

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Suppose the U.S. government encouraged new medical school graduates to take over existing practices from doctors wishing to retire by paying both the new and retiring doctors \$100,000. These doctors would be exemplifying the economic idea that _____ 1)
- A) people are rational.
 - B) people respond to economic incentives.
 - C) optimal decisions are made at the margin.
 - D) equity is more important than efficiency.

Answer: B

Comment: Recurring

Diff: 2 Type: MC

- 2) Mr. Peabody chooses to invest in companies that produce goods and services at the lowest possible cost. Mr. Peabody is investing in companies that are _____ 2)
- A) productively efficient.
 - B) allocatively efficient.
 - C) guaranteed to make a profit.
 - D) all of the above

Answer: A

Comment:

Diff: 1 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 3) One desirable outcome of a market economy is that it leads to a more equitable distribution of income. _____ 3)

Answer: True ☒ False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 4) In economics, an organization that produces a good or service is called a _____ 4)
- A) company.
 - B) firm.
 - C) business.
 - D) All of the above are correct.

Answer: D

Comment: Recurring

Diff: 1 Type: MC

- 5) All of the following are part of an economic model *except* _____ 5)
- A) opinions.
 - B) hypotheses.
 - C) data.
 - D) assumptions.

Answer: A

Comment: Recurring

Diff: 1 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 6) If it costs Danitra \$225 to create 4 necklaces and \$275 to create 5 necklaces, then the marginal cost of producing the 5th necklace is \$50. 6) _____

Answer: ☒ True ☐ False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 7) The prevalence of Alzheimer's dementia is very high among residents living in nursing homes. A student concludes that it is likely that living in a nursing home causes Alzheimer's dementia. What is the flaw in the student's reasoning? 7) _____

- A) The student has failed to take into account other causes of Alzheimer's disease.
- B) The student is using an inadequate sample size.
- C) The student is drawing a false conclusion; he is confusing cause and effect.
- D) The student is drawing a false conclusion by making the mistake of omitting critical variables such as the age and gender of the residents.

Answer: C

Comment: Recurring

Diff: 2 Type: MC

- 8) The distribution of income primarily determines which of the fundamental economic questions? 8) _____

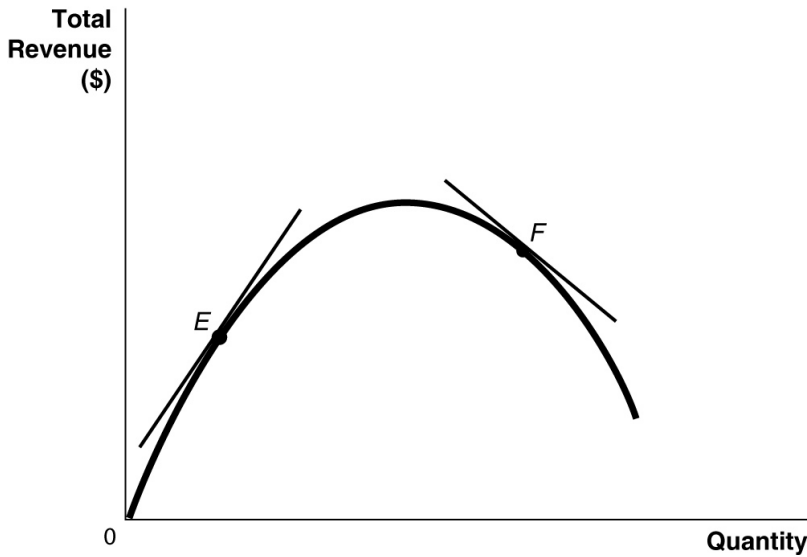
- A) How the goods and services are to be produced?
- B) Who will receive the goods and services produced?
- C) What goods and services are to be produced?
- D) How will the economy be planned?

Answer: B

Comment: Recurring

Diff: 2 Type: MC

Figure 1-4



9) Refer to Figure 1-4. Which of the following statements is false?

9) _____

- A) The slope of the tangent at E and the slope of the tangent at F are equal.
- B) The slope of the tangent at F is negative.
- C) The slope of the tangent at E is positive.
- D) Neither the slope of the tangent at E nor the slope of the tangent at F are equal to zero.

