

Chapter 1

1. Microeconomics deals with:

- A. the working of the entire economy or large sectors of it.
- B. economic growth.
- C. individual decision makers in the economy.
- D. gross domestic product.

Answer: C

2. The study of a single firm and how it determines prices would fall under the study of:

- A. macroeconomics.
- B. microeconomics.
- C. economic growth.
- D. fiscal policy.

Answer: B

3. Macroeconomics deals with:

- A. bits and pieces of the economy.
- B. the question of how a business unit should operate profitably.
- C. the working of the entire economy or large sectors of it.
- D. how individuals make decisions.

Answer: C

4. The primary emphasis in macroeconomics is on:

- A. how firms set prices.
- B. the national economy.
- C. marginal analysis.
- D. bits and pieces of the economy.

Answer: B

5. Which of the following would be studied in macroeconomics?

- A. the change in automobile sales due to a change in the price of automobiles
- B. the impact of a tax reduction on the profits of an individual business
- C. recessions
- D. the unemployment of workers displaced by technological change in the typesetting industry

Answer: C

6. Scarcity in economics means:

- A. We do not have sufficient resources to produce all the goods and services we want.
- B. The wants of people are limited.
- C. There must be poor people in rich countries.

- D. Shortages exist in nearly all markets.

Answer: A

7. If resources are "scarce," it means that they:

- A. cannot provide enough goods or services to satisfy all human material wants and needs.
 B. have no opportunity cost.
 C. are probably not valued by consumers.
 D. have an unlimited supply.

Answer: A

8. A key theme fundamental to all of economics is:

- A. There are limited wants.
 B. We are a rich country but are simply not aware of it.
 C. People have unlimited wants facing limited means to satisfy them.
 D. There are unlimited resources.

Answer: C

9. The problem of scarcity is confronted by:

- A. industrialized societies only.
 B. preindustrialized societies only.
 C. societies governed by communist philosophies only.
 D. all societies.

Answer: D

10. When we are forced to make choices, we are facing the concept of:

- A. *ceteris paribus*.
 B. free goods.
 C. scarcity.
 D. the margin.

Answer: C

11. The basic concern of microeconomics is:

- A. to keep business firms from losing money.
 B. to prove that capitalism is better than socialism.
 C. to study the choices people make.
 D. to use unlimited resources to produce goods and services to satisfy limited wants.

Answer: C

12. How people choose among the alternatives available to them is:

- A. not part of the study of economics.
- B. impossible to describe.
- C. the study of microeconomics.
- D. not important.

Answer: C

13. We are forced to make choices because of:

- A. exploitation.
- B. efficiency.
- C. scarcity.
- D. the margin.

Answer: C

14. Scarcity exists when:

- A. making choices among two or more alternatives is not necessary.
- B. individuals can have more of any good.
- C. individuals can have more of one good but only at the expense of another.
- D. resources are unlimited.

Answer: C

15. Scarcity in economics means:

- A. We do not have sufficient resources to produce all of the goods and services we want.
- B. The wants of people are limited.
- C. There must be poor people in rich countries.
- D. Economists are clearly not doing their jobs.

Answer: A

16. Although water is very abundant in most places, it is scarce because:

- A. it has no alternative uses.
- B. there is not enough of it to meet all needs.
- C. it is a free good.
- D. scarce goods in general are not all that costly.

Answer: B

17. Water is considered a scarce good because:

- A. not enough of it is available for all needs.
- B. it does not have any uses.
- C. scarce goods are less expensive.
- D. not enough of it is available for all needs and because it is less expensive.

Answer: A

18. The problem of determining what goods and services society should produce:

- A.** exists because we can produce more than we need or want.
- B.** exists because there are not enough resources to provide all of the goods and services that people want to purchase.
- C.** would not exist if all goods and services were scarce.
- D.** would not exist if government owned all of the resources.

Answer: B

19. In China, which of the following would *not* be a resource in the production of rice?

- A.** fertile land
- B.** labor
- C.** capital equipment
- D.** money

Answer: D

20. A resource is anything that:

- A.** can be used in production.
- B.** you pay for.
- C.** is in scarce supply.
- D.** can be consumed.

Answer: A

21. We have to make choices because:

- A.** we have unlimited income.
- B.** resources are scarce.
- C.** resources are infinite
- D.** with good planning, trade-offs can be avoided.

Answer: B

22. When a chef creates a dinner plate of food for a customer, which of the following represents the physical capital resource?

- A.** the chef himself or herself
- B.** the oven
- C.** the food ingredients
- D.** the chef's training and experience

Answer: B

23. Manny is attending college and majoring in economics. Manny is improving his:

- A.** land.
- B.** labor.
- C.** capital.

- D. human capital.

Answer: D

24. Which is not an example of a resource?

- A. land
- B. labor
- C. capital
- D. production

Answer: D

25. Which of the following can best be considered the resources used in the production of computers?

- A. money from investors
- B. wages of the engineers
- C. computer engineers
- D. taxes paid on the profits from the sale of the computers

Answer: C

26. Opportunity cost is:

- A. about half of the monetary cost of a product.
- B. the dollar payment for a product.
- C. the benefit derived from a product.
- D. the value of the best alternative forgone in making any choice.

Answer: D

27. The opportunity cost of something is:

- A. greater during periods of rising prices.
- B. equal to the money cost.
- C. less during periods of falling prices.
- D. what is given up to acquire it.

Answer: D

28. Whenever a choice is made:

- A. the cost of that choice could be referred to as opportunity cost.
- B. the cost is easy to measure in dollar terms.
- C. efficiency is improved.
- D. scarcity is not the problem.

Answer: A

29. You can spend \$100 on either a new economics textbook or a new CD player. If you choose to buy the new economics textbook, the opportunity cost is:

- A. \$100.
- B. your enjoyment of the new CD player.
- C. both the \$100 and the your enjoyment of the new CD player.
- D. impossible to determine.

Answer: B

30. Margo spends \$10,000 on one year's college tuition. The opportunity cost of spending one year in college for Margo is:

- A. \$10,000.
- B. whatever she would have purchased with the \$10,000 instead.
- C. whatever she would have earned had she not been in college.
- D. whatever she would have purchased with the \$10,000 and whatever she would have earned had she not been in college.

Answer: D

31. If the state government allocates additional spending on education, the opportunity cost is:

- A. zero.
- B. the dollar amount of the additional spending.
- C. considered only if additional taxes need to be raised to fund the spending.
- D. measured in terms of the best alternative uses for that money.

Answer: D

32. Khalil is offered a free ticket to the opera. His opportunity cost of going to the opera is:

- A. zero—the tickets were free.
- B. the price listed on the ticket.
- C. whatever Khalil would have done had he not gone to the opera.
- D. the price listed on the ticket or whatever Khalil would have done had he not gone to the opera.

Answer: C

33. The cost of leaving the skating championship before it ends is _____, while the cost of staying for the entire match is _____.

- A. the opportunity cost of not seeing the perfect "10" performance that happens; zero—the ticket to the championship is already paid, so there is no cost
- B. the opportunity cost of not seeing the perfect "10" performance that happens; the opportunity cost of what else you could have done during that time
- C. zero—you don't have to pay to leave; zero—the ticket to the match is already paid so there is no cost
- D. the cost of the ticket; the cost of the ticket

Answer: B

34. A new fast-food restaurant offered a free meal (valued at \$5) a week for a year to its first 100

customers. Ramona camped out for 48 hours before the opening to be one of the first 100 customers. The cost of the free meal a week for a year for Ramona was:

- A. zero.
- B. \$260.
- C. whatever she would have done with those 48 hours.
- D. The cost is impossible to determine.

Answer: C

35. The local Taco Hut charges the same price for everything on its menu: \$3 will buy a taco, a burrito, or nachos. You buy the taco and think that if you had not purchased the taco, you would have purchased the burrito. The opportunity cost of the taco is:

- A. the \$3.
- B. your enjoyment of the burrito.
- C. the \$3 and your enjoyment of the burrito.
- D. the \$3, your enjoyment of the burrito, and your enjoyment of the nachos.

