuals to clean up pollution, employment and income both rise.

ANSWER: c

45. The opportunity cost of going to college is
    a. the total spent on food, clothing, books, transportation, tuition, housing, and other expenses.
    b. the value of the best opportunity a student gives up to attend college.
    c. zero for students who are fortunate enough to have all of their college expenses paid by someone else.
    d. zero, since a college education will allow a student to earn a larger income after graduation.

ANSWER: b

46. For a college student who wishes to calculate the true costs of going to college, the costs of room and board
    a. should be counted in full, regardless of the costs of eating and sleeping elsewhere.
    b. should be counted only to the extent that they are more expensive at college than elsewhere.
    c. usually exceed the opportunity cost of going to college.
    d. plus the cost of tuition, equals the opportunity cost of going to college.

ANSWER: b

47. Which of the following is true?
    a. Human choice is generally not influenced by changes in incentives.
    b. What is true for the individual must be true for the group as a whole.
    c. Using scarce resources to meet one need reduces our ability to meet needs in other areas.
    d. The economic way of thinking stresses that good intentions usually lead to sound economic policy.

ANSWER: c

48. If the government provides free schooling for all students, an economist would say education is
    a. a free good, having no cost.
    b. scarce even though its cost is paid by taxpayers rather than by students.
    c. an example of a good that is no longer scarce.
    d. a result of the fallacy of composition.

ANSWER: b

49. "The resources now going into the War on Terrorism and into improved airport security would save more lives if they were invested in medical research." This statement most clearly reflects which of the following?

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a. The best test of an economic theory is its ability to predict.
b. There is no such thing as a free lunch--the use of scarce resources always has an opportunity cost.
c. Selfishness; if people were not selfish, we could have more of everything.
d. The value of goods can be determined objectively.

ANSWER: b

50. The benefit (or satisfaction) that an individual expects to derive from an activity is called
a. opportunity cost.
b. utility.
c. marginal cost.
d. scarcity.

ANSWER: b

51. In economics the term utility refers to
a. the subjective benefit or satisfaction a person expects to receive from a choice or course of action.
b. the number of possible uses for a resource.
c. the fact that human desire for goods is unlimited while the resources available to meet those desires is limited.
d. the highest valued alternative that must be sacrificed when a choice is made.

ANSWER: a

52. The economizing problem is essentially one of deciding how to make the best use of
a. limited resources to satisfy limited wants.
b. unlimited resources to satisfy limited wants.
c. limited resources to satisfy virtually unlimited wants.
d. unlimited resources to satisfy unlimited wants.

ANSWER: c

53. Deciding how to make the best use of limited resources to satisfy virtually unlimited wants is known in economics as
a. economizing behavior.
b. the fallacy of composition.
c. *ceteris paribus.*
d. the fallacy that good intentions do not guarantee the desired outcome.

ANSWER: a

54. When economists say an individual displays economizing behavior, they simply mean that they are
a. making a lot of money.
b. buying only those products that are cheap and of low quality.
c. learning how to run a business more effectively.
d. seeking the lowest cost method to accomplish their objectives.

ANSWER: d

55. Which of the following is most consistent with economizing behavior?
a. If you derive the same satisfaction from eating pizza and eating ice cream, it makes no difference which one of the two you choose.

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b. Before voting, you should invest the time and energy to become fully informed on all of the issues and candidates.
c. It never makes sense to hire someone to do something for you that you could do yourself.
d. If you get the same satisfaction from a chicken sandwich and a salad, you should purchase the one that costs the least.

ANSWER: d

56. Which of the following is most consistent with economizing behavior?
a. If you get the same satisfaction from a hamburger and a fish sandwich, you should purchase the one that costs the most.
b. Even if you know how to paint, hiring someone to do the job is consistent with economizing behavior, if your opportunity cost is high enough.
c. If the government provides a good free to citizens, the opportunity cost of the good is zero.
d. If you get the same satisfaction from going to the opera and going to an art museum, it makes no difference which you choose.

ANSWER: b

57. When economists say an individual has made a rational choice, they mean the individual has
a. made the choice by weighing their own subjective costs and benefits.
b. made a "good" decision, one that reasonable outside observers would have also made.
c. neglected to consider the unintended consequences arising from their decision.
d. ignored their own personal interests and made the choice that is best for society.

ANSWER: a

58. Malik enjoys the feeling of wind in his hair enough to ride his motorcycle without a helmet, even though he fully realizes the potential for injury it creates by not wearing one in the unlikely event he is in an accident. To an economist, Malik is
a. making an irrational choice.
b. making a rational choice.
c. not fully considering the personal costs and benefits of his decision.
d. not responding to the incentives he faces.