Answer: A

Comment: Recurring

Diff: 1 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

10) The decisions Apple makes in determining production levels for its iPhone is an example of a microeconomic topic.

10) _____

Answer: ☒ True ☐ False

Comment: Recurring

Diff: 1 Type: TF

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

11) What is opportunity cost?

Answer: Opportunity cost refers to the highest-valued alternative that must be given up to engage in an activity. For example, the opportunity cost of taking this economics class is what you are giving up to take the class, which may be taking another class such as accounting or psychology, working extra hours at your job, or extra sleep (whichever is your highest-valued alternative).

Comment: Recurring

Diff: 2 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 12) When Mr. Peabody decides on the companies to which he will donate his time and money, a _____ issue is being addressed. 12) _____
- A) macroeconomic
C) microeconomic
B) positive economic
D) normative economic

Answer: C

Comment:

Diff: 1 Type: MC

- 13) The decision about what goods and services will be produced in a market economy is made by _____ 13) _____
- A) consumers and firms choosing which goods and services to buy or produce.
B) consumers dictating to firms what they need most.
C) producers deciding what society wants most.
D) workers deciding to produce only what the boss says must be produced.
E) lawmakers in the government voting on what will be produced.

Answer: A

Comment: Recurring

Diff: 1 Type: MC

- 14) Consider the following statements: _____ 14) _____
- a. Car owners purchase more gasoline from a gas station that sells gasoline at a lower price than other rival gas stations in the area.
b. Banks do not take steps to increase security since they believe it is less costly to allow some bank robberies than to install expensive security monitoring equipment.
c. Firms produce more of a particular DVD when its selling price rises.

Which of the above statements demonstrates that economic agents respond to incentives?

- A) a only
B) b only
C) c only
D) a and b
E) a, b, and c

Answer: E

Comment: Recurring

Diff: 3 Type: MC

Scenario 1-1

Suppose a cell phone manufacturer currently sells 20,000 cell phones per week and makes a profit of \$5,000 per week. A manager at the plant observes, "Although the last 3,000 cell phones we produced and sold increased our revenue by \$6,000 and our costs by \$6,700, we are still making an overall profit of \$5,000 per week so I think we're on the right track. We are producing the optimal number of cell phones."

- 15) Refer to Scenario 1-1. Using marginal analysis terminology, what is another economic term for the incremental cost of producing the last 3,000 cell phones? 15) _____
- A) explicit cost
C) marginal cost
B) operating cost
D) Any of the above terms are correct.

Answer: C

Comment: Recurring

Diff: 1 Type: MC

- 16) An economic _____ is a simplified version of some aspect of economic life used to analyze an economic issue. 16) _____
A) market B) variable C) model D) trade-off
Answer: C
Comment: Recurring
Diff: 1 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 17) The sales revenue a seller receives from the sale of an additional unit of goods is called the marginal benefit. 17) _____
Answer: ☒ True False
Comment: Recurring
Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 18) Economics does not study correct or incorrect behaviors but rather it assumes that economic agents behave _____, meaning they make the best decisions given their knowledge of the costs and benefits. 18) _____
A) rationally B) selfishly C) equitably D) emotionally
Answer: A
Comment: Recurring
Diff: 2 Type: MC

- 19) Which of the following is a positive economic statement? 19) _____
A) The government should implement a national consumption tax.
B) The standard of living in the United States is too low.
C) The U.S. government should increase regulations on the banking industry.
D) If the price of beef falls, a larger quantity of it will be bought.
Answer: D
Comment: Recurring
Diff: 2 Type: MC

- 20) Allison's Auto Art is a company that applies pinstripes to vehicles. Allison's cost for a basic 1-color pinstriping job is \$35, and she charges \$95 for this service. For a total price of \$175, Allison will apply a fancier 3-color pinstripe application to an automobile, a service that adds an additional \$40 to the total cost of the package. What is the marginal cost of moving up from the 1-color application to the 3-color application? 20) _____
A) \$35 B) \$40 C) \$80 D) \$175
Answer: B
Comment: Recurring
Diff: 2 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 21) In the market for factors of production, firms earn income by selling factors of production to households. 21) _____
Answer: True ☒ False
Comment: Recurring
Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

22) Which of the following is motivated by an efficiency concern?