Answer: B

36. For an economist, the cost of something is:

- A. the amount of money you paid for it.
- B. what you gave up to get it.
- C. always equal to its market value.
- D. the quantity of resources used to produce it.

Answer: B

37. The best measure of the opportunity cost of any choice is:

- A. the monetary cost of that choice.
- B. whatever you have given up to make that choice, even if no monetary costs are involved.
- C. the cost associated with not taking full advantage of the opportunity offered by that choice.
- D. your hourly wage.

Answer: B

38. While buying refreshments for an upcoming party, you notice that a six-pack of Americana Beer costs \$2 and a six-pack of Bavarian Beer costs \$4. You buy the six-pack of Bavarian Beer, although you wonder if maybe two six-packs of Americana Beer would have been a better choice. The opportunity cost of the Bavarian Beer is:

- A. the \$4.
- B. a six-pack of Americana Beer.
- C. two six-packs of Americana Beer.
- D. the \$4 and the six-pack of Americana Beer.

Answer: C

39. Your elderly grandma tells you: "I haven't been taking my beloved walks because I'm concerned

about falling and getting hurt. See, there is always a cost to doing something. But if you don't do anything, then there is no cost." Your grandma does not understand the concept of:

- A. scarcity in economics.
- B. efficiency in economics.
- C. opportunity cost in economics.
- D. marginal analysis in economics.

Answer: C

40. The cost of leaving a championship soccer match before it ends is _____, while the cost of staying for the entire match is _____.

- A. the opportunity cost of not seeing the winning goal with two minutes to go; zero—the ticket to the match is already paid so there is no cost
- B. the opportunity cost of not seeing the winning goal with two minutes to go; the opportunity cost of what else you could have done during that time
- C. zero—you don't have to pay to leave; zero—the ticket to the match is already paid so there is no cost
- D. the cost of the ticket; also the cost of the ticket

Answer: B

41. Zoe's grandparents are excited about finally paying off their mortgage, because, as they say, "Our cost of housing is now zero." Zoe should explain to them the economic principle of:

- A. marginal analysis: if the additional cost of housing is zero, then their additional benefit is also zero.
- B. opportunity cost: by living in the house, they are giving up the opportunity to sell the house, buy a smaller one, and pocket the difference.
- C. efficiency: if their cost of housing is now zero, they should let Zoe move in without charging her any rent. Zoe is better off, and her grandparents aren't hurt.
- D. equity: it is unfair that some people are still paying off their mortgage.

Answer: B

42. The university recently inherited a large mansion from a wealthy alumna. The university plans to use the mansion for faculty parties and to house distinguished guests. The opportunity cost of the mansion to the university is:

- A. zero, because it was a gift.
- B. the original cost of building the mansion
- C. the amount the university would receive if it sold the mansion.
- D. the cost of catering the parties at the mansion

Answer: C

43. A new startup airline is offering free round-trip tickets to anywhere to the first 600 people who enter the office on the airline's first day of business. You arrive 24 hours before they are scheduled to open to be sure to get the free tickets, and you buy food from vendors while waiting in line. The cost of the tickets to you is:

- A. zero.
- B. just the cost of food while you wait in line.
- C. the cost of food while you wait in line and the opportunity cost of your time.
- D. the actual value of the ticket.

Answer: C

44. A friend comes up to you and offers to give you a free ticket to the local professional team's baseball game that night. You decide to attend the game. The game takes five hours and costs you \$15 for transportation. If you had not attended the game, you would have worked at your part-time job for \$8 an hour. What is the cost to you of attending the game?

- A. The cost is zero—the ticket is free.
- B. \$65
- C. \$40
- D. \$55

Answer: D

45. The cost of going to college is:

- A. tuition and the cost of housing.
- B. tuition, the cost of housing, and the cost of books.
- C. tuition, the cost of books, and forgone income.
- D. forgone income only.

Answer: C

46. You have \$1 to spend on a vending machine snack. A bag of chips will cost you \$1 and the candy bar will also cost you \$1. If you choose the bag of chips, the opportunity cost of buying the chips is:

- A. \$1 plus the enjoyment you would have received from the candy bar.
- B. \$2 minus the enjoyment you received from the bag of chips.
- C. \$1.
- D. the enjoyment you would have received from the candy bar.

Answer: D

47. A college student is faced with a difficult decision of how to spend one hour tonight. She could babysit her professor's child at an hourly wage of \$7, she could work at the college library at a wage of \$6, or she could finish her economics homework assignment. If she chooses to complete her homework assignment, she has incurred an opportunity cost equal to:

- A. \$7.
- B. \$6.
- C. \$13.
- D. \$0.

Answer: A

48. If you decide to go to Cancun with your friends during spring break, you realize you cannot go to Paris with your sister in the summer. This statement best represents this economic concept:
- A. The real cost of something is what you must give up to get it.
 - B. "How much" is a decision at the margin.
 - C. People usually exploit opportunities to make themselves better off.
 - D. There are gains from trade.

Answer: A

49. You decide to join the economics club, but this means you can't join the accounting club because it meets at the same time. This statement best represents this economic concept:
- A. The real cost of something is what you must give up to get it.
 - B. "How much" is a decision at the margin.
 - C. People usually exploit opportunities to make themselves better off.
 - D. There are gains from trade.

Answer: A

50. The student center on campus has burritos, bagels, or burgers for lunch, and they all cost the same. You decide to have a burger today, but if they were out of burgers, you would have bought a bagel. Your opportunity cost is:
- A. your enjoyment of the burger.
 - B. your enjoyment of the bagel.
 - C. your enjoyment of the burrito.
 - D. your enjoyment of the bagel and burrito.

Answer: B

51. The economic way of thinking uses:
- A. the analysis of benefits but not costs.
 - B. the analysis of costs but not benefits.
 - C. making choices at the margin.
 - D. making the distinction between microeconomics and macroeconomics.

Answer: C

52. A choice made _____ is a choice whether to do a little more or a little less of something.
- A. at the front end
 - B. in the beginning
 - C. at the margin
 - D. *ceteris paribus*

Answer: C

53. Which of the following is the *best* example of making a choice at the margin?

- A. buying a new car
- B. quitting your job
- C. drinking another cup of coffee
- D. attending college

Answer: C

54. You decide whether to eat one more slice of pizza based on how hungry you feel. This statement best represents this economic concept:

- A. resources are scarce.
- B. the real cost of something is what you must give up to get it.
- C. "How much" is a decision at the margin.
- D. there are gains from trade.

Answer: C

55. The concept of the margin deals with:

- A. making incremental choices.
- B. all or none of something.
- C. engaging in unethical activities.
- D. making difficult choices.

Answer: A

56. A choice made _____ is a choice whether to do a little more or a little less of something.

- A. at the fringe
- B. in the beginning
- C. at the margin
- D. after the fact

Answer: C

57. The *best* example of making a choice at the margin is:

- A. buying a new computer.
- B. quitting your job.
- C. eating another slice of pizza.
- D. attending college.

Answer: C

58. Marla will make \$10 by tutoring for an additional hour, but she will lose an hour of studying for her economics test. Marla decides to study rather than tutor. Marla's choice indicates that she:

- A. values an additional hour of studying more than the \$10 she would earn tutoring.
- B. values an hour of studying less than the \$10 she would earn tutoring.
- C. does not understand that there is no benefit from studying.
- D. doesn't need the money.

Answer: A

59. Thinking in economic terms, when Mary Sweettooth is deciding whether to eat another brownie, she:

- A.** considers only the price of the brownie.
- B.** considers only how much additional exercise she will need to do to work off the calories associated with eating another brownie.
- C.** compares all of the benefits and costs of eating another brownie.
- D.** considers whether she can do so without anyone else noticing.