ANSWER: b

59. A rational decision maker takes an action if and only if
a. the marginal benefit of the action exceeds the marginal cost of the action.
b. the marginal cost of the action exceeds the marginal benefit of the action.
c. the marginal cost of the action is zero.
d. the opportunity cost of the action is zero.

ANSWER: a

60. When economists say that people choose rationally, this means
a. they gather all relevant information before making their purchases.
b. people rarely make errors when they are permitted to make transactions.
c. people respond in predictable ways to changes in costs and benefits.
d. once made, decisions are never reversed.

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ANSWER: c

61. Which of the following is an example of a rational decision?
    a. DeShawn enjoys the feeling of wind in his hair enough to ride his motorcycle without a helmet because he does not fully realize the potential for injury it creates by not wearing one in the unlikely event he is in an accident.
    b. Jayla, a burglar who breaks into houses, decides to break into the house at 265 Elm Street, rather than the house next door because the house next door has a sign in the yard that says "Welcome."
    c. Nicolas, an essential oil user, chooses to buy his essential oils from Samuel, because Samuel's essential oils are as good as the essential oils from other dealers, but Samuel has lower prices.
    d. Ciara skips breakfast even though she believes that a nutritious meal could potentially increase her performance on the final exam.

ANSWER: c

62. When an individual weighs their options and makes a choice that maximizes their benefit at the minimum cost, economists refer to this as a process of
    a. rational decision making.
    b. objective decision making because the value of goods is determined objectively.
    c. marginal management analysis.
    d. random decision making.

ANSWER: a

63. Which of the following is often referred to as the basic postulate of economics?
    a. Individuals act only out of selfish motives.
    b. Incentives matter—individuals respond in predictable ways to changes in personal costs and benefits.
    c. The accuracy of the assumptions is the best test of an economic theory.
    d. The value of a good is objective; it is equal to the cost of producing the good.

ANSWER: b

64. The economic way of thinking stresses that
    a. greed is the primary motivation for human action.
    b. as the benefits of an option increase, people will be more likely to choose that option.
    c. an objective value can be attached to physical goods.
    d. as the cost of an option decreases, people will be less likely to choose that option.

ANSWER: b

65. The most fundamental concept in economics is that
    a. changes in incentives influence behavior in a predictable way—people will be less likely to choose an option as it becomes more expensive.
    b. changes in incentives generally do not influence human behavior.
    c. goods that are provided by government are free for society.
    d. individuals generally do not consider other alternatives when making a choice.

ANSWER: a

66. Which of the following is true?

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a. Changes in personal costs and benefits will exert a predictable impact on the choices of human decision makers.
b. Only direct monetary costs matter in making decisions.
c. If a good is provided free to an individual, its production will not consume valuable scarce resources.
d. Secondary effects are seldom of importance in economics.

ANSWER: a

67. The economic way of thinking stresses that
a. changes in personal costs and benefits generally fail to exert much impact on behavior.
b. incentives matter—individuals respond in predictable ways to changes in personal costs and benefits.
c. if one individual gains from an economic activity, then someone else must lose and in the same proportion.
d. if a good is provided by the government, its production will not consume valuable scarce resources.

ANSWER: b

68. Which of the following is true?
a. Changes in personal costs and benefits will exert a predictable influence on the choices of people.
b. If one individual gains from an economic activity, then someone else must lose.
c. If a good is provided free to an individual by government, its production will not consume valuable scarce resources.
d. If the intentions behind a policy are good, you can be assured that the outcome will be desirable.

ANSWER: a

69. Which of the following is ***not*** consistent with the basic postulate of economics that incentives matter?
a. Farmers produce fewer bushels of wheat in response to an increase in the price of wheat.
b. A politician votes against a proposal because most of their constituents oppose it.
c. People drive less because of higher gas prices.
d. People buy more milk in response to a reduction in the price of milk.

ANSWER: a

70. The economic way of thinking suggests that if the government imposed a $500 tax on owners of white SUVs,
a. fewer white SUVs would be produced and sold.
b. more white SUVs would be produced and sold.
c. there would be no change in the number of white SUVs produced and sold.
d. white SUVs would cease to exist.

ANSWER: a

71. If a college enforces a new policy where anyone caught cheating is immediately expelled, the basic postulate of economics suggests that
a. cheating will be completely eliminated.
b. fewer students will attempt to cheat.
c. the amount of cheating will be unaffected.
d. all of these are possible because student behavior is unpredictable.