22) _____

- A) The United Network for Organ Sharing advocates a system of rationing scarce kidneys that would favor young patients over old in an effort to wring more life out of donated organs.
- B) In December 2006, the Bush administration restarted a short-term housing assistance program for victims of Hurricane Katrina.
- C) The federal government's housing choice voucher program assists very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market.
- D) Each year, the University of Notre Dame conducts a lottery to parcel out the 30,000 seats available to contributors, former athletes, and parents in the 80,000-seat stadium.

Answer: A

Comment: Recurring

Diff: 3 Type: MC

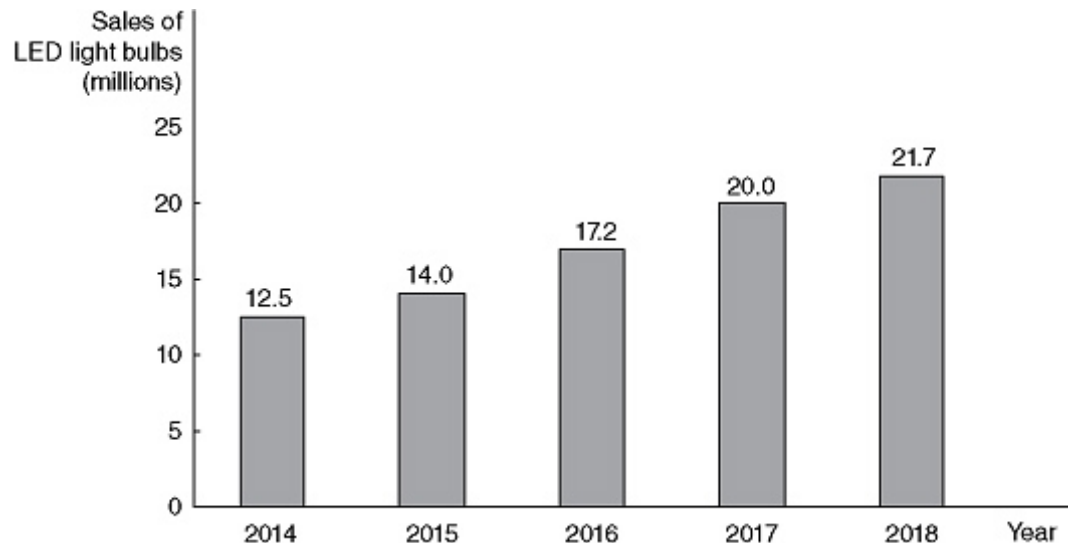
ESSAY. Write your answer in the space provided or on a separate sheet of paper.

Table 1-4

Year	LED Light Bulbs (millions)
2014	12.5
2015	14.0
2016	17.2
2017	20.0
2018	21.7

23) Refer to Table 1-4. The table above shows the sales of LED light bulbs in North America. Present the information using a bar graph.

Answer:



Comment:

Diff: 1 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 24) Allison's Auto Art is a company that applies pinstripes to vehicles. Allison's cost for a basic 1-color pinstriping job is \$35, and she charges \$95 for this service. For a total price of \$175, Allison will apply a fancier 3-color pinstripe application to an automobile, a service that adds an additional \$40 to the total cost of the package. Should Allison continue to offer the 3-color pinstripe application? 24) _____
- A) Yes, but only if she lowers the price of the 1-color application.
B) Yes, she still makes a profit by selling the 3-color application.
C) No, her marginal benefit is less than her marginal cost.
D) More information is needed for Allison to make this decision.

Answer: B

Comment: Recurring

Diff: 3 Type: MC

- 25) In 2017, Hooverville consumed 205,000 tons of sugar. In 2018, sugar consumption rose to 245,000 tons. Calculate the percentage change in sugar consumption. 25) _____
- A) 8.37% B) 11.95% C) 19.51% D) 26.33%

Answer: C

Comment:

Diff: 2 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 26) Examining the conditions that could lead to a recession in an economy is an example of a macroeconomic topic. 26) _____

Answer: ☒ True False

Comment: Recurring

Diff: 1 Type: TF

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 27) Explain the difference between a firm's revenue and its profit. 27) _____
- Answer: A firm's revenue is the total amount received for selling a good or service. It is calculated by multiplying the price per unit by the number of units sold. A firm's profit is the difference between its revenue and its costs.

