**Chapter 1—What Economics Is About**

**MULTIPLE CHOICE**

1. The author of the text defines economics as the

|  |  |
| --- | --- |
| a. | science of efficiency. |
| b. | science of scarcity. |
| c. | study of markets. |
| d. | study of human activity. |

ANS: B PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

2. When economists speak of scarcity, they are referring to the

|  |  |
| --- | --- |
| a. | condition in which society is not employing all its resources in an efficient way. |
| b. | condition in which people's wants outstrip the limited resources available to satisfy those wants. |
| c. | economic condition that exists in only very poor countries of the world. |
| d. | condition in which society produces too many frivolous goods and not enough socially desirable goods. |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

3. Which of the following is *not* one of the four broad categories of resources?

|  |  |
| --- | --- |
| a. | labor |
| b. | government |
| c. | capital |
| d. | entrepreneurship |
| e. | land |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

4. Produced goods used as inputs for the production of other goods comprise the resource known as

|  |  |
| --- | --- |
| a. | natural resources. |
| b. | services. |
| c. | capital. |
| d. | entrepreneurship. |

ANS: C PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

5. *Entrepreneurship* is

|  |  |
| --- | --- |
| a. | the talent for organizing the use of land, labor and capital, among other things. |
| b. | skill in influencing government regulators and legislators. |
| c. | accumulated technical knowledge in using labor and capital. |
| d. | knowledge of the particular natural resources to be found in a given area. |

ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

6. Some years ago, chemists at 3M Corporation were trying to create a super-strong glue. Somehow they got their molecules twisted and came up with one of the weakest glues ever made. But, rather than pouring it down the drain, they tried coating some paper with it, and the "Post-It Note" was born. In this case, 3M was acting as a(n)

|  |  |
| --- | --- |
| a. | utility. |
| b. | rationer. |
| c. | entrepreneur. |
| d. | abstraction. |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

7. The physical and mental talents people bring to production processes comprise the resource called

|  |  |
| --- | --- |
| a. | entrepreneurship. |
| b. | natural resources. |
| c. | capital. |
| d. | labor. |

ANS: D PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

8. The headline in the newspaper reads "County Supervisors Debate Building New Schools." The headline relates closest to which economic concept?

|  |  |
| --- | --- |
| a. | goods and bads |
| b. | utility |
| c. | choice |
| d. | efficiency |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

9. The opportunity cost of attending college is

|  |  |
| --- | --- |
| a. | the money one spends on college tuition, books, and so forth. |
| b. | the highest valued alternative one forfeits to attend college. |
| c. | the least valued alternative one forfeits to attend college. |
| d. | equal to the salary one will earn when one graduates from college. |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

10. Here are three things you could do if you do not attend your neighbor's barbecue: watch television with some friends (you value this at $17), read a good novel (you value this at $14), or go in to work (you could earn $16 during the barbecue). The opportunity cost of going to your neighbor's barbecue is

|  |  |
| --- | --- |
| a. | $16, because this is the only alternative of the three where you actually receive a monetary payment. |
| b. | $14, because this is the lowest valued alternative forfeited. |
| c. | $17, because this is the highest valued alternative forfeited. |
| d. | $47, because this is the total dollar sum of the alternatives forfeited. |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Application

11. It usually takes less time to buy a six-pack of 7-Up, a loaf of bread, and a half-gallon of ice cream at a small convenience store (such as a 7-Eleven) than at a large, full-service grocery store. Which of the following persons is most likely to buy these items at a convenience store?

|  |  |
| --- | --- |
| a. | a person with high opportunity cost of time |
| b. | a person with low opportunity cost of time |
| c. | a person who is out of work |
| d. | There is not enough information to answer the question. |

ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

12. Minerals, animals, water and forests are all considered to be the resource known as

|  |  |
| --- | --- |
| a. | capital |
| b. | entrepreneurship |
| c. | labor |
| d. | land |
| e. | none of the above |

ANS: D PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

13. The higher the opportunity cost of attending college,

|  |  |
| --- | --- |
| a. | the more likely an individual will go to college. |
| b. | the more economics classes an individual will take at college. |
| c. | the fewer economics classes an individual will take at college. |
| d. | the less likely an individual will go to college. |

ANS: D PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension MSC: Economics 24/7

14. Which of the following is an example of a positive economic statement?

|  |  |
| --- | --- |
| a. | The U.S. public should devote more resources to education. |
| b. | The poor should pay lower taxes and the rich should pay higher taxes. |
| c. | Soap operas should be taken off television. |
| d. | If you drop a ball from the top of a building, it will fall to the ground. |

ANS: D PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

15. Attempts to determine "what is" are part of \_\_\_\_\_\_\_\_\_\_ economics.

|  |  |
| --- | --- |
| a. | positive |
| b. | normative |
| c. | positive and normative |
| d. | neither positive nor normative |

ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

16. Microeconomics is the branch of economics that deals with

|  |  |
| --- | --- |
| a. | highly aggregated markets or the entire economy. |
| b. | the production side of the economy, exclusively. |
| c. | the buying side of the economy, exclusively. |
| d. | human behavior and choices as they relate to relatively small units --- an individual, a firm, an industry. |

ANS: D PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

17. Which of the following is a microeconomics topic?

|  |  |
| --- | --- |
| a. | the study of how prices are determined in the computer industry |
| b. | the study of unemployment in the economy |
| c. | the study of how changes in the nation's money supply affect the nation's output |
| d. | a and c |
| e. | b and c |

ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

18. Which of the following is a *positive macroeconomics* statement?

|  |  |
| --- | --- |
| a. | The central bank should increase the nation's money supply. |
| b. | The increase in the nation's money supply helped push the nation's unemployment rate down in the short run. |
| c. | Ford Motor Company's new advertising campaign ended up hurting General Motors' sales. |
| d. | The local government ought to spend more on recreational facilities. |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

19. Which of the following is a *normative macroeconomics* statement?

|  |  |
| --- | --- |
| a. | The central bank should increase the nation's money supply. |
| b. | The increase in the nation's money supply helped push the nation's unemployment rate down in the short run. |
| c. | Ford Motor Company's new advertising campaign ended up hurting General Motors' sales. |
| d. | The local government ought to spend more on recreational facilities. |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

20. Which of the following is a *positive microeconomics* statement?

|  |  |
| --- | --- |
| a. | The central bank should increase the nation's money supply. |
| b. | The increase in the nation's money supply helped push the nation's unemployment rate down in the short run. |
| c. | Ford Motor Company's new advertising campaign ended up hurting General Motors's sales. |
| d. | The local government ought to spend more on recreational activities. |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

21. The condition in an economy that makes a "rationing device" a necessity is the fact that

|  |  |
| --- | --- |
| a. | the economy is organized around free markets. |
| b. | the economy is centrally planned by the government. |
| c. | scarcity exists. |
| d. | there are fewer types of goods than there are people in the economy. |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics | DISC: Reading and interpreting graphs KEY: Bloom's: Comprehension