Answer: C

60. For which of the following decisions would marginal analysis be most relevant?

- A.** Should I go to college or work after graduating from high school?
- B.** Should I eat another doughnut?
- C.** Should I use \$20,000 as a down payment on a house or buy a car?
- D.** Should I get married?

Answer: B

61. For which of the following decisions would marginal analysis be most relevant?

- A.** Should George accept a job with Delta Airlines or with Greenpeace?
- B.** Should Mary go to graduate school after graduating from college?
- C.** Should Vevik emigrate to the United States or stay in India?
- D.** Should Hong work an additional hour or take a short nap?

Answer: D

62. Marginal analysis:

- A.** refers to decisions about whether to do a bit more or a bit less of an activity.
- B.** helps when making a "how much" choice.
- C.** involves trade-offs.
- D.** refers to decisions about whether to do a bit more or a bit less of an activity, helps when making a "how much" choice, and involves trade-offs.

Answer: D

63. Marginal analysis:

- A.** refers to decisions about whether or not to engage in a particular activity.
- B.** is primarily used when making an either-or choice.
- C.** is used primarily when deciding "how much" of an activity should be done.
- D.** does not help when making a "how much" choice.

Answer: C

64. Your neighbor is mowing her yard one afternoon when she stops to have some lemonade. She drinks one glass and is considering having a second glass. This is an example of:

- A. marginal analysis.
- B. benefit analysis.
- C. cost analysis.
- D. equilibrium analysis.

Answer: A

65. After eating three slices of pizza, you decide to eat one more piece. Your decision is an example of the economic principle called:

- A. opportunity-cost decision.
- B. people responding to incentives.
- C. equity decision.
- D. marginal decision making.

Answer: D

66. You are planning to study eight hours this week for your economics final and are considering studying a ninth hour. You should:

- A. compare the benefits of one more hour of study with the cost of one less hour of sleep.
- B. compare the benefits of one more hour of study with the cost of one less hour of studying calculus.
- C. compare the benefits of one more hour of study with the cost of one less hour of work at your part-time job.
- D. make your decision based on the cost of the next best alternative use of your time compared to the benefit of one more hour of study.

Answer: D

67. Marginal analysis studies how individuals decide:

- A. whether to live on the margin of society.
- B. whether to do a bit more activity versus a bit less activity.
- C. whether to go to college.
- D. how much down payment to make when buying stocks.

Answer: B

68. You are analyzing a trade-off when you compare the _____ and _____ of doing something.

- A. direct costs; opportunity costs
- B. marginal benefits; total benefits
- C. costs; benefits
- D. direct costs; total costs

Answer: C

69. For which of the following decisions would marginal analysis be *most* relevant?

- A. Should I invest all of my savings in real estate or should I keep it all in a savings account?
- B. After I graduate from college, should I go to graduate school or should I get a job?
- C. After meeting my basic needs, how should I allocate the remainder of my monthly budget?
- D. Should I keep a pet?

Answer: C

70. Some baseball fans leave the game in the seventh or eighth inning to avoid the post-game traffic. The fans are:

- A. not considering they have already paid the cost of their tickets.
- B. making marginal decisions by comparing the cost of leaving early to the benefit of leaving early.
- C. thinking only about the benefits of avoiding traffic.
- D. underestimating the value of staying for the rest of the game.

Answer: B

71. Which of the following is an example of marginal analysis?

- A. What additional output does a family business produce when it hires one more worker?
- B. How do tax cuts change the growth rate of median income?
- C. When a large corporation lays off workers, how do profits change if sales remain constant?
- D. Should a commuter take the bus to work rather than driving.

Answer: A

72. Which of the following is an example of marginal analysis?

- A. A hungry person orders a pizza rather than eating leftover meatloaf.
- B. A hungry person decides whether to eat one more slice of pizza.
- C. A hungry person uses a coupon to save \$2 on a pizza.
- D. A hungry person writes a check to pay for the pizza rather than using a credit card.

Answer: B

73. Which of the following demonstrates how people respond to incentives to make themselves better off?

- A. More students major in economics when they hear that salaries for economists are rising.
- B. Students are assigned dorm rooms through a lottery system.
- C. Students are encouraged to donate blood because it is the "right thing to do."
- D. Students and faculty are encouraged to wear college apparel to support the college athletic teams.

Answer: A

74. Which of the following policies is most likely to reduce traffic congestion in a large metropolitan area?

- A. a limited number of free "early bird" parking passes given only to those who arrive prior to 6 A.M.
- B. a toll road that requires each car to pay a fee to enter the city center
- C. an increase in the price of subway and bus fare to and from the city
- D. asking citizens to carpool

Answer: B

75. Which of the following methods of encouraging recycling is likely to be *most* effective?

- A. appealing to the consumers to "be a good citizen"
- B. publicizing the advantages of recycling
- C. imposing a tax per unit of garbage generated
- D. All three methods are equally effective.

Answer: C

76. Which of the following methods of discouraging speeding is likely to be *most* effective?

- A. increasing the number of signs stating the speed limit
- B. increasing the fine associated with speeding tickets
- C. public service announcements reminding drivers of the dangers of speeding
- D. All three methods are equally effective.

Answer: B

77. In an attempt to reduce shooting deaths, some cities have offered money to people who turn in illegal guns. This program is an example of the government using _____ to influence behavior.

- A. incentives
- B. law
- C. marginal analysis
- D. the gains from trade

Answer: A

78. If the price of gasoline rises and stays high for an extended period, we expect people to:

- A. increase the number of miles they drive.
- B. buy larger and less fuel-efficient cars.
- C. use more public transportation.
- D. ride their bicycles less.

Answer: C

79. If the price of gasoline falls and stays low for an extended period, we expect people to:

- A. reduce their reliance on gasoline-powered cars.
- B. buy larger and less fuel-efficient cars.
- C. use more public transportation.

- D. ride bicycles.

Answer: B

80. To encourage people to retire later, the government could:

- A. lower Social Security benefits.
- B. raise the tax rate on older individuals.
- C. engage in a public service campaign explaining the value of these employees to the economy.
- D. increase Social Security benefits.

Answer: A

81. To encourage young people to go to college within their home state, state universities can:

- A. charge higher tuition to in-state students.
- B. award special scholarships to out-of-state students.
- C. offer high-interest loans to in-state students.
- D. offer lower tuition to in-state students.

Answer: D

82. Which of the following methods of reducing pollution is likely to be most effective?

- A. appealing to the polluter to "be a good citizen"
- B. publicizing the harmful effects of pollution
- C. imposing a tax per unit of pollution generated
- D. All three methods are equally effective.

Answer: C

83. Economists tend to believe that to change people's behavior you must:

- A. appeal to their concern for society.
- B. change their incentives.
- C. legislate the change.
- D. appeal to their religious values.

Answer: B

84. Which of the following is *not* true?

- A. Resources are scarce when they can satisfy everyone's wants.
- B. The real cost of a choice is what you must give up to enjoy that choice.
- C. People typically make choices that will make them better off.
- D. Rational people use marginal analysis when making "how much" decisions.

Answer: A

85. Corner offices in high-rise office buildings usually cost more to rent than other offices. This best illustrates the economic principle of:

- A. marginal analysis.
- B. scarce resources.
- C. resources being used as efficiently as possible to achieve society's goals.
- D. opportunity costs.

Answer: B

86. In Ventura County, California, strawberry production is limited by the number of acres available for agriculture production. This statement best represents this economic concept:

- A. Resources are scarce.
- B. "How much" is a decision at the margin.
- C. There are gains from trade.
- D. Resources should be used as efficiently as possible to achieve society's goals.

Answer: A

87. You like to read *Vogue* and *Sports Illustrated*. You have only \$5 to spend, so you only buy *Sports Illustrated*. This statement best represents this economic concept:

- A. Resources are scarce.
- B. The real cost of something is what you must give up to get it.
- C. "How much" is a decision at the margin.
- D. There are gains from trade.