Comment: Recurring

Diff: 1 Type: ES

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 28) Even if the population declines, scarcity will still exist. 28) _____

Answer: ☒ True False

Comment: Recurring

Diff: 1 Type: TF

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

29) What is the difference between an invention and an innovation?

Answer: An invention is the development of a new good or a new process for making a good. An innovation is the practical application of an invention. Innovation could also refer to any significant improvement in a good or in the means of producing a good.

Comment: Recurring

Diff: 1 Type: ES

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

30) Marginal benefit refers to the additional benefit that your activity provides to you.

30) _____

Answer: ☒ True False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

31) In 2017, Smileytown consumed 12,000 gallons of mouthwash. In 2018, mouthwash consumption rose to 17,000 gallons. Calculate the percentage change in mouthwash consumption.

31) _____

A) 17.2%

B) 29.4%

C) 41.7%

D) 70.6%

Answer: C

Comment:

Diff: 2 Type: MC

32) On a two-dimensional graph, _____ illustrates the effects of additional variables.

32) _____

A) adding an additional curve

B) moving along a curve

C) eliminating a curve

D) shifting curves

Answer: D

Comment: Recurring

Diff: 2 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

33) When voluntary exchange takes place, both parties gain from the exchange.

33) _____

Answer: ☒ True False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

34) The machines that workers have to work with are considered

34) _____

A) financial capital.

B) entrepreneurship.

C) physical capital.

D) human capital.

Answer: C

Comment: Recurring

Diff: 2 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

35) What is a marginal cost?

Answer: Marginal cost is the additional cost associated with continuing with an activity.

Comment: Recurring

Diff: 1 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

36) Which of the following is a positive economic statement?

36) _____

A) The government should mandate electric automobiles.

B) Scarcity necessitates that people make trade-offs.

C) Foreign workers should not be allowed to work for lower wages than the citizens of a country.

D) People should not buy SUVs.

Answer: B

Comment: Recurring

Diff: 2 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

37) Scarcity is a problem that will eventually disappear as technology advances.

37) _____

Answer: True ☒ False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

38) Automobile manufacturers produce a range of automobiles such as sports utility vehicles, luxury sedans, pickup trucks, and compact cars. What fundamental economic question are they addressing by making this range of products?

38) _____

A) Who to produce automobiles for?

B) How to produce goods that consumers want?

C) What to produce?

D) Why produce a variety of automobiles?

Answer: C

Comment: Recurring

Diff: 1 Type: MC

39) The revenue received from the sale of _____ of a product is a marginal benefit to the firm.

39) _____

A) an additional unit

B) only profitable units

C) the total number of units

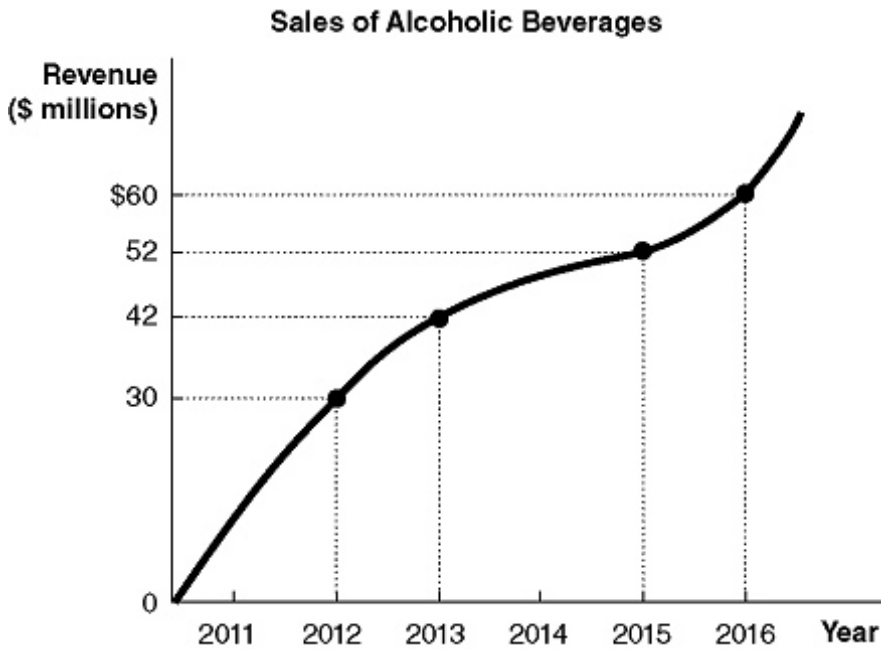
D) no units

Answer: A

Comment: Recurring

Diff: 2 Type: MC

Figure 1.1



40) Refer to Figure 1-1. Using the information in the figure above, calculate the percentage change in revenue from alcoholic beverage sales between 2013 and 2016.