ANSWER: b

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72. Which of the following groups would most likely benefit from a law that is extremely tough on those who drink and drive?
a. truck drivers
b. ride-share drivers
c. bartenders
d. doctors and nurses

ANSWER: b

73. Which one of the following statements most accurately indicates the basic motivation for behavior?
a. Individuals are motivated primarily by selfish desires; thus, personal costs and benefits influence their actions.
b. Individuals are motivated primarily by humanitarian concerns; therefore, personal costs and benefits exert little influence on most of their actions.
c. Individuals are motivated by a variety of forces; however, changes in personal benefits and costs influence the choices of both selfish and humanitarian individuals.
d. Individuals are motivated by a variety of forces; however, changes in personal benefits and costs affect behavior only when individuals are motivated by selfishness.

ANSWER: c

74. Economic analysis assumes that
a. people act only out of selfish motives.
b. people are motivated by a variety of forces; however, changes in personal benefits and costs affect behavior only when individuals are motivated by selfishness.
c. people are basically unselfish, and their actions are, therefore, difficult to predict.
d. changes in the personal benefits and costs associated with an activity will exert a predictable influence on the behavior of both those who are selfish and those who are unselfish.

ANSWER: d

75. In economics, the term marginal refers to
a. the change or difference between two alternatives.
b. man-made resources as opposed to natural resources.
c. the satisfaction a consumer receives from a good.
d. holding everything else constant in the analysis.

ANSWER: a

76. When deciding whether to buy a second car, the economic way of thinking indicates that the purchaser should compare
a. the benefits expected from two cars with the cost of both.
b. the additional benefits expected from a second car with the cost of the two cars.
c. the dollar cost of the two cars with the potential income that the cars will generate.
d. the additional benefits of the second car with the additional cost of the second car.

ANSWER: d

77. A marginal change usually is a
a. change that involves little, if anything, that is important.
b. large, significant adjustment.

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c. change for the worse, and so it is usually a short-term change.
d. small, incremental adjustment.

ANSWER: d

78. People are willing to pay more for a diamond than for a bottle of water because
a. the marginal cost of producing an extra diamond far exceeds the marginal cost of producing an extra bottle of water.
b. the marginal benefit of an extra diamond far exceeds the marginal benefit of an extra bottle of water.
c. producers of diamonds have a much greater ability to manipulate diamond prices than producers of water have to manipulate water prices.
d. water prices are held artificially low by governments, since water is necessary for life.

ANSWER: b

79. Your professor loves their work, teaching economics. They have been offered other positions in the corporate world that would increase their income by 30 percent, but they have decided to continue working as a professor. Their decision would not change unless
a. the marginal cost of teaching increased.
b. the marginal benefit of teaching increased.
c. the marginal cost of teaching decreased.
d. the marginal benefit of a corporate job decreased.

ANSWER: a

80. If a decision maker uses marginal analysis, then the relevant costs are the
a. full costs of a particular activity or product.
b. fixed costs which do not vary with the extra activity or output.
c. average costs for a particular activity or product.
d. additional costs of a particular activity or product.

ANSWER: d

81. Standby passengers on airlines who pay low rates for seats benefit from the low price. How are the airlines affected?
a. They lose, because the standby passengers do not cover the full cost of the seats.
b. They gain, because the additional revenue covers the "fixed costs" of the flight.
c. They lose, because the gain of the passengers must necessarily come at the expense of the airline.
d. They benefit as long as the additional revenue from the passengers exceeds the marginal cost.

ANSWER: d

82. If an airline company has several empty seats on a flight and the full price of an air ticket is $600 and the marginal cost per passenger is $150, then it will be profitable for the airline to
a. fill the seats at the last minute for any price.
b. charge a stand-by passenger less than $150.
c. charge a stand-by passenger more than $600.
d. charge a stand-by passenger more than $150.

ANSWER: d

83. To say that people make marginal decisions means that

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a. they usually wait until the last minute before making a decision to buy
b. they weigh the additional costs and additional benefits of various activities before they make a decision
c. most people just barely get by on the incomes they earn and live from day to day on the very edge of subsistence
d. they consider the total cost and benefit of various activities before they make a purchase

ANSWER: b

84. Andre, a wheat farmer, is deciding whether or not to add fertilizer to his crops. If he adds 1 pound of fertilizer per acre, the value of the resulting crops rises from $100 to $130 per acre. According to marginal analysis, Andre should add fertilizer if it costs less than

a. $15 per pound.
b. $30 per pound.
c. $65 per pound.
d. $230 per pound.