Answer: A

88. Intel finds it difficult to hire enough skilled computer engineers. This statement best represents this economic concept:

- A. Resources are scarce.
- B. People usually exploit opportunities to make themselves better off.
- C. There are gains from trade.
- D. One person's spending is another person's income.

Answer: A

89. In Colorado, there has been a drought, and rural communities are fighting with urban areas over water. This statement best represents this economic concept:

- A. Resources are scarce.
- B. Resources should be used as efficiently as possible to achieve society's goals.
- C. When markets don't achieve efficiency, government intervention can improve society's welfare.
- D. Government policies can change spending.

Answer: A

90. Which of the following is *not* one of the four principles for understanding individual choice?

- A. Resources are scarce.
- B. Overall spending sometimes gets out of line with the economy's productive capacity.
- C. "How much" is a decision at the margin.
- D. People usually take advantage of opportunities to make themselves better off.

Answer: B

91. When the San Francisco city manager faces a complaint that the city council chamber podium is not accessible to individuals with disabilities, he responds that the \$1 million improvement will not happen because "that money could be spent building 70 curb ramps." This statement best represents this economic concept:

- A. Resources are scarce.
- B. The real cost of something is what you must give up to get it.
- C. "How much" is a decision at the margin.
- D. When markets don't achieve efficiency, government intervention can improve society's welfare.

Answer: B

92. The student center on campus has burritos, bagels, or burgers for lunch, and they all cost the same. You love burgers and bagels, but you decide to have a burger today. If they were out of burgers, you would have bought a bagel. This statement best represents this economic concept:

- A. the real cost of something is what you must give up to get it.
- B. "How much" is a decision at the margin.
- C. Resources are used to produce something else
- D. There are gains from trade.

Answer: A

93. After swimming 100 laps at the pool, Erik decides to swim 10 more before lifting weights. This statement best represents this economic concept:

- A. Resources are scarce.
- B. The real cost of something is what you must give up to get it.
- C. "How much" is a decision at the margin.
- D. There are gains from trade.

Answer: C

94. Nara has gone to three movies already this week. She has some extra money, so she decides to go to another. This statement best represents this economic concept:

- A. Resources are scarce.
- B. The real cost of something is what you must give up to get it.
- C. "How much" is a decision at the margin.
- D. There are gains from trade.

Answer: C

95. A busy professor can't decide whether to stay in his office to grade papers for another hour or to go home and go to bed. This is an example of:

- A.** equity versus efficiency.
- B.** how one person's spending is another person's income.
- C.** economic incentives.
- D.** marginal analysis.

Answer: D

96. Which of the following principles underlie the economics of individual choices?

- A.** There are gains from trade.
- B.** Markets move toward equilibrium.
- C.** People usually exploit opportunities to make themselves better off.
- D.** Resources should be used as efficiently as possible to achieve society's goals.

Answer: C

97. Which of these is one of the four principles of individual choice?

- A.** Resources are usually renewable.
- B.** The real cost of something is impossible to measure.
- C.** People take advantage of opportunities to make themselves better off only if there is no risk involved.
- D.** Resources are scarce.

Answer: D

98. Which of the following is an example of individual choice?

- A.** The government announces plans to ban smoking in all Florida restaurants.
- B.** Lauren spends her allowance on pillows for her bed.
- C.** France decides to withhold funding to rebuild Iraq.
- D.** Africa decides to accept U.S. aid for humanitarian efforts.

Answer: B

99. Which of the following is *not* one of the four principles of individual choice?

- A.** Resources are scarce.
- B.** Unpaid volunteer work is irrational, since economic rationality dictates that individuals should only engage in work they are paid for.
- C.** The real cost of something is its opportunity cost.
- D.** People usually take advantage of opportunities to make themselves better off.

Answer: B

100. Florida schools offered cash bonuses to students who scored high on the state's standardized exams. The cash bonuses are an example of which of the following basic economic principles?

- A. Resources are scarce.
- B. The real cost of something is what you must give up to get it.
- C. There are gains from trade.
- D. People usually take advantage of opportunities to make themselves better off.

Answer: D

101. Grades are low in class and your professor makes available a 10-point extra credit assignment. Most of the students turn in the assignment. This statement best represents this economic concept:

- A. The real cost of something is what you must give up to get it.
- B. "How much" is a decision at the margin.
- C. People usually exploit opportunities to make themselves better off.
- D. There are gains from trade.

Answer: C

102. Your local health club is offering a free one-year membership for the person who attends the most yoga classes in March. This results in more people attending yoga. This statement best represents this economic concept:

- A. The real cost of something is what you must give up to get it.
- B. People usually exploit opportunities to make themselves better off.
- C. There are gains from trade.
- D. Markets move toward equilibrium.

Answer: B

103. Specialization and trade usually lead to:

- A. lower economic growth.
- B. the exchange of goods and services in markets.
- C. lower living standards.
- D. higher prices.

Answer: B

104. Which book illustrates the advantages of specialization using an eighteenth-century pin factory?

- A. *Free to Choose*, by Milton Friedman
- B. *The Wealth of Nations*, by Adam Smith
- C. *Das Kapital*, by Karl Marx
- D. *The General Theory*, by John Maynard Keynes

Answer: B

105. Who wrote *The Wealth of Nations*, a book that many credit with establishing economics as a discipline?

- A. Karl Marx
- B. David Ricardo
- C. Adam Smith
- D. John Maynard Keynes

Answer: C

106. Increases in total output realized when individuals specialize in particular tasks and trade are known as:

- A. the gains from trade.
- B. the profits obtained from sales of a good or service.
- C. marginal analysis.
- D. a trade-off.

Answer: A

107. Gains from trade arise because of:

- A. specialization in production.
- B. specialization in consumption.
- C. marginal analysis.
- D. individual choice.

Answer: A

108. Gains from trade exist for:

- A. individuals only.
- B. states only.
- C. countries only.
- D. individuals, states, and countries.

Answer: D

109. When the United States and Mexico trade:

- A. the United States will be worse off because wages in Mexico are so low.
- B. Mexico will be worse off because the United States is a stronger economic power.
- C. both Mexico and the United States will be better off.
- D. both Mexico and the United States will be worse off.

Answer: C

110. If every individual were required to be self-sufficient:

- A. living standards would fall.
- B. living standards for some individuals would fall, but for others they would rise.
- C. living standards would rise.
- D. it's impossible to say how living standards would change.

Answer: A

111. Which of the following statements is *not* true?

- A. Resource scarcity is a major economic concern in the rich countries of the world.
- B. Most opportunity costs are zero.
- C. An economic situation is in equilibrium when no individual would be better off taking a different action.
- D. Some very talented, skilled individuals who can do some things better than most people should specialize in doing that one thing.

Answer: B

112. Specialization and trade should lead to all of the following *except*:

- A. individuals learning specific skills and earning a salary.
- B. a decrease in total economic output.
- C. higher living standards.
- D. the exchange of goods and services in markets.

Answer: B

113. The phrase "gains from trade" refers to the:

- A. profits obtained from sales of a good or service.
- B. increase in total output that is realized when individuals specialize in particular tasks and trade with each other.
- C. gains that one obtains by taking advantage of an uninformed buyer and selling at a higher than average price.
- D. gains that one obtains by taking advantage of a temporary discount or "sale" price.

Answer: B

114. Individuals gain from trade because:

- A. of specialization in production.
- B. they can sell at a lower price than they can buy at.
- C. self-sufficiency is efficient.
- D. of the principle of absolute advantage.

Answer: A

115. Specialization in production was the starting point for what book in economics that many regard as the beginning of economics?