22. The latest Lady Gaga album is available to be downloaded for $12.99. Is this price a rationing device?

|  |  |
| --- | --- |
| a. | No, the album will be sold to anyone having the required number of dollars. |
| b. | Yes, because the album will only be purchased by people who are willing and able to pay $12.99. |
| c. | No, for price to be a rationing device, it must be so high that only one unit of the item is sold. |
| d. | Yes, since that is a reasonable price. |

ANS: B PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

23. What is the most prominent rationing device you will likely find at your campus bookstore?

|  |  |
| --- | --- |
| a. | dollar price |
| b. | brute force |
| c. | anti-theft tags on the high-priced items |
| d. | none of the above |

ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

24. Economists believe that people's wants are

|  |  |
| --- | --- |
| a. | finite. |
| b. | infinite. |
| c. | irrational. |
| d. | unimportant because needs are more important than wants. |

ANS: B PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

25. In every economy people vie for the economy's rationing device, a process called

|  |  |
| --- | --- |
| a. | competition. |
| b. | entrepreneurship. |
| c. | marginal benefit. |
| d. | positive economics. |

ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

26. Scarcity means

|  |  |
| --- | --- |
| a. | wants are greater than the limited resources available to satisfy these wants. |
| b. | wants are less than the limited resources available to satisfy these wants. |
| c. | resources are infinite. |
| d. | wants are limited. |
| e. | both c and d |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

27. The need to make choices is most closely related to the concept of

|  |  |
| --- | --- |
| a. | opportunity cost. |
| b. | efficiency. |
| c. | inefficiency. |
| d. | utility. |
| e. | disutility. |

ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension NOT: New

28. Opportunity cost is the value of

|  |  |
| --- | --- |
| a. | the best (or most highly valued) forfeited alternative. |
| b. | the chosen alternative. |
| c. | a free good. |
| d. | all forfeited alternatives. |

ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Knowledge

29. In all cases, *positive economics* deals with

|  |  |
| --- | --- |
| a. | what is. |
| b. | what should be. |
| c. | relatively small units in the economy. |
| d. | aggregates or the entire economy. |

ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

30. In all cases, *normative economics* deals with

|  |  |
| --- | --- |
| a. | what is. |
| b. | what should be. |
| c. | relatively small units in the economy. |
| d. | the entire economy. |

ANS: B PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

31. In all cases, *microeconomics* deals with

|  |  |
| --- | --- |
| a. | what is. |
| b. | what should be. |
| c. | relatively small units in the economy. |
| d. | the entire economy. |

ANS: C PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

32. In all cases, *macroeconomics* deals with

|  |  |
| --- | --- |
| a. | what is. |
| b. | what should be. |
| c. | relatively small units in the economy. |
| d. | the entire economy. |

ANS: D PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

33. *Positive economics* is concerned with

|  |  |
| --- | --- |
| a. | value judgments. |
| b. | cause-effect relationships. |
| c. | observations that cannot be proved. |
| d. | both b and c |

ANS: B PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

34. *Normative economics* is concerned with

|  |  |
| --- | --- |
| a. | value judgments. |
| b. | opinions. |
| c. | cause-effect relationships. |
| d. | observations that can be proved. |
| e. | both a and b |

ANS: E PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

35. In economics, a synonym for *utility* is

|  |  |
| --- | --- |
| a. | usefulness. |
| b. | satisfaction. |
| c. | sacrifice. |
| d. | a service. |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Utility and consumer choice

KEY: Bloom's: Knowledge

36. The synonym economists commonly use for *additional* is

|  |  |
| --- | --- |
| a. | capital. |
| b. | rational. |
| c. | marginal. |
| d. | economic. |

ANS: C PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Marginal costs & benefits

KEY: Bloom's: Knowledge

37. Decision making "at the margin" means making a choice based on \_\_\_\_\_\_\_\_\_\_ of a decision.

|  |  |
| --- | --- |
| a. | the total benefits |
| b. | the total costs |
| c. | comparing the total benefits and costs |
| d. | comparing the additional benefits and costs |

ANS: D PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Marginal costs & benefits

KEY: Bloom's: Knowledge

38. Several years ago, a bookstore chain extended its closing time from 9 p.m. to 10 p.m. Now it is considering a further extension to 11 p.m. In making this marginal decision, the results of having gone from 9 p.m. to 10 p.m. are

|  |  |
| --- | --- |
| a. | no longer relevant to the current decision. |
| b. | relevant if the marginal costs and benefits were unequal. |
| c. | relevant since they are part of the calculation of total costs and benefits. |
| d. | relevant if the marginal costs and benefits were equal. |

ANS: A PTS: 1 DIF: Difficulty: Challenging

NAT: BUSPROG: Analytic LOC: DISC: Marginal costs & benefits

KEY: Bloom's: Application

39. At the optimal or efficient level of an activity, the activity’s marginal benefit must

|  |  |
| --- | --- |
| a. | be zero. |
| b. | be greater than zero. |
| c. | equal the marginal cost of the activity. |
| d. | exceed the marginal cost of the activity. |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Marginal costs & benefits

KEY: Bloom's: Comprehension

40. Which of the following is apositive economic statement?

|  |  |
| --- | --- |
| a. | The temperature is too high today. |
| b. | The temperature is 105 degrees today. |
| c. | It is too hot to jog today. |
| d. | I enjoy summer evenings when it cools off. |

ANS: B PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

41. In economics, scarcity implies

|  |  |
| --- | --- |
| a. | disutility. |
| b. | utility. |
| c. | choice. |
| d. | inefficiency. |
| e. | a, c, and d |

ANS: C PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

42. All sellers may be tempted to raise the price of what they sell, but a negative unintended effect of raising the price could be \_\_\_\_\_\_\_\_\_\_ in units sold large enough to \_\_\_\_\_\_\_\_\_\_ their total revenue earned.

|  |  |
| --- | --- |
| a. | an increase; raise |
| b. | an increase; lower |
| c. | a decrease; raise |
| d. | a decrease; lower |

ANS: D PTS: 1 DIF: Difficulty: Challenging

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

43. Most states have instituted mandatory seatbelt laws to reduce traffic fatalities. An economist may point out that an unintended effect of these laws is

|  |  |
| --- | --- |
| a. | an increase in the price of automobiles, further reducing fatalities. |
| b. | an increase in driving speed, reducing the number of accidents. |
| c. | a decrease in driving speed, further reducing fatalities. |
| d. | an increase in risky driving behavior, increasing fatalities. |

ANS: D PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

44. A mandatory seatbelt law ends up raising the number of traffic fatalities if it lowers fatalities per accident from 0.12 to 0.08 while raising the number of accidents per period from 400,000 to any more than

|  |  |
| --- | --- |
| a. | 480,000. |
| b. | 600,000. |
| c. | 660,000. |
| d. | 770,000. |