ANSWER: b

85. According to marginal analysis, you should spend more time studying economics if the extra benefit from an additional hour of study

a. is positive.
b. outweighs the extra cost.
c. exceeds the benefits of the previous hour of study.
d. will raise your exam score.

ANSWER: b

86. While waiting in line to buy two tacos at $2 each and a medium drink for $2.50, Jordan notices that the restaurant has a value meal containing three tacos and a medium drink all for $7. For Jordan, the marginal cost of the third taco would be

a. zero.
b. $0.50.
c. $1.00.
d. $2.00.

ANSWER: b

87. While waiting in line to buy one cheeseburger for $2.50 and a medium drink for $2.00, Asha notices that she could get a value meal that contains both the cheeseburger and medium drink and also a medium order of fries for $5. She thinks to herself, "Is it worth the extra 50 cents to get the medium fries?" To an economist, Asha's decision is an example of

a. marginal decision making.
b. basing decisions on total, rather than marginal, value.
c. an unintended consequence.
d. the fallacy of composition.

ANSWER: a

88. Isabella wishes to buy gasoline and have her car washed. She finds that if she buys 11 gallons of gasoline at $3.00 per gallon, the car wash costs $2, but if she buys 12 gallons of gasoline, the car wash is free. For Isabella, the marginal cost of the twelfth gallon of gasoline is

a. zero.

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b. $1.00
c. $2.50.
d. $3.00.

ANSWER: b

89. Santiago wants to buy some milk and a box of cereal. If he buys 2 quarts of milk at $1.50 per quart, the box of cereal costs $1. If he buys 3 quarts of milk at $1.50 per quart, the box of cereal is free. For Santiago, the marginal cost of the third quart of milk is

a. zero.
b. $0.50
c. $2.00
d. $3.00

ANSWER: b

90. A firm producing cans buys three tons of aluminum per day at $200 per ton. If it buys four tons per day, it receives a quantity discount on all units and pays only $175 per ton. The marginal cost of the fourth ton per day is

a. $100.
b. $175.
c. $700.
d. $225.

ANSWER: a

91. A local restaurant offers an "all you can eat" buffet for $15. Mia eats four servings but leaves half of a fifth helping uneaten. Why?

a. Her marginal value of a serving of brunch has fallen below $15.
b. Her marginal value of a serving has fallen below $3 ($15 divided by 5 servings).
c. Her marginal value of food has fallen to zero.
d. The total value she places on the buffet exactly equals $15.

ANSWER: c

92. A restaurant offers an "all you can eat" meal for $12. Tyrone has eaten three servings and is trying to decide whether or not to go back for a fourth. The economic way of thinking suggests that Tyrone should go back for the fourth serving if and only if

a. his marginal benefit of the additional serving is greater than zero.
b. his marginal benefit of the additional serving is at least $4.
c. his marginal benefit of the additional serving is $12 or more.
d. his total value from the meal exceeds $12.

ANSWER: a

93. Because information is costly to acquire,

a. people will rationally choose not to become fully informed when making decisions.
b. people will generally choose to become as fully informed as possible when making decisions.
c. people will generally choose to acquire no information that would be relevant to their decisions.
d. people will generally pay a lot of money to become fully informed when making decisions.

ANSWER: a

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94. People are more likely to spend time reading online reviews of new automobiles before buying a new car than they are to spend time reading reviews of pens and pencils before buying a new pen or pencil. Which of the following best explains this behavior?

a. Because there are no consumer reviews of pens and pencils.
b. Because the value of the information, in terms of avoiding a mistake on the purchase, is much higher for an automobile than for a pen or pencil, it is more worthwhile to gather this information.
c. Because people generally do not know which products are reviewed and where to find consumer reviews.
d. Because the value of the information, in terms of avoiding a mistake on the purchase, is much lower for an automobile than for a pen or pencil, it is more worthwhile to gather this information.

ANSWER: b

95. Which of the following is consistent with the implications of the economic guidepost that information is costly to acquire?

a. Most people do not know the names of their legislators in the U.S. Congress, but those same individuals are likely to know the names of all the cast members on a popular TV show.
b. In considering purchases, people are less likely to spend time reading reviews of new automobiles before buying a car, but are more likely to read reviews of pens and pencils before buying a pen or pencil.
c. When shopping for something like a new calculator, people will generally spend a lot of time to do price comparisons at all of the stores in town that sell calculators.
d. When considering the market for coffee, people are less likely to purchase coffee if the cost for advertising is high and more likely to purchase coffee if the cost of advertising is low.

ANSWER: a

96. Economic analysis is based on the premise that

a. people act only out of selfish motives.
b. people are always fully informed when making choices.
c. changes in the personal benefits or costs of an action influence behavior in a predictable way.
d. most human behavior is unpredictable.