- A. *The Wealth of Nations*, by Adam Smith
- B. *The General Theory*, by John Maynard Keynes
- C. *Das Kapital*, by Karl Marx
- D. *Free to Choose*, by Milton Friedman

Answer: A

116. Two neighbors, Molly and Sandy, are separated by a white picket fence. Each neighbor has a garden that grows tomatoes and peppers. How could Molly and Sandy gain from trade?

- A. Molly could trade tomatoes to Sandy in exchange for peppers if Molly was the more efficient grower of peppers.
- B. Sandy could trade tomatoes to Molly in exchange for peppers if Sandy was the more efficient grower of peppers.
- C. Sandy could trade peppers to Molly in exchange for tomatoes if Molly was the more efficient grower of peppers.
- D. Molly could trade peppers to Sandy in exchange for tomatoes if Molly was the more efficient grower of peppers.

Answer: D

117. If the market for corn is in equilibrium:

- A. every buyer who wants to consume corn can acquire corn.
- B. every producer who wants to sell corn can do so.
- C. the price is at a level where the quantity of corn produced is equal to the quantity of corn consumed.
- D. all producers of corn earn the same amount of income from the sale of corn.

Answer: C

118. One consequence of equilibrium is that when trying to figure out which checkout line at the college bookstore is the fastest:

- A. choose the line nearest the door.
- B. choose the line farthest from the door.
- C. choose the middle line.
- D. randomly choose a line—if one line were truly faster, everyone would move to it and it would no longer be faster.

Answer: D

119. If equilibrium exists:

- A. all individuals must have an equal amount of income.
- B. the price in that market will not fluctuate by more than 5%.
- C. there will be no remaining opportunities for individuals to make themselves better off.
- D. the number of buyers will equal the number of sellers.

Answer: C

120. If disequilibrium exists in a market:

- A. it will continue unless there is government intervention.
- B. no individual will be better off doing something different.
- C. there will be opportunities available to people to make themselves better off.
- D. it must be because the government has intervened in the market, resulting in the market's failure to reach equilibrium.

Answer: C

121. According to economists, equilibrium exists when:

- A. output is distributed equitably.
- B. scarcity is eliminated.
- C. an individual would be better off taking a different action.
- D. no individual has an incentive to change his or her behavior.

Answer: D

122. Which of the following statements is true?

- A. The concept of equilibrium requires that all individuals have an equal amount of income.
- B. If equilibrium in a market exists, the price in that market will not fluctuate by more than 5%.
- C. If equilibrium in a market exists, there will be no remaining opportunities for individuals to make themselves better off.
- D. Equilibrium in a market will exist when the number of buyers is equal to the number of sellers.

Answer: C

123. Which of the following statements is correct?

- A. Resource scarcity is not a major economic concern in the rich countries of the world.
- B. While opportunity costs usually exist, some opportunity costs are zero.
- C. An economic situation is in equilibrium when no individual would be better off taking a different action.
- D. Some very talented, skilled individuals who can do everything better than most people should not specialize in doing any one thing.

Answer: C

124. In baseball, when one manager decides to send in a pinch hitter, the other manager often changes pitchers. This sometimes causes the first manager to send in a new pinch hitter. Once both managers decide there are no more player substitutions to make that will benefit their team, the situation has reached:

- A. efficiency.
- B. equilibrium.
- C. equity.
- D. the market.

Answer: B

125. Economists use the term *equilibrium* to describe:

- A. when individuals are equal.
- B. when no individual would be better off taking a different action.
- C. when no individual has an incentive to change his or her behavior.
- D. when no individual would be better off taking a different action or when no individual has an incentive to change his or her behavior.

Answer: D

126. Twelve friends got together to celebrate a birthday. If the birthday cake is cut into 12 pieces of the same size and one slice is given to each of the 12 partygoers, this cake distribution is:

- A. efficient but not equitable.
- B. equitable but not efficient.
- C. efficient and equitable.
- D. equitable.

Answer: D

127. An economy is efficient if it is:

- A. possible to produce more of all goods and services.
- B. possible to produce more of one good without producing less of another.
- C. not possible to produce more of one good without producing less of another good.
- D. producing a combination of goods.

Answer: C

128. If all of the opportunities to make someone better off (without making someone else worse off) have been exploited, an economy is

- A. equitable.
- B. inefficient.
- C. marginally optimal.
- D. efficient.

Answer: D

129. A trade-off between equity and efficiency may exist because of all of the following *except* that:

- A. allocating resources fairly may cause efficiency.
- B. an efficient allocation of resources may lead to an outcome that most people consider unfair.
- C. policies that promote equity often come at a cost of decreased efficiency.
- D. allocating resources fairly may cause inefficiency.

Answer: A

130. Economists say an economy is efficient when:

- A. the problem of scarcity is eliminated.
- B. output is distributed equitably.
- C. all opportunities to make some people better off without making other people worse off have been taken.
- D. all opportunities to make some people worse off without making other people better off have been taken.

Answer: C

131. Economists believe that resources should be used as efficiently as possible to:

- A. achieve society's goals.
- B. eliminate scarcity.
- C. reduce inequity.
- D. maximize profits.

Answer: A

132. If an economy has *not* achieved efficiency, there must exist ways to:

- A. increase opportunity costs.
- B. eliminate inequity.
- C. make some people better off without making others worse off.
- D. increase the incentives for its citizens to follow their own self-interest.

Answer: C

133. Resources are being used efficiently when:

- A. scarcity is no longer an issue.
- B. they are also used equitably.
- C. every opportunity to make people better off has been utilized.
- D. there are still gains from trade available.

Answer: C

134. Equity means that:

- A. everyone gets an efficient share of the goods and services produced.
- B. everyone gets his or her fair share of the goods and services produced.
- C. more of some goods and services can be produced only if the production of others is reduced.
- D. more of all goods and services may be produced.

Answer: B

135. Which of the following is *not* a reason that markets usually lead to efficiency?

- A. People are naturally efficient.
- B. Individuals have incentives to offer what people want.
- C. Trade encourages efficiency.
- D. Inefficient firms will lose business.

Answer: A

136. An increase in efficiency means that an economy has:

- A. reduced its opportunity costs.
- B. increased the equity of its distribution of goods and services.
- C. made some people better off without making others worse off.
- D. increased the incentives for its citizens to follow their own self-interest.

Answer: C

137. The trade-off between equity and efficiency occurs because:

- A. the efficient allocation of resources is bad for business and industry.
- B. allocating resources fairly may cause inefficiency.
- C. to ensure equity everyone must pay more tax.
- D. efficiency is politically unpopular.

Answer: B

138. Economists define an efficient use of resources as a situation where:

- A. one person can be made better off but only by making another person worse off.
- B. all persons can be made better off without making anyone worse off.
- C. all persons receive an equal share of the resources.
- D. all persons are made worse off when one person is made better off.

Answer: A

139. In most cases, economic efficiency is achieved through:

- A. incentives built into a market economy.
- B. regulation.
- C. individuals seeking out opportunities that involve no risk.
- D. maximizing equity.

Answer: A

140. When individuals act in their own self-interest:

- A. efficiency is always achieved.
- B. equity is always achieved.
- C. society may be worse off in some cases.
- D. all opportunities have been taken to make some people better off without making other people worse off.

Answer: C

141. An economy has achieved _____ if it _____ pass up any opportunities to make some people better off without making others worse off.

- A. efficiency; does not
- B. equity; does
- C. efficiency; does
- D. equity; does not

Answer: A

142. Which of the following statements is *not* true?

- A. Economic efficiency exists when an economy realizes the maximum possible gains from trade given the available resources.

- B. If an economy is efficient, it is possible to make only a few people better off without reducing other individuals' economic welfare.
- C. Economic efficiency exists when all opportunities to make people better off have been fully exploited.
- D. Markets usually lead to efficiency.

Answer: B

143. If in the country of Equitania, 20% of the population receives 80% of the income, and the remaining 80% of the population receives 20% of the income, then:

- A. this situation is definitely efficient.
- B. this situation cannot be economically efficient, since efficiency requires a more equal distribution of income.
- C. this situation may be efficient.
- D. such a situation could never be either efficient or equitable.