ANS: B PTS: 1 DIF: Difficulty: Challenging

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

45. A mandatory seatbelt law ends up raising the number of traffic fatalities if it lowers fatalities per accident from 0.11 to 0.08 while raising the number of accidents per period from 100,000 to any more than

|  |  |
| --- | --- |
| a. | 108,000. |
| b. | 111,111. |
| c. | 137,500. |
| d. | 110,000. |

ANS: C PTS: 1 DIF: Difficulty: Challenging

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

46. A mandatory seatbelt law ends up raising the number of traffic fatalities if it lowers fatalities per accident from 0.10 to 0.07 while raising the number of accidents per period from 35,000 to any more than

|  |  |
| --- | --- |
| a. | 35,000. |
| b. | 38,500. |
| c. | 37,450. |
| d. | 50,000. |

ANS: D PTS: 1 DIF: Difficulty: Challenging

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

47. The branch of economics that studies the decisions of individuals and firms is called

|  |  |
| --- | --- |
| a. | macroeconomics. |
| b. | microeconomics. |
| c. | microeconomics and macroeconomics. |
| d. | positive economics. |
| e. | normative economics. |

ANS: B PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

48. Which of the following would NOT be considered a *macroeconomic* topic?

|  |  |
| --- | --- |
| a. | the reasons for a decline in the price of crude oil |
| b. | the cause of a downturn in the economy |
| c. | the effect of the government budget deficit on inflation |
| d. | the causes of inflation and unemployment |

ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

49. Which of the following statements is *false*?

|  |  |
| --- | --- |
| a. | There are always opportunity costs to making choices. |
| b. | Because of scarcity, choices must be made. |
| c. | Elementary education at public schools is free. |
| d. | When government builds a new highway, taxpayers end up with less of some of the things they would otherwise have. |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Analysis

50. Which of the following issues is most *unlikely* to be addressed by an economist practicing positive economics?

|  |  |
| --- | --- |
| a. | the relationship between the minimum wage and the number of unemployed unskilled workers |
| b. | the effect of a minimum wage increase on inner-city crime rates |
| c. | the desirability of a minimum wage increase |
| d. | the consequences of implementing a minimum wage law in China |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

51. The question of how a tax change might impact U.S. economic output is most closely associated with the study of

|  |  |
| --- | --- |
| a. | microeconomics. |
| b. | managerial economics. |
| c. | macroeconomics. |
| d. | consumer economics. |

ANS: C PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

52. Amy's opportunity cost of going to the movies is

|  |  |
| --- | --- |
| a. | the price of the ticket. |
| b. | zero, if she has a free pass. |
| c. | the price of the ticket plus the value to Amy of what she would have chosen to do with her time had she not chosen to go to the movies. |
| d. | both b and c |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Application

53. The opportunity cost of attending college

|  |  |
| --- | --- |
| a. | consists of the tuition costs only. |
| b. | consists of the tuition costs plus the costs of room and board and other expenses. |
| c. | is zero, if the student receives a scholarship that covers the costs of tuition, room and board, and other expenses. |
| d. | varies from person to person. |
| e. | both b and c |

ANS: D PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Application

54. Prior to attending college, Darius is offered a lucrative four-year contract as an actor in a daytime soap opera. Assuming that acting and attending college are Darius' preferred alternatives and that he must choose between the two, his cost of attending college after receiving the offer

|  |  |
| --- | --- |
| a. | increases. |
| b. | decreases. |
| c. | stays the same. |
| d. | increases or stays the same depending on whether he accepts the offer. |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Application

55. If it is discovered that using drugs enhances a person's chance of contracting a lethal disease, the cost of using drugs

|  |  |
| --- | --- |
| a. | increases. |
| b. | decreases. |
| c. | is not affected. |
| d. | is irrelevant, since they are illegal anyway. |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Application

56. The study of an economy's price level is explicitly a part of

|  |  |
| --- | --- |
| a. | macroeconomics. |
| b. | microeconomics. |
| c. | positive economics. |
| d. | normative economics. |

ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

57. Opportunity cost is the \_\_\_\_\_\_\_\_\_\_ alternative forfeited when a choice is made.

|  |  |
| --- | --- |
| a. | least-valued |
| b. | most highly-valued |
| c. | most convenient |
| d. | most recently considered |

ANS: B PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Knowledge

58. In an interview an economist states, "This problem should be of greater concern to the federal government." We can explicitly put this statement in the category of

|  |  |
| --- | --- |
| a. | microeconomics. |
| b. | macroeconomics. |
| c. | positive economics. |
| d. | normative economics. |

ANS: D PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

59. The absence of value judgments is the essence of

|  |  |
| --- | --- |
| a. | normative economics. |
| b. | positive economics. |
| c. | microeconomics. |
| d. | macroeconomics. |

ANS: B PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

60. If variable X goes up as variable Y goes down, then X and Y are

|  |  |
| --- | --- |
| a. | directly related. |
| b. | inversely related. |
| c. | independent. |
| d. | positively related. |

ANS: B PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Comprehension MSC: Appendix A

61. If variable X goes down as variable Y goes down, then X and Y are

|  |  |
| --- | --- |
| a. | directly related. |
| b. | negatively related. |
| c. | inversely related. |
| d. | independent. |

ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Comprehension MSC: Appendix A

62. Two variables are independent if as one variable \_\_\_\_\_\_\_\_\_\_, the other variable \_\_\_\_\_\_\_\_\_\_.

|  |  |
| --- | --- |
| a. | rises; rises. |
| b. | falls; falls. |
| c. | rises; falls. |
| d. | changes; does not change. |

ANS: D PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Comprehension MSC: Appendix A

63. The concept that relates how much one variable changes as another variable changes is

|  |  |
| --- | --- |
| a. | slope. |
| b. | line. |
| c. | curve. |
| d. | graph. |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Knowledge MSC: Appendix A

64. Let X be the number of hours you spend studying for an exam on Wednesday afternoon and Y be your chances of winning the Wednesday night state lottery. What kind of a relationship do you most likely expect between X and Y?

|  |  |
| --- | --- |
| a. | direct |
| b. | inverse |
| c. | linear |
| d. | 45-degree line |
| e. | independent |

ANS: E PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Comprehension MSC: Appendix A

65. Scarcity is defined as the condition in which

|  |  |
| --- | --- |
| a. | both wants and resources are limited. |
| b. | wants are finite and resources infinite. |
| c. | both wants and resources are infinite. |
| d. | wants are infinite and resources finite. |

ANS: D PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Knowledge

66. The reason people can't have everything they want is because

|  |  |
| --- | --- |
| a. | people are selfish. |
| b. | scarcity exists. |
| c. | there is not enough economic growth in the world. |
| d. | none of the above |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

67. In the text, economics is defined as the science of

|  |  |
| --- | --- |
| a. | money and business. |
| b. | choices. |
| c. | scarcity. |
| d. | price. |
| e. | individuals' actions. |