ANSWER: c

97. In economics, secondary effects refer to the

a. best alternative that must be forgone as the result of a choice.
b. unintended consequences of a change that are not immediately identifiable but are felt only with time.
c. immediate and visible intended consequences of a change.
d. impact of the scarcity of resources on the scarcity of the goods that are produced with those resources.

ANSWER: b

98. The unintended consequences of an economic change that are not immediately identifiable but are felt only with time are known in economics as

a. opportunity costs.
b. marginal effects.
c. secondary effects.
d. scarcity constraints.

ANSWER: c

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99. Which of the following would NOT be considered a secondary effect caused by making drugs such as cocaine illegal?
   a. The higher prices that result from making them illegal results in more property theft by users to afford the drugs.
   b. The usage of police and law enforcement resources to enforce drug laws leads to lower enforcement (and thus a higher amount) of other crimes.
   c. Without the ability to use the legal system to enforce contracts, violence often results when one party to a drug deal does not live up to their end of the bargain, thus the amount of violence increases by making drugs illegal.
   d. Drug prohibition often leads to an increase in the minimum wage and a decrease in inflation.

ANSWER: d

100. "Mediocre economists often consider only the immediate apparent effects of a change, whereas a good economist will also consider effects that may only become observable over time." This statement most clearly emphasizes
   a. the fallacy of composition.
   b. economizing behavior.
   c. the importance of secondary effects.
   d. the fact that association is not causation.

ANSWER: c

101. The value of a good
   a. depends on many factors, including who uses it and under what circumstances.
   b. is determined by the cost of producing it.
   c. depends on the labor necessary to supply the good.
   d. can be measured objectively by a survey of manufacturers of the good.

ANSWER: a

102. What is the best test of an economic theory?
   a. The accuracy of the assumptions behind the theory.
   b. The ability of the theory to predict real-world events.
   c. The implications of the theory for current public policy.
   d. How much mathematical detail is behind the theory.

ANSWER: b

103. What is the best test of an economic theory?
   a. Its eloquence.
   b. The plausibility of its assumptions.
   c. Its ability to predict real-world events, patterns, and changes.
   d. Whether it produces implications that are favored by the researcher.

ANSWER: c

104. The expression "There's no such thing as a free lunch" means
   a. in an exchange, if one person gains, someone else must lose.
   b. each person must pay for exactly what they receive.
   c. the use of resources to meet one need means that those resources can no longer be used to meet another need.
   d. in an exchange, if one person gains, someone else must lose an equal amount.

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ANSWER: c

105. The highest valued alternative option that must be given up in order to choose an action is called its
a. utility.
b. opportunity cost.
c. capital.
d. *ceteris paribus.*

ANSWER: b

106. The economic way of thinking stresses that
a. changes in personal costs and benefits generally do not influence human behavior.
b. incentives matter—when an option becomes less costly, people will be more likely to choose it.
c. if one individual gains from an economic activity, then someone else must lose.
d. goods provided by government do not consume valuable scarce resources since government activity is not part of the market economy.

ANSWER: b

107. The consequences of an economic change that are not immediately identifiable but are felt only with the passage of time are known in economics as
a. opportunity costs.
b. utility curves.
c. secondary effects.
d. comparative advantages.

ANSWER: c

108. Liam wants to buy some milk and a box of cereal. If Liam buys 4 gallons of milk at $5.00 per gallon, the box of cereal costs $3.00. If he buys 5 gallons of milk, the box of cereal is free. For Liam, the marginal cost of buying a fifth gallon of milk is
a. zero.
b. $2.00.
c. $3.00.
d. $5.00.

ANSWER: b

109. The difference between a positive economic statement and a normative statement is that
a. a positive statement must be true; a normative statement is often not true
b. a normative statement must be true; a positive statement is often not true
c. a positive statement can be proved; a normative statement cannot
d. a normative statement can be proved; a positive statement cannot

ANSWER: c

110. The difference between positive economic statements and normative economic statements is that
a. positive statements are based on opinion while normative statements are based on fact
b. positive statements are true and normative statements are often false
c. positive statements are often false and normative statements are true

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d. positive statements are based on fact while normative statements are based on opinion

ANSWER: d

111. Which of the following is a positive economic statement?

a. Too much government spending is the biggest problem facing the U.S. economy.

b. Creating jobs is the most serious problem facing the U.S. economy.

c. Raising taxes provides additional revenue that should be used to finance health care.

d. If taxes are over 50 percent of national income, job creation falls.