Answer: C

144. The incentives built into the market economy ensure that resources are put to good use and that opportunities to make people better off are not wasted. This means that:

- A. people usually are not selfish enough to exploit opportunities to make themselves better off.
- B. markets move toward equilibrium.
- C. resources should be used as efficiently as possible to achieve society's goals.
- D. markets usually lead to efficiency.

Answer: D

145. When markets fail:

- A. government intervention may help.
- B. the market realizes the maximum possible gains from trade given the available resources.
- C. there may still be an efficient allocation of resources.
- D. no goods and services are produced.

Answer: A

146. Market failure may occur because:

- A. individual actions have side effects that are not properly taken into account by the market.
- B. one party benefits more than another in trade.
- C. all goods are suited for efficient management by markets.
- D. of regulated self-interest.

Answer: A

147. When the nations that comprise the Organization of Petroleum Exporting Countries (OPEC) restrict the supply of oil to increase their profits, the oil market:

- A. achieves an efficient outcome because profits increase.
- B. achieves an equitable outcome because the nations with oil resources receive the profits commensurate with that resource.
- C. fails because there is no longer an efficient allocation of resources.
- D. fails because there is no longer an equitable allocation of resources.

Answer: C

148. Although for smokers the marginal benefit from smoking may exceed the marginal cost of smoking, the negative effects of second-hand smoke may increase the marginal costs of smoking to society to a point where it exceeds that marginal benefit to society. This is an example of:

- A. individual actions whose side effects are not properly taken into account by the market.
- B. one party preventing mutually beneficial trades in an attempt to capture a greater share of resources for itself.
- C. some goods' unsuitability for efficient management by markets.
- D. regulating self-interest.

Answer: A

149. Everyone benefits from street lighting, yet the marginal benefit to any one individual usually falls short of the marginal cost. This is an example of:

- A. individual actions whose side effects are not properly taken into account by the market.
- B. one party preventing mutually beneficial trades in an attempt to capture a greater share of resources for itself.
- C. the unsuitability of some goods for efficient management by markets.
- D. regulating self-interest.

Answer: C

150. At various times, the nations that comprise the Organization of Petroleum Exporting Countries (OPEC) have restricted the supply of oil to increase their profits. This is an example of:

- A. individual actions whose side effects are not properly taken into account by the market.
- B. one party preventing mutually beneficial trades in an attempt to capture a greater share of resources for itself.
- C. the unsuitability of some goods for efficient management by markets.
- D. regulating self-interest.

Answer: B

151. Market failure occurs when:

- A. prices of essential goods such as gas become very high.
- B. individual actions have side effects that are not properly taken into account.
- C. mutually beneficial trades take place.
- D. a business declares bankruptcy.

Answer: B

152. A market failure occurs when:

- A.** some people are able to buy many more goods than other people are.
- B.** the individual's pursuit of self-interest means some people will not be able to buy all of the goods they need.
- C.** the individual's pursuit of self-interest makes the society worse off.
- D.** while pursuing their self-interest, some people may make a mistake—for example, they may regret buying a particular car.

Answer: C

153. When markets don't achieve efficiency:

- A.** they must achieve equity.
- B.** government must be participating in the market.
- C.** government may intervene to improve society's welfare.
- D.** they should be closed.

Answer: C

154. One parent picks up the child from day care while the other parent goes to the grocery store and begins to make dinner. This is an example of which principle at work?

- A.** Markets move toward equilibrium.
- B.** Government policies can change spending.
- C.** There are gains from trade.
- D.** Markets usually lead to efficiency.

Answer: C

155. Which of the following principles underlies the interaction of individual choices?

- A.** Resources are scarce.
- B.** There are gains from trade.
- C.** Marginal analysis is used for "how much" decisions.
- D.** People usually exploit opportunities to make themselves better off.

Answer: B

156. It is cheaper to produce corn in Kansas than in Death Valley, California because corn needs a lot of water and moderate temperatures. This statement best represents this economic concept:

- A.** Resources are scarce.
- B.** Markets move toward equilibrium.
- C.** Resources should be used as efficiently as possible to achieve society's goals.
- D.** Markets usually lead to efficiency.

Answer: C

157. In Thailand, the land, labor, and capital in society are all used to exploit all opportunities to make everyone better off. This statement best represents this economic concept:

- A. Markets move toward equilibrium.
- B. Resources should be used as efficiently as possible to achieve society's goals.
- C. Markets usually lead to efficiency.
- D. When markets don't achieve efficiency, government intervention can improve society's welfare.

Answer: B

158. Which of the following is *not* one of the five principles for understanding how individual choices interact?

- A. There are gains from trade.
- B. Markets move toward equilibrium.
- C. Resources should be used as efficiently as possible to achieve society's goals.
- D. Markets always lead to efficiency.

Answer: D

159. When a local factory closes, why does it spell bad news for the local restaurants?

- A. Sales taxes are likely to increase.
- B. Unemployed factory workers have lower incomes and are less likely to dine out.
- C. Unemployed factory workers are eligible for government unemployment benefits.
- D. The opportunity cost of dining out has fallen.

Answer: B

160. Which of the following demonstrates one of the three principles of economy-wide interactions?

- A. A student chooses to rent a movie with friends rather than study for an economics quiz.
- B. Your roommate offers to pay for the movie tickets if you drive to the theatre.
- C. A city builds a new public park on the grounds of an abandoned warehouse.
- D. Fearing a recession, Congress approved a White House proposal to send tax rebates to 2007 taxpayers.

Answer: D

161. Sometimes the government spends more or less, depending on the needs of the country. This statement best represents this economic concept:

- A. Resources should be used as efficiently as possible to achieve society's goals.
- B. When markets don't achieve efficiency, government intervention can improve society's welfare.
- C. Overall spending sometimes gets out of line with the economy's productive capacity.
- D. Government policies can change spending.

Answer: D

162. Lena and Jess are roommates. Lena hates to clean the bathroom. Jess will agree to clean the bathroom only if Lena vacuums the living room. This statement best represents this economic concept:

- A. The real cost of something is what you must give up to get it.
- B. "How much" is a decision at the margin.
- C. People usually exploit opportunities to make themselves better off.
- D. There are gains from trade.

Answer: D

163. Nate and Dylan are brothers. They have to mow the lawn and clean their rooms before they can go to the high school football game. Nate mows the lawn and Dylan picks up the rooms, and they make it to the football game on time. This statement best represents this economic concept:

- A. People usually exploit opportunities to make themselves better off.
- B. There are gains from trade.
- C. Markets usually lead to efficiency.
- D. One person's spending is another person's income.

Answer: B

164. You notice that when a new yoga class is offered at the student recreation center at a highly desirable time, some students from the other yoga classes go to the new class instead. This statement best represents this economic concept:

- A. Resources are scarce.
- B. The real cost of something is what you must give up to get it.
- C. People usually exploit opportunities to make themselves better off.
- D. Marginal analysis.

Answer: C

165. Which of the following principles underlies the gains from trade?

- A. Resources are scarce.
- B. Marginal analysis is used for "how much" decisions.
- C. Resources should be used as efficiently as possible to achieve society's goals.
- D. People usually exploit opportunities to make themselves better off.

Answer: C

166. The federal government regulates how much carbon dioxide a factory can emit. This statement best represents this economic concept:

- A. Resources are scarce.
- B. "How much" is a decision at the margin.
- C. Markets usually lead to efficiency.
- D. When markets don't achieve efficiency, government intervention can improve society's welfare.

Answer: D

167. All children have to be immunized against polio, measles, mumps, and other diseases. If you

don't have enough money to pay for the immunizations, they will be provided free at the county health clinic. This statement best represents this economic concept:

- A. People usually exploit opportunities to make themselves better off.
- B. Resources should be used as efficiently as possible to achieve society's goals.
- C. When markets don't achieve efficiency, government intervention can improve society's welfare.
- D. Government policies can change spending.