ANS: C PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

68. Something that provides utility is called a

|  |  |
| --- | --- |
| a. | good. |
| b. | bad. |
| c. | want. |
| d. | need. |
| e. | a and d |

ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Utility and consumer choice

KEY: Bloom's: Knowledge

69. Something that provides disutility is called a

|  |  |
| --- | --- |
| a. | good. |
| b. | want. |
| c. | need. |
| d. | bad. |
| e. | none of the above |

ANS: D PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Utility and consumer choice

KEY: Bloom's: Knowledge

70. A good provides \_\_\_\_\_\_\_\_\_\_ and a bad provides \_\_\_\_\_\_\_\_\_\_.

|  |  |
| --- | --- |
| a. | utility; satisfaction |
| b. | disutility; utility |
| c. | dissatisfaction; satisfaction |
| d. | utility; disutility |
| e. | satisfaction; utility |

ANS: D PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Utility and consumer choice

KEY: Bloom's: Knowledge

71. Which of the following statements is *false*?

|  |  |
| --- | --- |
| a. | To an economist, the resource *land* includes natural resources such as minerals, forests, water and unimproved land. |
| b. | To an economist, the resource *capital* consists of unproduced goods that can be turned into produced goods. |
| c. | To an economist, the resource *labor* consists of the physical and mental talents people contribute to the production process. |
| d. | To an economist, the resource *entrepreneurship* refers to a particular talent that some people have for organizing the resources of land, labor, and capital to produce goods, seek new business opportunities, and develop new ways of doing things. |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

72. A person goes into a store and buys a computer for $1,210. In this case, price is acting as a

|  |  |
| --- | --- |
| a. | resource. |
| b. | good. |
| c. | rationing device. |
| d. | capital instrument. |
| e. | factor of production. |

ANS: C PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

73. If people want more cars than there are cars available, then it is necessarily true that

|  |  |
| --- | --- |
| a. | cars are scarce. |
| b. | there is a surplus of cars. |
| c. | there is a decreased supply of cars. |
| d. | none of the above |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

74. Why do societies need rationing devices?

|  |  |
| --- | --- |
| a. | Because people have too many needs and not enough wants. |
| b. | Because price exists. |
| c. | Because scarcity exists. |
| d. | Because people have opportunity costs. |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

75. How is scarcity related to competition?

|  |  |
| --- | --- |
| a. | Competition is an effect of scarcity. |
| b. | Scarcity is an effect of competition. |
| c. | Both scarcity and competition are effects of a rationing device. |
| d. | Both scarcity and competition are effects of opportunity cost. |
| e. | Scarcity produces disutility and competition produces utility. |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

76. Every time you make a \_\_\_\_\_\_\_\_\_\_, you incur a (an) \_\_\_\_\_\_\_\_\_\_.

|  |  |
| --- | --- |
| a. | decision; unintended effect |
| b. | choice; opportunity cost |
| c. | competitive move; price |
| d. | decision; mistake |
| e. | none of the above |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

77. "If you hadn't gone to dinner with your friends, you would have stayed home and surfed the Internet." It follows that

|  |  |
| --- | --- |
| a. | surfing the Internet is the opportunity cost of having dinner with your friends. |
| b. | the price of having dinner with your friends is more than the price you would have had to pay to surf the Internet. |
| c. | the opportunity cost of having dinner with your friends is lower than the opportunity cost of surfing the Internet. |
| d. | it is less costly to surf the Internet than to have dinner with your friends. |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Application

78. The \_\_\_\_\_\_\_\_\_\_ the opportunity cost of doing something, the \_\_\_\_\_\_\_\_\_\_ likely a person will do that something.

|  |  |
| --- | --- |
| a. | lower; less |
| b. | lower; more |
| c. | higher; more |
| d. | higher; less |
| e. | b and d |

ANS: E PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

79. If scarcity didn't exist, neither would

|  |  |
| --- | --- |
| a. | rationing devices. |
| b. | competition. |
| c. | labor. |
| d. | capital. |
| e. | a and b |

ANS: E PTS: 1 DIF: Difficulty: Challenging

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

80. The cost of building a new interstate highway system is reported to be high at $25 billion. Does it necessarily follow that the interstate highway is not worth building?

|  |  |
| --- | --- |
| a. | Yes, because it is better to spend $25 billion on ending poverty than on building another interstate highway system. |
| b. | No, because building a new interstate highway system promotes economic growth, which helps everyone. |
| c. | No, because the benefits of building a new interstate highway system may be greater than $25 billion. |
| d. | Yes, because the benefits of building a new interstate highway system may be greater than $25 billion. |

ANS: C PTS: 1 DIF: Difficulty: Challenging

NAT: BUSPROG: Analytic LOC: DISC: Marginal costs & benefits

KEY: Bloom's: Comprehension

81. Which of the following statements is true?

|  |  |
| --- | --- |
| a. | Oil is classified in the resource category land. |
| b. | A person working for a company is classified in the resource category capital. |
| c. | A machine in a factory is classified in the resource category land. |
| d. | A person with the particular talent for organizing the resources of land, labor, and capital to produce goods, seek new business opportunities, and develop new ways of doing things is classified in the resource category labor. |
| e. | a and d |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

82. Saying "the marginal costs are greater than the marginal benefits" is the same as saying

|  |  |
| --- | --- |
| a. | the average costs are greater than the average benefits. |
| b. | the total costs are greater than the average benefits. |
| c. | the benefits are greater than the costs. |
| d. | the additional costs are greater than the additional benefits. |
| e. | the costs minus the benefits equal the net costs. |

ANS: D PTS: 1 DIF: Difficulty: Challenging

NAT: BUSPROG: Analytic LOC: DISC: Marginal costs & benefits

KEY: Bloom's: Comprehension

83. What does it mean if a person makes a "decision at the margin"?

|  |  |
| --- | --- |
| a. | The person compares additional benefits and additional costs when deciding what to do. |
| b. | The person weighs the good against the bad and then decides what to do. |
| c. | The person is more likely to say yes than to say no. |
| d. | The person compares marginal benefits and total costs and then decides what to do. |
| e. | The person makes a decision based on a condition. |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Marginal costs & benefits

KEY: Bloom's: Comprehension

84. Is it possible for mandatory seatbelt laws to increase vehicle fatalities?

|  |  |
| --- | --- |
| a. | Yes, if the number of accidents increases by a greater percentage than the number of deaths per accident decreases. |
| b. | No, because wearing seatbelts decreases the number of deaths per accident. |
| c. | No, because wearing seatbelts decreases the number of accidents. |
| d. | There is not enough information to answer the question. |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

85. Which of the following is a *positive* economic statement?

|  |  |
| --- | --- |
| a. | We should raise the minimum wage in order to provide a decent wage for more people. |
| b. | Consumers bought fewer cars when the relative price of cars increased. |
| c. | The budget deficit has been rising in recent years. |
| d. | Federal government spending ought to be curtailed. |
| e. | b and c |