ANSWER: d

112. Which of the following is a positive economic statement?

a. Government control of rent is a fair way to help low-income individuals afford housing.

b. Government control of rent keeps landlords from charging too much rent.

c. Government control of rent decreases the number of new apartments constructed.

d. Government control of rent is an injustice.

ANSWER: c

113. The Secretary of Labor states that wage rates in the country have risen by 3 percent this past year. The head of a local labor union states that wage gains should have been higher. The Secretary's statement is a(n) _____ economic statement, and the labor head's statement is a(n) _____ economic statement.

a. normative; normative

b. normative; positive

c. positive; normative

d. positive; positive

ANSWER: c

114. Which of the following is an example of a normative economic statement?

a. The inflation rate in the United States decreased from 5 percent last year to 4 percent this year as a result of lower energy prices.

b. The economy grew at an annual rate of 6 percent during the first quarter of this year.

c. If two automobile companies merge, it is likely that the price of automobiles will rise.

d. The minimum wage should be increased so that low income workers can afford to keep up with the cost of living.

ANSWER: d

115. Which of the following most clearly distinguishes between positive and normative economics?

a. Positive economics is the study of what ought to be; normative economics is concerned with the facts.

b. Positive economics is the study of the facts; normative economics is concerned with what ought to be.

c. Positive economics is the study of supply and demand in narrowly defined markets such as the market for shoes; normative economics focuses on highly aggregated markets such as the market for all consumer products.

d. Positive economics is the study of goods that are scarce; normative economics is concerned with goods that are not scarce.

ANSWER: b

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116. Positive economics
a. postulates relationships among economic variables that are potentially refutable by real-world events.
b. is strictly quantitative and is, therefore, of little value to policy makers.
c. will usually indicate which economic policy is best.
d. is the same as normative economics.

ANSWER: a

117. Which of the following is true?
a. Positive economics deals with how people react to changes in benefits, and normative economics deals with how people react to changes in costs.
b. Positive economic statements are testable, but normative statements are not.
c. Positive economic statements involve value judgments while normative economics focuses on whether a policy will achieve its intended objectives.
d. Positive economic statements focus on policy issues while normative economics focuses on economic theory.

ANSWER: b

118. Which of the following is a positive economic statement?
a. Raising the federal minimum wage to $9.00 per hour will cause the rate of unemployment to increase.
b. The United States spends too much on welfare.
c. Philosophy is not as interesting as economics.
d. Cold weather is much more enjoyable than warm weather.

ANSWER: a

119. Which of the following is a normative economic statement?
a. Congress should increase the legal minimum wage.
b. An increase in the legal minimum wage would cause unemployment to increase.
c. An increase in the legal minimum wage would cause unemployment to decrease.
d. An increase in the legal minimum wage would lead to more equality in the distribution of income.

ANSWER: a

120. Which of the following is a normative economic statement?
a. If we doubled the size of welfare payments, we would reduce the number of homeless persons.
b. Companies should be concerned with more than just their profits.
c. An increase in spending on airport security will reduce the number of hijackings.
d. If social security were to be privatized, workers would earn a higher rate of return on their retirement contributions.

ANSWER: b

121. "The standard of living is too low for many individuals in the United States. The government should implement policies designed to achieve a more equal distribution of income." The preceding statements are
a. positive economic statements based on cause and effect.
b. normative economic statements based on value judgments.
c. based on the fallacy of composition argument.
d. an empirically validated economic principle.

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ANSWER: b

122. Positive economics
   a. postulates a relationship that is potentially refutable and then seeks to determine whether the stated relationship is correct.
   b. uses value judgments to determine which policy alternatives should be chosen.
   c. is of no use to policy makers because it reflects the value judgments of the researcher.
   d. is the scientific study of "what ought to be" among economic relationships.

ANSWER: a

123. Which of the following is a positive economic statement?
   a. Reducing unemployment should be the highest priority of the federal government.
   b. A reduction in the payroll tax will reduce the unemployment rate.
   c. Corporations should be prohibited from laying off workers during a recession.
   d. The current unemployment rate is too high.

ANSWER: b

124. The statement, "Kerem buys more of good X as his income increases, ceteris paribus," means
   a. the price of this good is being allowed to change.
   b. Kerem's purchases of good X are being held constant.
   c. Kerem's income and purchases of this good are being held constant.
   d. Kerem's income is the only influence that is being allowed to change.

ANSWER: d

125. When economists use the term *ceteris paribus*, they are indicating that
   a. the relationship between two economic variables cannot be determined.
   b. the analysis is true for the individual but not for the economy as a whole.
   c. all other variables except the ones specified are assumed to be constant.
   d. their conclusions are based on normative economics rather than positive economic analysis.