Answer: C

168. The government of a small town has decided to ban smoking in all restaurants, stores, and government offices. This is an example of which principle?

- A. One person's spending is another person's income.
- B. When markets fail to achieve efficiency, government intervention can improve society's welfare.
- C. There are gains from trade.
- D. Resources should be used as efficiently as possible to achieve society's goals.

Answer: B

169. I know when I shop at the local grocery store, I am helping my community. This statement best represents this economic concept:

- A. People usually exploit opportunities to make themselves better off.
- B. There are gains from trade.
- C. One person's spending is another person's income.
- D. Overall spending sometimes gets out of line with the economy's productive capacity.

Answer: C

170. Owen had a typewriter business but he went out of business because no one buys typewriters anymore. This statement best represents this economic concept:

- A. Resources are scarce.
- B. People usually exploit opportunities to make themselves better off.
- C. Markets move toward equilibrium.
- D. One person's spending is another person's income.

Answer: D

171. During the Great Depression, consumers and producers in the United States dramatically reduced their spending as compared to the quantity of goods and services available at the time. This statement best represents this economic concept:

- A. Resources are scarce.
- B. When markets don't achieve efficiency, government intervention can improve society's welfare.
- C. Overall spending sometimes gets out of line with the economy's productive capacity.
- D. Government policies can change spending.

Answer: C

172. When people want more goods and services than are available, the economy undergoes inflation. This statement best represents this economic concept:

- A.** Resources are scarce.
- B.** When markets don't achieve efficiency, government intervention can improve society's welfare.
- C.** Overall spending sometimes gets out of line with the economy's productive capacity.
- D.** Government policies can change spending.

Answer: C

173. Because the United States is a rich nation, free health care can be provided for all citizens without considering the issue of scarcity.

Answer: False

174. The study of economics arises because of the necessity for choice, and the necessity for choice arises because of the fundamental problem of scarcity of resources.

Answer: True

175. Opportunity cost means that in the rebuilding of Iraq, if the United States spends \$87 billion, we have to forgo the opportunity to spend \$87 billion on some other program.

Answer: True

176. In 2003, Congress passed a tax cut. Since taxes were reduced, the country did not incur any opportunity cost from this decision.

Answer: False

177. A trade-off involves weighing the costs and the benefits.

Answer: True

178. Using marginal analysis to decide whether to consume an additional slice of pizza requires making a comparison of the benefits and costs associated with the consumption of an additional slice of pizza.

Answer: True

179. Economists make predictions about individual behavior based on the assumption that people exploit opportunities to make themselves better off. The fact that different individuals make different choices when confronted with the same situation implies that this assumption is often violated.

Answer: False

180. The principle that people will exploit opportunities to do what is best for others is the basis of all predictions by economists about individual behavior.

Answer: False

181. When people in Brazil engage in trade with people in Germany, the citizens of each nation are made worse off.

Answer: False

182. As long as individuals know that they can find the goods and services that they want in the market, they are willing to forgo being self-sufficient and are willing to specialize.

Answer: True

183. Trade allows people to get more of what they want.

Answer: True

184. In equilibrium there will be no further opportunities for gains from trade.

Answer: True

185. An economic situation is in equilibrium when no individual would be better off taking a different action.

Answer: True

186. Market equilibrium will always be efficient even if it is not equitable.

Answer: False

187. An economy is efficient if one person can be made better off by reallocating resources without making anyone else worse off.

Answer: False

188. Equity is the same as efficiency.

Answer: False

189. If an economy's resources are used efficiently, then it is guaranteed that the economy will also achieve equity.

Answer: False

190. Handicapped-designated parking spaces are an example of the market economy achieving efficiency.

Answer: False

191. The fact that individuals in a market economy act so as to make themselves better off is a major reason why a market equilibrium is usually efficient.

Answer: True

192. According to the textbook, markets usually lead to efficiency.

Answer: True

193. Market failure occurs when the pursuit of self-interest leads to bad results.

Answer: True

194. Many college freshmen describe themselves as "pre-med," but a very small percentage of these freshmen will ever attend medical school. After the first course in biology or chemistry, many decide to major in something other than the natural sciences. Which of the 12 principles is at work here?

HTML Editor

Answer: Resources are scarce. The scarce resource here is human capital and innate talent in the field. Most of these pre-med freshmen students realize that they are not cut out for studying medicine because they underestimated how difficult the topic is to master. The same principle holds for the college basketball player who is not skilled enough to earn a spot on a professional basketball team.

195. A college student stays up late writing a history paper and as a result sleeps through her morning economics class. What is the cost of sleeping through the class?

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Answer: There is no monetary price, but there is most certainly a cost. She might have missed some very important information that was presented or discussed in the economics class. Failure to be present for this information might create difficulties for her on the next economics exam. Maybe the professor gave a pop quiz during the economics class and thus this sleepy student failed to earn any points on the quiz. Every decision has a cost, even if there is no money actually paid.

196. A college student waits in line for hours to purchase a ticket to the Rose Bowl, but an attorney does not. Rather than spend hours in line, he purchases a much more expensive ticket through a ticket broker. Why?

HTML Editor

Answer: For the attorney, the opportunity cost of waiting in line for a ticket is time that could be used to work for a client and earn maybe several hundred dollars for each hour of legal work. Because he worked during those hours, he was able to afford the higher price. The opportunity cost of the student's time is much lower.

197. A two-year-old child is eating raisins one at a time from a large box. Even though the child doesn't understand formal economic theory, he knows when to stop eating because he is full. Describe how this child has already mastered marginal analysis.

HTML Editor

Answer: The child stops eating when he is full because he intuitively knows that the additional benefit he would receive from the next raisin is zero or even negative.

198. An apartment complex included a fixed price of water in the monthly rent. One day the city decided to attach a water meter to each individual apartment and charge the tenant for actual water usage. As a result, water usage in the apartment complex went way down. Explain this situation using a basic economic principle.

HTML Editor

Answer: By charging each person for actual water usage, the city had created an economic incentive to use less water. Apartment tenants responded and in the process exploited an opportunity to make themselves better off.

199. You and your roommate are taking the same economics class. When it comes to doing homework assignments, your roommate draws beautifully precise graphs, while you are an extremely fast typist. Therefore, you and your roommate work on the assignments together.

Which of the 12 principles is at work here?

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Answer: There are gains from trade. When you specialize in these tasks, you and your roommate can produce the assignment more efficiently and probably earn a better grade than if you had not specialized.

200. At most airports there are multiple security guards ready to screen passengers, and their luggage, through the X-ray and metal detector checkpoints. The length of the wait for each line is about the same. Why?

HTML Editor

Answer: Passengers will always prefer a shorter line to a longer line. If one line begins to shorten significantly, you will see some passengers switch from a longer line to the shorter line. Passengers will continue to switch lines until there is no perceived advantage to switching. This is the concept of equilibrium—the situation in which no individual would be better off doing something different.

201. The most efficient way to dispose of industrial waste is to dump it in a nearby river or parcel of land. Why is this illegal?

HTML Editor

Answer: Because while it may be quite efficient, it is not fair, equitable, or just. If a factory dumps barrels of waste into the river, everyone downstream from the factory is exposed to the waste as it washes up on the riverbank. The many species that rely upon the water bear the cost of that dumping. The government has decided that equity trumps efficiency.

202. By early 2008 the U.S. economy was in a significant downturn. The unemployment rate began to increase and home prices began to fall. Congress passed a stimulus package that gave tax rebates to virtually every person who paid taxes in 2007. Which of the 12 principles is described by this Congressional package?

HTML Editor

Answer: Government policies can change spending. A tax rebate provides consumers with additional income that is likely to be spent. Another principle at work here is that one person's spending is another person's income. So if Molly spends her tax rebate at the shoe store, the owner of the store receives more income, and this income will in turn be spent. Repeated rounds of spending is exactly the stimulus the Congress had in mind.