ANS: E PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

86. Which of the following statements is *false*?

|  |  |
| --- | --- |
| a. | Microeconomics is the branch of economics that deals with human behavior and choices as they relate to relatively small units-an individual, a firm, an industry, and a single market. |
| b. | Macroeconomics is the branch of economics that deals with human behavior and choices as they relate to highly aggregate markets. |
| c. | Positive economics attempts to determine what is. |
| d. | Normative economics addresses what should be. |
| e. | Positive and normative economics both address what should be. |

ANS: E PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

87. Which of the following is least likely to be an effect of scarcity?

|  |  |
| --- | --- |
| a. | rationing device |
| b. | choice |
| c. | opportunity cost |
| d. | dollar price |
| e. | utility |

ANS: E PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

88. How are changes in opportunity cost predicted to affect behavior?

|  |  |
| --- | --- |
| a. | The lower the opportunity cost of doing X, the less likely X will be done. |
| b. | The higher the opportunity cost of doing X, the less likely X will be done. |
| c. | The lower the opportunity cost of doing X, the more likely X will be done. |
| d. | a and c |
| e. | b and c |

ANS: E PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

89. In most societies, dollar price acts as the main rationing device. If dollar price weren't the main rationing device, would there still be a need for some rationing device to take its place?

|  |  |
| --- | --- |
| a. | No, because with dollar price there would be no scarcity, although shortages would still exist. |
| b. | Yes, because there is a need for a rationing device as long as scarcity exists. |
| c. | Yes, because there is a need for a rationing device as long as the world's population is so large. |
| d. | No, because dollar price creates scarcity and without money price scarcity wouldn't exist. |
| e. | none of the above |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Analysis

90. Which of the following statements is *false*?

|  |  |
| --- | --- |
| a. | Capital consists of produced goods that can be used as inputs for further production. |
| b. | The terms *resources*, *inputs,* and *factors of production* are synonyms. |
| c. | Labor consists of the physical, but not mental, talents of people who contribute to the production process. |
| d. | Entrepreneurship is one of the four categories of resources. |
| e. | The resource category land includes natural resources, such as minerals, forests, water, and unimproved land. |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

91. Deciding at the margin is \_\_\_\_\_\_\_\_\_\_ an all-or-nothing decision.

|  |  |
| --- | --- |
| a. | consistent with |
| b. | inconsistent with |
| c. | the same as making |
| d. | conditioned upon making |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Marginal costs & benefits

KEY: Bloom's: Comprehension

92. Which of the following is an unintended effect of placing safety caps on medicines?

|  |  |
| --- | --- |
| a. | It is now harder for people to open their medicine containers. |
| b. | People leave their medicine containers open more often, which ends up making it easier for children to get into the medicine. |
| c. | Fewer people get sick and need medicine. |
| d. | Medicine prices fall sharply. |

ANS: B PTS: 1 DIF: Difficulty: Challenging

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

93. Variable X rises as a result of variable Y rising. Variables X and Y are

|  |  |
| --- | --- |
| a. | inversely related. |
| b. | directly related. |
| c. | independent of each other. |
| d. | smoothly related. |
| e. | none of the above |

ANS: B PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Comprehension MSC: Appendix A

94. In general, there is a \_\_\_\_\_\_\_\_\_\_\_\_\_\_ relationship between the number of hours spent studying for a test and the grade earned on the test.

|  |  |
| --- | --- |
| a. | independent |
| b. | direct |
| c. | inverse |
| d. | smooth |

ANS: B PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Comprehension MSC: Appendix A NOT: New

95. Variables X and Y are independent of each other. If we plot X on the horizontal axis and Y on the vertical axis, the line that connects combinations of X and Y in a two-variable diagram is

|  |  |
| --- | --- |
| a. | parallel to the horizontal axis. |
| b. | downward-sloping (left to right). |
| c. | parallel to the vertical axis. |
| d. | upward-sloping (left to right). |
| e. | a or c |

ANS: E PTS: 1 DIF: Difficulty: Challenging

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Comprehension MSC: Appendix A

96. Variables A and B are inversely related. If we plot A on the horizontal axis and B on the vertical axis, the line that connects combinations of A and B in a two-variable diagram is

|  |  |
| --- | --- |
| a. | parallel to the horizontal axis. |
| b. | downward-sloping (left to right). |
| c. | parallel to the vertical axis. |
| d. | upward-sloping (left to right). |
| e. | a or c |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Comprehension MSC: Appendix A

97. Variables A and B are directly related. If we plot A on the horizontal axis and B on the vertical axis, the line that connects combinations of A and B in a two-variable diagram is

|  |  |
| --- | --- |
| a. | parallel to the horizontal axis. |
| b. | downward-sloping (left to right). |
| c. | parallel to the vertical axis. |
| d. | upward-sloping (left to right). |
| e. | a or c |

ANS: D PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Comprehension MSC: Appendix A

98. The coordinates of point A are 20 units of X and 40 units of Y. The coordinates of point B are 22 units of X and 30 units of Y. With X on the horizontal axis and Y on the vertical axis, the slope of the line between points A and B is

|  |  |
| --- | --- |
| a. | + 5.00 |
| b. | + .20 |
| c. | + 0.33 |
| d. | - 0.20 |
| e. | - 5.00 |

ANS: E PTS: 1 DIF: Difficulty: Challenging

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Application MSC: Appendix A NOT: New

99. A line is parallel to the vertical axis. The slope of the line is

|  |  |
| --- | --- |
| a. | zero. |
| b. | infinite. |
| c. | indicative of an inverse relationship between two variables. |
| d. | indicative of a direct relationship between two variables. |
| e. | b and d |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Comprehension MSC: Appendix A

100. A line is parallel to the horizontal axis. The slope of the line is

|  |  |
| --- | --- |
| a. | infinite. |
| b. | indicative of an inverse relationship between two variables. |
| c. | indicative of a direct relationship between two variables. |
| d. | zero. |
| e. | b and d |

ANS: D PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Comprehension MSC: Appendix A

101. By looking at the different slices of a pie chart, and comparing one slice to another, it is possible to quickly estimate

|  |  |
| --- | --- |
| a. | relative relationships. |
| b. | absolute relationships. |
| c. | the slope of a line. |
| d. | the slope of a curve. |
| e. | none of the above |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Comprehension MSC: Appendix A

102. A characteristic of a 45-degree line is that

|  |  |
| --- | --- |
| a. | any point on the line is equidistant from the two axes. |
| b. | it bisects a right angle. |
| c. | its slope is 1. |
| d. | a and c |
| e. | a, b, and c |

ANS: E PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Knowledge MSC: Appendix A

103. The answer is, "This is principally used to exhibit changes in data over time." The question is,

|  |  |
| --- | --- |
| a. | What is a pie chart? |
| b. | What is a 45-degree line? |
| c. | What is a tangent line? |
| d. | What is a line graph? |
| e. | b and d |