ANSWER: c

126. The term *ceteris paribus* means that
   a. everything is changing.
   b. all variables except those specified are constant.
   c. no one knows which variables will change and which will remain constant.
   d. the basic postulate of economics does not apply for the case being considered.

ANSWER: b

127. Economists use the term *ceteris paribus* to indicate that
   a. supply and demand are in balance.
   b. other things are assumed to be constant.
   c. the analysis is true for the individual but not for the economy as a whole.
   d. their conclusions are based on normative economics rather than positive economic analysis.

ANSWER: b

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128. Which one of the following statements is correct?
a. Policymakers have good intentions and therefore their proposals will create good outcomes.
b. Potential secondary effects do not need to be considered when deciding whether to implement a new government program.
c. A good outcome is guaranteed from a government program if it is created with good intentions.
d. Government programs can be implemented with good intentions but can lead to undesirable outcomes because of unintended consequences.

ANSWER: d

129. Senator DuMonde favors a government program that he believes will help save endangered species. Economic analysis indicates that
a. because Senator DuMonde has good intentions, his new program will have the desired results.
b. Senator DuMonde's new program could have unintended consequences that might result in an outcome different from what was intended.
c. regardless of any secondary effects, costs should not be considered when designing environmental legislation.
d. because Senator DuMonde's proposal is a government program, it will not have an opportunity cost.

ANSWER: b

130. Legislation to protect red-cockaded woodpeckers created incentives that resulted in premature harvesting of trees the woodpeckers like to nest in. This is an example of which of the following?
a. Association is not causation.
b. The fallacy of composition.
c. The use of *ceteris paribus* conditions in economic analysis.
d. Good intentions do not always lead to desirable outcomes.

ANSWER: d

131. Your friend notices that U.S. auto production and U.S. population growth have moved together over several decades. They reason that one way to slow population growth is for the government to order the auto makers to cut back on production. You gently point out to them that they
a. are correct only when the economy is in a recession
b. have mistakenly inferred causation from observed correlation
c. have ignored secondary effects
d. have committed the fallacy of composition

ANSWER: b

132. A student noted that the football team won by a larger margin when the third-string played more minutes. Therefore, they recommended that the third-stringers become the first team. Their conclusion was probably erroneous because they
a. confused positive and normative analysis.
b. committed the fallacy of composition.
c. failed to recognize that association is not causation.
d. confused macroeconomics with microeconomics.

ANSWER: c

133. "After every fall election, the weather starts to turn cold, therefore elections cause cold weather." This statement

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a. confuses positive and normative analysis.
b. commits the fallacy of composition.
c. fails to recognize that association is not causation.
d. confuses macroeconomics with microeconomics.

ANSWER: c

134. Someone notices that sunspot activity is high just prior to recessions and concludes that sunspots cause recessions. This person has
a. confused association and causation.
b. misunderstood the ceteris paribus assumption.
c. used normative economics to answer a positive question.
d. built an untestable model.

ANSWER: a

135. The fallacy of composition is the fallacious view that
a. economic activity will benefit everyone.
b. what is true for the individual will also be true for the group.
c. it is possible for the whole to be greater than the sum of the individual parts.
d. association does not necessarily indicate causation.

ANSWER: b

136. The fallacy of composition is the incorrect view that
a. everything else is always held constant when a change occurs.
b. a small change in an economic variable will have unrecognizable but significant consequences on the economy.
c. when two events are associated, the one observed first must have caused the second.
d. if something is true for an individual, then it must also be true for the group.

ANSWER: d

137. Which of the following best illustrates the fallacy of composition?
a. If Tao had more money, he could afford to buy more goods.
b. If Sydney stood up at a basketball game, she could get a better view of the game; if everyone stood up at a basketball game, everyone could have a better view of the game.
c. If the price of bread rose, consumers would buy less; if consumers bought less bread, the price of bread would rise.
d. High housing prices cause people to buy less housing, but an increase in income might cause them to buy more housing.

ANSWER: b

138. "If Luis had twice as much money, he could consume twice as much. If everyone had twice as much money, they could consume twice as much." This quote illustrates
a. the difference between positive and normative economics.
b. the fallacy of composition.
c. that association is not causation.
d. the law of unintended consequences.

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ANSWER: b

139. The fallacy of composition is the incorrect view that
a. decisions are always made at the margin.
b. incentives matter only to those who behave selfishly.
c. if something is true for an individual, then it must also be true for the group.
d. the value of a good can be objectively measured by its cost of production.