203. Some products, like tobacco, are taxed by the government. Why would the government interfere in a market that if left untaxed would probably move to equilibrium on its own?

HTML Editor

Answer: The government probably understands principle #4, that people respond to incentives. Because the tax causes the price of tobacco to increase, it is reasonable to expect that less tobacco will be consumed, which should increase the health of the tobacco user. Principle #9, that when markets don't achieve efficiency, government intervention can improve society's welfare, is also relevant in this case. One could argue that the government is attempting to improve society's welfare by taxing a product whose side effects are not properly accounted for in the market for tobacco. Those side effects include the damage from second-hand smoke.

204. When someone says resources are scarce, this suggests that:

- A. lower-income individuals must be especially careful about the choices they make.
- B. choices need to be made in order to utilize resources in the best manner possible.
- C. additional resources could be found if there were additional funds allocated to the effort.
- D. we can use resources for whatever purpose we choose.

Answer: B

205. One day, Martha wakes up and in frustration yells, "Decisions, decisions, decisions! Why do I have to make decisions about everything?" Martha's frustrations stem from the fact that:

- A. like all economic beings, she faces constraints and cannot have everything she wants.
- B. she doesn't realize she can have everything she wants.
- C. she is the only one who faces constraints in life.
- D. she really doesn't want anything.

Answer: A

206. Alison is offered two jobs: one pays a salary of \$45,000 per year and offers three weeks of vacation, while the other offer provides two weeks of vacation and a salary of \$54,000. What is the opportunity cost for Alison if she chooses the job offer of \$54,000?

- A. \$45,000 plus the three weeks of vacation
- B. \$45,000 per year
- C. one week of vacation
- D. two weeks of vacation

Answer: C

207. Katherine has a physics exam tomorrow. However, a free lecture by one of her favorite authors is taking place this evening. Katherine decides to attend the lecture instead of studying for her exam. Which is a correct statement?

- A.** Katherine's opportunity cost is the time spent listening to the lecture.
- B.** Katherine's opportunity cost is not relevant, since no money is involved.
- C.** Katherine's opportunity cost is the cost of getting to the lecture event itself plus the reduction in her physics exam grade by not studying tonight.
- D.** Katherine's opportunity cost is the time spent getting to the lecture.

Answer: C

208. Mr. Freeze operates a fleet of ice cream trucks that drive around neighborhoods selling ice cream. He is trying to decide whether he should buy another ice cream truck to add to his fleet. He determines that one more truck will add \$750 to his revenue but that the truck will also increase his costs by \$1,000. Based on marginal analysis, Mr. Freeze decides:

- A.** that he should not purchase the truck, since the costs outweigh the benefits.
- B.** that he should purchase the truck, since the benefits outweigh the costs.
- C.** that he should purchase the truck, since his profits will rise by \$250.
- D.** to purchase several trucks with the same costs and benefits.

Answer: A

209. Julie is getting ready for final exams. She has three exams during the first three days of the exam period. To prepare, she has outlined a schedule that includes reviewing for her first exam on one day, her next exam on the following day, and her third exam on the third day. On each day, she has also allocated some time when she can watch TV or basically do nothing. Which is the best explanation for why Julie provides some time for leisure?

- A.** Julie is not that smart and cannot study that long.
- B.** Julie is slacking off and will most likely fail all of her finals.
- C.** Julie realizes that there are benefits to leisure time that outweigh the costs of constant studying.
- D.** Julie does not understand the importance of studying.

Answer: C

210. A popular train station has free parking for commuters who take the train. This often results in many people being unable to find a parking spot and missing their train. Which of the following plans would most likely help to solve this parking problem?

- A.** All commuters are automatically given a parking pass along with their ticket.
- B.** All commuters are required to pay an hourly price for parking.
- C.** All commuters can purchase an annual pass which allows them to park at the train station.
- D.** All commuters are exempt from parking lot fees.

Answer: B

211. A bank offers two compensation plans to its tellers. Plan A provides an hourly wage of \$12. Plan B offers \$10 per hour plus additional compensation if customers sign up for a related bank

product. If a teller chooses plan B, most likely this person would:

- A. be more helpful to customers than if he or she chose plan A.
- B. not be thinking wisely in choosing this plan.
- C. be less helpful to customers than if he or she chose plan A.
- D. would not alter his or her behavior.

Answer: A

212. Beth and Alice decide to trade services. Beth promises to do Alice's taxes, and in exchange, Alice will create several spreadsheets for Beth's household budget. This mutual agreement of trade will most likely:

- A. be beneficial to both individuals.
- B. hurt both individuals.
- C. help Beth but hurt Alice.
- D. help Alice but hurt Beth.

Answer: A

213. Overall, trade between China and the United States will:

- A. benefit the United States more than China.
- B. benefit China more than the United States.
- C. benefit both countries.
- D. hurt both countries.

Answer: C

214. When a market is in equilibrium,

- A. a person could do better if he or she did something different.
- B. people have exploited all opportunities to make themselves better off.
- C. government has directed the market in such a way as to achieve this point.
- D. markets are not working efficiently.

Answer: B

215. If an economy is efficient, this means:

- A. all goods are produced at their maximum quantities.
- B. all opportunities to make people better off without making other people worse off have been taken.
- C. more resources have been used to produce specific consumer goods than producer goods.
- D. prices are the lowest they can possibly be.

Answer: B

216. After a great holiday season when it opened its doors for business regularly at 6 A.M., a local retail store decides to continue to open at 6 A.M., even though many customers plan on arriving later to do their shopping. Such a plan by the retail store is:

- A. efficient, since it worked previously.
- B. inefficient, since most customers will revert to their normal shopping behavior after the holidays are over.
- C. efficient, since it means that workers do not have to change their hours.
- D. most likely to lead to lower operating costs for the store.

Answer: B

217. Suppose a local community decided to give all of its citizens over age 60 a parking pass that would enable them to park in the very front of parking lots. For people over 60, this policy is:

- A. equitable and efficient, since it applies to all citizens over 60.
- B. equitable but not efficient, since it applies to all citizens over 60.
- C. efficient but not equitable, since it applies to all citizens over 60.
- D. neither equitable nor efficient.

Answer: B

218. The provision of disabled-parking passes to those with disabilities often requires that more than enough spaces be available for those with disabilities. As a result, many of these spaces are vacant quite often when they could be used by able-bodied individuals. Such a situation illustrates the:

- A. trade-off between efficiency and equity.
- B. trade-off between efficiency and specialization.
- C. ability of markets to provide efficient and equitable outcomes.
- D. power of the market to provide for equilibrium outcomes.

Answer: A

219. The existence of government intervention often suggests that:

- A. markets may not be able to provide for efficient results all of the time.
- B. individual actions have no side effects.
- C. equilibrium will be achieved through this intervention.
- D. markets can efficiently manage the allocation of goods.

Answer: A

220. Suppose small business owners decide to spend less. How will this affect an economy?

- A. It will have no impact, since this group makes up a small portion of any economy.
- B. It will decrease the level of income of other people, since one person's spending becomes someone else's income.
- C. It will cause prices for many goods to increase.
- D. It will increase the level of income in the economy, since other groups will spend more.

Answer: B

221. People who live in large cities decide to spend less in their day-to-day activities. As a result, this will most likely lead to:

- A. less income for other people in the economy.
- B. more income for other people in the economy.
- C. no impact on other people in the economy.
- D. inflation.

Answer: A

222. Too little spending in an economy often leads to:

- A. a recession.
- B. an inflation.
- C. equilibrium.
- D. efficiency.

Answer: A

223. If government decided to increase taxes or decrease its spending, most likely this was to correct:

- A. a recession.
- B. inflation.
- C. high unemployment.
- D. equilibrium.

Answer: B