ANS: D PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Knowledge MSC: Appendix A

104. Which of the following is a possible rationing device?

|  |  |
| --- | --- |
| a. | dollar price |
| b. | first-come-first-served |
| c. | brute force |
| d. | a and b |
| e. | a, b, and c |

ANS: E PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

**Exhibit 1-1**



105. Refer to Exhibit 1-1. The student whose study habits are illustrated here will maximize the net benefits of studying when she has studied

|  |  |
| --- | --- |
| a. | 2 hours |
| b. | 4 hours |
| c. | 6 hours |
| d. | 8 hours |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Marginal costs & benefits

KEY: Bloom's: Application

106. Refer to Exhibit 1-1. If the student whose study habits are illustrated here is currently studying for the 8th hour, she should

|  |  |
| --- | --- |
| a. | cut back on the number of hours she is studying because the marginal benefit of studying for the 8th hour is less than the marginal cost of doing so. |
| b. | cut back on the number of hours she is studying because the marginal benefit of studying for the 8th greater than the marginal cost of doing so. |
| c. | increase the number of hours she is studying because the marginal benefit of studying for the 8th hour is less than the marginal cost of doing so. |
| d. | increase the number of hours she is studying because the marginal benefit of studying for the 8th hour is greater than the marginal cost of doing so. |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Marginal costs & benefits

KEY: Bloom's: Application

107. Refer to Exhibit 1-1. If the student whose study habits are illustrated here is currently studying for the 2nd hour she should

|  |  |
| --- | --- |
| a. | cut back on the number of hours she is studying because the marginal benefit of studying for the 2nd hour is less than the marginal cost of doing so. |
| b. | cut back on the number of hours she is studying because the marginal benefit of studying for the 2nd hour is greater than the marginal cost of doing so. |
| c. | increase the number of hours she is studying because the marginal benefit of studying for the 2nd hour is less than the marginal cost of doing so. |
| d. | increase the number of hours she is studying because the marginal benefit of studying for the 2ndhour is greater than the marginal cost of doing so. |

ANS: D PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Marginal costs & benefits

KEY: Bloom's: Application

108. To an economist, *utility* means:

|  |  |
| --- | --- |
| a. | additional. |
| b. | usefulness. |
| c. | satisfaction. |
| d. | marginal. |

ANS: C PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Utility and consumer choice

KEY: Bloom's: Knowledge

109. According to economists, competition exists because of

|  |  |
| --- | --- |
| a. | scarcity. |
| b. | capitalism. |
| c. | money. |
| d. | unintended effects. |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

110. Many people buy one newspaper per day, but rarely do they buy two of the same newspapers on the same day. What is the economic justification for this behavior?

|  |  |
| --- | --- |
| a. | The marginal benefit of purchasing the second newspaper exceeds the marginal cost of purchasing that paper. |
| b. | The marginal cost of purchasing the second newspaper exceeds the marginal benefit of purchasing that paper. |
| c. | The marginal benefit of purchasing the second newspaper equals the marginal cost of purchasing that paper. |
| d. | none of the above is an appropriate economic justification for this behavior. |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Marginal costs & benefits

KEY: Bloom's: Application

**Exhibit 1-2**

|  |  |  |
| --- | --- | --- |
| **Point** | **X** | **Y** |
| *A* | 10 | 100 |
| *B* | 20 | 115 |
| *C* | 30 | 135 |
| *D* | 40 | 165 |

111. Refer to Exhibit 1-2. According to the data provided in this table, what is the slope of the line between points A and B, if these data were graphed with X on the horizontal axis and Y on the vertical axis?

|  |  |
| --- | --- |
| a. | -1.50 |
| b. | -0.67 |
| c. | 1.50 |
| d. | 0.67 |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Application MSC: Appendix A NOT: New

112. Refer to Exhibit 1-2. According to the data provided in this table, what is the slope of the line between points C and D, if these data were graphed with X on the horizontal axis and Y on the vertical axis?

|  |  |
| --- | --- |
| a. | -3.00 |
| b. | -0.33 |
| c. | 3.00 |
| d. | 0.33 |
| e. | none of the above |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Application MSC: Appendix A NOT: New

113. Refer to Exhibit 1-2. Based on the data provided in this table, if these data were plotted in a two-variable diagram the result would be a \_\_\_\_\_\_\_\_\_\_\_\_\_\_ sloping \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

|  |  |
| --- | --- |
| a. | downward; (nonlinear) curve. |
| b. | downward; (straight) line. |
| c. | upward; (nonlinear) curve. |
| d. | upward; (straight) line. |
| e. | none of the above |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Application MSC: Appendix A NOT: New

114. Refer to Exhibit 1-2. Based on the data provided in this table, what type of relationship exists between variables X and Y?

|  |  |
| --- | --- |
| a. | inverse |
| b. | direct |
| c. | independent |
| d. | There is no relationship between variables X and Y. |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Application MSC: Appendix A NOT: New

**Exhibit 1-3**

|  |  |  |
| --- | --- | --- |
| **Point** | **X** | **Y** |
| *A* | 5 | 8 |
| *B* | 10 | 6 |
| *C* | 15 | 4 |
| *D* | 20 | 2 |

115. Refer to Exhibit 1-3. According to the data provided in this table, what is the slope of the line between points C and D (if these data were graphed with X on the horizontal axis and Y on the vertical axis)?

|  |  |
| --- | --- |
| a. | -0.40 |
| b. | -2.50 |
| c. | 0.40 |
| d. | 2.50 |
| e. | none of the above |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Application MSC: Appendix A NOT: New

116. Refer to Exhibit 1-3. According to the data provided in this table, what is the slope of the line between points A and B, if these data were graphed with X on the horizontal axis and Y on the vertical axis?

|  |  |
| --- | --- |
| a. | -0.40 |
| b. | -2.50 |
| c. | 0.40 |
| d. | 2.50 |
| e. | none of the above |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Application MSC: Appendix A NOT: New

117. Refer to Exhibit 1-3. Based on the data provided in this table, if these data were plotted in a two-variable diagram the result would be a \_\_\_\_\_\_\_\_\_\_\_\_\_\_ sloping

|  |  |
| --- | --- |
| a. | downward; (nonlinear) curve. |
| b. | downward; (straight) line. |
| c. | upward; (nonlinear) curve. |
| d. | upward; (straight) line. |
| e. | none of the above |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Application MSC: Appendix A NOT: New

118. Refer to Exhibit 1-3. Based on the data provided in this table, what type of relationship exists between variables X and Y?

|  |  |
| --- | --- |
| a. | inverse |
| b. | direct |
| c. | independent |
| d. | There is no relationship between variables X and Y. |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Application MSC: Appendix A NOT: New

119. A theory is

|  |  |
| --- | --- |
| a. | built on the major factors or variables that the theorist believes explain some event. |
| b. | a simplified abstract representation of the real world. |
| c. | used to understand the real world. |
| d. | a and b |
| e. | a, b, and c |