ANSWER: c

140. The basic difference between macroeconomics and microeconomics is that
a. microeconomics is concerned with aggregate markets and the entire economy, while macroeconomics is concerned with specific individual markets.
b. macroeconomics is concerned with policy decisions, while microeconomics applies only to theory.
c. microeconomics is concerned with individual markets and the behavior of people and firms, while macroeconomics is concerned with aggregate markets and the entire economy.
d. macroeconomics is concerned with positive economics, while microeconomics is concerned with normative economics.

ANSWER: c

141. When the Dutchtown football team is winning by a lot of points after halftime, they often play their second and third team players. One of the coaches notices that when the third team plays that Dutchtown wins by a bigger margin than when just the first team plays. They recommend that the third team experience more playing time as a result. What is wrong with their way of thinking?
a. association is not causation
b. it is a violation of ceteris paribus
c. the fallacy of composition
d. good intentions do not guarantee desirable outcomes

ANSWER: a

142. The Latin phrase "ceteris paribus" means
a. that one event causes another.
b. that one event is associated with, but not caused by, another.
c. that other potential causes are assumed to remain constant.
d. the way things should be.

ANSWER: c

143. If you win the lottery this would be great for you, but if everyone simultaneously won the lottery this wouldn't be nearly as good, why?
a. association is not causation
b. it is a violation of ceteris paribus
c. the fallacy of composition
d. what appear to be positive outcomes in society are actually normative

ANSWER: c

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Chapter 1 - Suggested Quiz

1. What do economists mean when they state that a good is scarce?
   a. There is a shortage or insufficient supply of the good at the existing price.
   b. It is impossible to expand the availability of the good beyond the current amount.
   c. People will want to buy more of the good regardless of the price of the good.
   d. The amount of the good that people would like exceeds the supply freely available from nature.

ANSWER: d

2. Economic choice and competitive behavior are the result of
   a. basic human greed.
   b. poverty.
   c. private ownership of resources.
   d. scarcity.

ANSWER: d

3. Economic analysis assumes that
   a. individuals act only out of selfish motives.
   b. although individuals are at times selfish and at times unselfish, only their selfish actions may be predicted.
   c. people are basically humanitarian, and their actions are, therefore, impossible to predict.
   d. changes in the personal benefits and costs associated with a choice will exert a predictable influence on human behavior.

ANSWER: d

4. Neha and Michael go to a diner that sells burritos for $5 and tacos for $3. They agree to split the lunch bill evenly. Michael chooses a taco. The marginal cost to Neha of ordering a burrito instead of a taco is
   a. $1.
   b. $2.
   c. $2.50.
   d. $3.

ANSWER: a

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

ANSWER: c

6. Which one of the following states a central element of the economic way of thinking?
   a. Scarce goods are priceless.
   b. Incentives matter—human choice is influenced in predictable ways by changes in personal costs and benefits.
   c. The realism of the assumptions is the best test of an economic theory.
   d. When deciding how to allocate time, the concept of opportunity cost is meaningless.

ANSWER: b

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7. Which of the following is most clearly consistent with the basic postulate of economics regarding the reaction of people to a change in incentives.

a. Farmers produce fewer bushels of wheat in response to an increase in the price of wheat.

b. People will buy more milk at a price of $6 per gallon than at $5 per gallon.

c. People will buy less gas if the price of gas increases by $1.00 per gallon.

d. People will consume more beef if the price increases from $10 to $20 per pound.

ANSWER: c

8. While waiting in line to buy two tacos at $3.00 each, and a medium drink for $1.00, Emma notices that the restaurant has a value meal containing three tacos and a medium drink all for $7.50. For Emma, the marginal cost of purchasing the third taco would be

a. zero.

b. $0.50

c. $1.00

d. $2.00

ANSWER: b

9. Which one of the following is a positive economic statement?

a. An increase in the minimum wage will reduce employment.

b. The minimum wage should be increased.

c. Social justice will be served by increasing the minimum wage.

d. Thoughtful people oppose an increase in the minimum wage.

ANSWER: a

10. The basic difference between macroeconomics and microeconomics is that

a. macroeconomics is concerned with the forest (aggregate markets), while microeconomics is concerned with the individual trees (subcomponents).

b. macroeconomics is concerned with policy decisions, while microeconomics applies only to theory.

c. microeconomics is concerned with the forest (aggregate markets), while macroeconomics is concerned with the trees (subcomponents).

d. opportunity cost is applicable to macroeconomics, and the fallacy of composition relates to microeconomics.

ANSWER: a

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