ANS: E PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: Understanding and applying economic models KEY: Bloom's: Knowledge

120. *Ceteris paribus* means

|  |  |
| --- | --- |
| a. | one variable too many. |
| b. | the correct relationship specified. |
| c. | assuming economic motives. |
| d. | all other things held constant or nothing else changes. |

ANS: D PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: Understanding and applying economic models KEY: Bloom's: Knowledge

121. Which of the following statements uses the term *ceteris paribus* correctly?

|  |  |
| --- | --- |
| a. | In economics, there are numerous theories, *ceteris paribus*. |
| b. | New York City is a major American city, *ceteris paribus*. |
| c. | The price of pineapples is low in Hawaii, *ceteris paribus*. |
| d. | The more ice cream you eat, the more weight you will gain, *ceteris paribus*. |
| e. | none of the above |

ANS: D PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: Understanding and applying economic models KEY: Bloom's: Comprehension

122. If an economist says "the higher the price of oranges, the fewer oranges individuals will buy, *ceteris paribus*," this means that

|  |  |
| --- | --- |
| a. | individuals don't like high-priced oranges. |
| b. | as the price of oranges rises, individuals' preferences change and they no longer like oranges as much as they once did. |
| c. | as the price of oranges rises, individuals' preferences do not change, nor does anything else, but individuals buy fewer oranges in response to the higher price of oranges. |
| d. | the higher the price of oranges, the fewer oranges individuals will buy, assuming that people have economic motives. |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: Understanding and applying economic models KEY: Bloom's: Comprehension

123. The purpose of the *ceteris paribus* condition is to allow economists to

|  |  |
| --- | --- |
| a. | determine the relationship among several variables. |
| b. | determine the impact of several variables on another variable. |
| c. | isolate the impact of one variable on several variables. |
| d. | isolate the relationship between two variables. |

ANS: D PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: Understanding and applying economic models KEY: Bloom's: Knowledge

124. The condition often used in economics to isolate the relationship between two variables is

|  |  |
| --- | --- |
| a. | causation. |
| b. | abstraction. |
| c. | *ceteris paribus*. |
| d. | efficiency. |

ANS: C PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: Understanding and applying economic models KEY: Bloom's: Knowledge

125. A three-word synonym for the term *ceteris paribus* is

|  |  |
| --- | --- |
| a. | "nothing else changes." |
| b. | "in my opinion." |
| c. | "it is proved." |
| d. | "under this assumption." |

ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: Understanding and applying economic models KEY: Bloom's: Knowledge

126. Which statement uses the term *ceteris paribus* correctly?

|  |  |
| --- | --- |
| a. | If you exercise regularly, you will be healthier, *ceteris paribus*. |
| b. | Blue is to green, *ceteris paribus*, as red is to purple. |
| c. | Most people consider Sunday to be the first day of the week, *ceteris paribus*. |
| d. | Interest rates usually rise in October, *ceteris paribus*. |
| e. | a and d |

ANS: A PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: Understanding and applying economic models KEY: Bloom's: Comprehension

127. Economists use the *ceteris paribus* assumption primarily in order to

|  |  |
| --- | --- |
| a. | make their analyses easier for them to conduct. |
| b. | designate what they believe is the correct relationship between two variables. |
| c. | explain why people sometimes consume more of a good when its price rises. |
| d. | explain why those things that come first do not necessarily cause those things that come later. |
| e. | designate the difference between normative and positive economics. |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: Understanding and applying economic models KEY: Bloom's: Comprehension

128. A theory is an abstract representation of reality. This means a theory

|  |  |
| --- | --- |
| a. | is descriptive of the way the world is. |
| b. | is an unrealistic representation of reality. |
| c. | omits certain factors when trying to explain something. |
| d. | is usually expressed in professional jargon. |
| e. | none of the above |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: Understanding and applying economic models KEY: Bloom's: Comprehension

129. Efficiency is consistent with

|  |  |
| --- | --- |
| a. | maximizing net benefits. |
| b. | equating marginal benefits and marginal costs. |
| c. | maximizing total benefits. |
| d. | minimizing total costs. |
| e. | a and b |

ANS: E PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

130. Which of the following is *not* one of the four broad categories of resources?

|  |  |
| --- | --- |
| a. | labor |
| b. | money |
| c. | capital |
| d. | entrepreneurship |
| e. | land |

ANS: B PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

131. Here are three things you could do if you choose not to go to class one day next week: sleep later (you value this at $15), hang out with friends (you value this at $14), or go in to work (you could earn $12 during class). The opportunity cost of going to class is

|  |  |
| --- | --- |
| a. | $12, because this is the only alternative of the three where you actually receive a monetary payment. |
| b. | $12, because this is the lowest valued alternative forfeited. |
| c. | $15, because this is the highest valued alternative forfeited. |
| d. | $41, because this is the total dollar sum of the alternatives forfeited. |

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

132. The coordinates of point A are 300 units of X and 40 units of Y. The coordinates of point B are 280 units of X and 30 units of Y. With X on the horizontal axis and Y on the vertical axis, the slope of the line between points A and B is

|  |  |
| --- | --- |
| a. | + 0.50 |
| b. | + 2.00 |
| c. | + 0.33 |
| d. | - 2.00 |
| e. | - 0.50 |

ANS: A PTS: 1 DIF: Difficulty: Challenging

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Application MSC: Appendix A NOT: New

133. The coordinates of point A are 50 units of X and 70 units of Y. The coordinates of point B are 46 units of X and 76 units of Y. With X on the horizontal axis and Y on the vertical axis, the slope of the line between points A and B is

|  |  |
| --- | --- |
| a. | + 1.50 |
| b. | + 0.67 |
| c. | + 0.33 |
| d. | - 1.50 |
| e. | - 0.67 |

ANS: D PTS: 1 DIF: Difficulty: Challenging

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Application MSC: Appendix A NOT: New

134. Something that motivates or encourages people to take an action is referred to as a(n)

|  |  |
| --- | --- |
| a. | utility. |
| b. | abstract. |
| c. | market. |
| d. | incentive. |

ANS: D PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge NOT: New

**TRUE/FALSE**

1. The branch of economics that studies the decisions made by individuals and firms is called *macroeconomics*.

ANS: F PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

2. Macroeconomics deals with issues involving large corporations, while microeconomics exclusively deals with issues involving small businesses.

ANS: F PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

3. The effect of a decrease in interest rates upon economic growth is an example of positive economics.

ANS: T PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

4. Economists use the word *utility* to describe the satisfaction one receives from a good.

ANS: T PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Utility and consumer choice

KEY: Bloom's: Knowledge

5. If variable X rises as variable Y falls, then X and Y have an inverse relationship.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Comprehension MSC: Appendix A

6. In the text, economics is defined as the science of scarcity.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Knowledge

7. In economics, capital is defined as a financial asset such as stocks and bonds.

ANS: F PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

8. A rationing device is a method used to resolve who gets what.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Knowledge

9. When a person is making a decision at the margin he or she is comparing the additional benefit of that activity to the additional cost of the proposed action.

ANS: T PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Marginal costs & benefits

KEY: Bloom's: Knowledge

10. Economists use the terms *resource* and *input* as synonyms.

ANS: T PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

11. To an economist, the terms *factor* and *resource* are synonyms.

ANS: T PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

12. According to economists, money is a resource.

ANS: F PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

13. The higher the opportunity cost of doing something, the more likely it will be done.

ANS: F PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Knowledge

14. Price is the only rationing device that can be used in a modern economy.

ANS: F PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Scarcity, tradeoffs, and opportunity cost

KEY: Bloom's: Comprehension

15. The resource termed *labor* consists of the physical, but not the mental, talents that people contribute to the production process.

ANS: F PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

16. Economists sometimes refer to the resource category *land* as *natural resources.*

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

17. Scarcity affects everyone, even billionaires.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

18. If someone gives you a free ticket to the movies, then there is no opportunity cost involved with going to the movies.

ANS: F PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

19. According to the text, British soldiers were required to wear bright red coats during the Revolutionary War in order to make it easier to find deserters.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge MSC: Economics 24/7

20. Some economic studies have shown that mandatory seat belt laws do not lead to a reduction in traffic fatalities.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge MSC: Economics 24/7

21. The slope of a horizontal line is always equal to zero.

ANS: T PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge MSC: Appendix A

22. The slope of a curve varies from one point to another.

ANS: T PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Comprehension MSC: Appendix A

23. The slope of a straight line is always equal to either 1.0 or -1.0.

ANS: F PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic LOC: DISC: Reading and interpreting graphs

KEY: Bloom's: Comprehension MSC: Appendix A

24. Scarcity occurs in both wealthy societies and poor societies.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension NOT: New

**ESSAY**

1. Describe at least three of the key concepts in economics introduced in Chapter 1 of the text that define how an economist views the world.

ANS:

Economists view the world using a number of key concepts. A few of these concepts introduced in Chapter 1 are: (a) goods and bads; (b) resources; (c) scarcity; (d) opportunity cost; (e) benefits and costs; (f) decisions made at the margin; (g) efficiency; (h) incentives: (i) unintended effects; (j) exchange.

PTS: 1 DIF: Difficulty: Challenging NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Knowledge

2. What is the difference between macroeconomics and microeconomics? Give an example of a question that a macroeconomist might be interested in answering, then do the same for a microeconomist.

ANS:

Macroeconomics is the branch of economics that looks at human behavior and choices as they relate to the entire economy. Microeconomics deals with human behavior and choices as they relate to relatively small units ---an individual, a firm, an industry, a single market. A macroeconomist would be concerned about questions that impact the whole economy such as, "How will the proposed tax cut affect unemployment, inflation and economic growth?" A microeconomist would ask questions that relate to the various parts that make up the economy such as, "How will the drought impact the price of corn?"

PTS: 1 DIF: Difficulty: Moderate NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Analysis

3. Describe the difference between positive and normative economics. Cite an example of each.

ANS:

Positive economics deals with "what is." Normative economics is concerned with "what should be." A positive economist would look at the impact of an increase in minimum wage on the growth of the economy, while a normative economist would focus on whether or not the wage hike should occur and how it might affect the working poor.

PTS: 1 DIF: Difficulty: Moderate NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

4. List and describe the four broad categories of resources. Cite an example of each to help support your answer.

ANS:

Economists divide resources into four categories: *land, labor, capital*, and *entrepreneurship*. *Land* refers natural resources such as minerals, forests, water, oil, animals, and undeveloped land. *Labor* consists of the physical and mental talents people contribute to the production process, for example a teacher in a classroom. *Capital* is produced goods used in the production of other goods, such as buildings, tools, and equipment. *Entrepreneurship* consists of the talent that some people have for organizing the other resources to produce goods and develop new ways of doing things.

PTS: 1 DIF: Difficulty: Moderate NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Comprehension

5. Define the term *rationing device* and give an example of three possible rationing devices. Explain how scarcity implies the need for a rationing device.

ANS:

A rationing device is a mechanism used to determine who gets what. Examples of rationing devices include: dollar price, first-come-first-served, brute force, beauty, and lottery. Scarcity is the condition in which wants are greater than the limited resources. The existence of scarcity implies the need for a rationing device to determine who will have access to the available quantity of goods.

PTS: 1 DIF: Difficulty: Moderate NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Analysis

6. Explain what an economist means by the phrase “decisions made at the margin.” Cite an example to support your answer.

ANS:

When making a decision at the margin an individual compares the additional (marginal) benefit of some choice to the additional (marginal) cost of making that choice. If the additional benefit is at least as great as the marginal cost then the choice is desirable, and if the additional cost is greater than the additional benefit then the choice is undesirable. This method of analyzing a situation is as opposed to comparing the total benefit and total cost of some activity. Examples will vary.

PTS: 1 DIF: Difficulty: Moderate NAT: BUSPROG: Analytic

LOC: DISC: Marginal costs & benefits KEY: Bloom's: Application

7. Explain why the *ceteris paribus* assumption is essential when assessing an economic theory. Give an example to help support your answer.

ANS:

Economists use the *ceteris paribus* assumption to isolate the relationship between two variables. It allows them to see the cause and effect relationships, without being confused by other possible influences. Examples will vary.

PTS: 1 DIF: Difficulty: Moderate NAT: BUSPROG: Analytic

LOC: DISC: Understanding and applying economic models KEY: Bloom's: Application

8. Define the term *scarcity* and discuss two of its consequences.

ANS:

Scarcity is the condition in which our wants are greater than the limited resources available to satisfy those wants. The consequences of scarcity include: (1) the need to make choices, (2) the need for a rationing device, and (3) competition.

PTS: 1 DIF: Difficulty: Moderate NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application NOT: New

9. Explain what an economist means when he says, “You don’t find any $10 bills on the sidewalk.”

ANS:

What an economist means by this statement is that people do not pass by net benefits. Whenever the marginal benefits of some activity exceed the marginal costs of that activity, net benefits result. The benefits of having another $10 exceed the costs of stooping down to pick up the bill, resulting in a net benefit from picking up the bill.

PTS: 1 DIF: Difficulty: Moderate NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Application

10. Explain how scarcity can exist in a relatively rich country such as the United States. Give examples to help support your answer.

ANS:

Even in a wealthy country, the people living in the country have an infinite amount of wants for goods and services but only a finite amount of resources which can be used to produce those goods and services. Examples will vary.

PTS: 1 DIF: Difficulty: Moderate NAT: BUSPROG: Analytic

LOC: DISC: The study of economics and definitions of economics

KEY: Bloom's: Analysis NOT: New