40) _____

- A) 23.1% B) 23.8% C) 30% D) 42.9%

Answer: D

Comment:

Diff: 1 Type: MC

41) Jewelry manufacturers produce a range of products such as rings, necklaces, bracelets, and brooches. What fundamental economic question are they addressing by offering this range of items?

41) _____

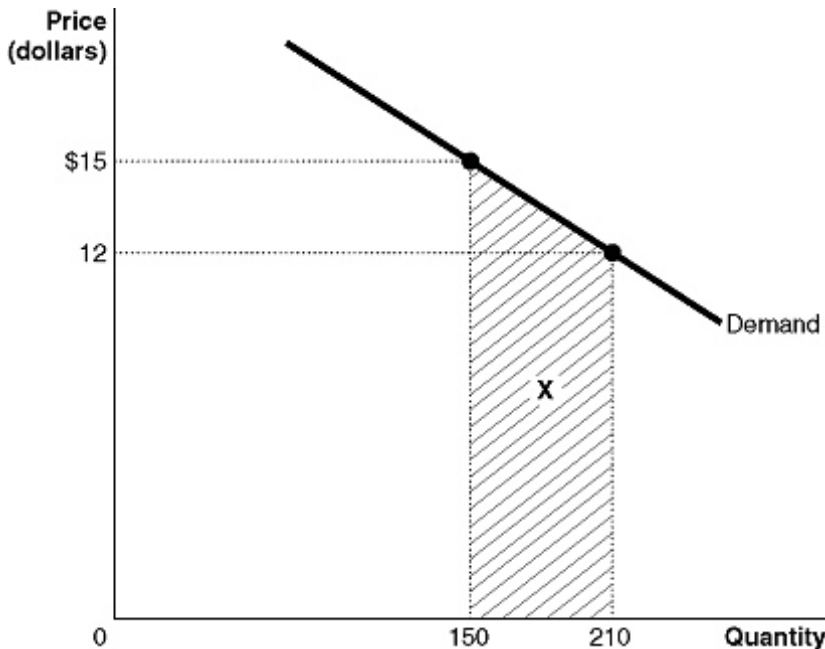
- A) Why produce a variety of items?
 B) What to produce?
 C) How to produce goods that consumers want?
 D) Who to produce the items for?

Answer: B

Comment: Recurring

Diff: 1 Type: MC

Figure 1-3



42) Refer to Figure 1-3. Calculate the area of the trapezoid X.

- A) \$270 B) \$720 C) \$810

D) \$2,520

42) _____

Answer: C

Comment: Recurring

Diff: 2 Type: MC

Article Summary

In a January, 2017 report, the World Economic Forum stated that the growing income gap has become one of the biggest threats to the global economy and cannot be remedied solely by higher economic growth. Although income inequality has fallen over the past 30 years on a global level, in high-income countries like the United States and the United Kingdom, the top 1% of income earners have benefitted disproportionately from economic growth. This has led a growing belief that the traditional model for economic growth does not result in a population-wide increase in income. According to the report, "The growing mood of anti-establishment populism suggests we may have passed the stage where [reviving economic growth] alone would remedy fractures in society: reforming market capitalism must also be added to the agenda."

Source: Lauren Gensler, "Rising Income Inequality Is Throwing The Future Of Capitalism Into Question, Says World Economic Forum," *Forbes*, January 11, 2017.

43) Refer to the Article Summary. The article discusses income inequality and how economic growth alone is no longer resulting in a more equitable distribution of income. If governments increased equity by reducing the incomes of high-income people and increasing the incomes of the poor, would it be possible that fewer goods and services would be produced and less saving would take place?

43) _____

- A) No, greater production and saving will take place regardless of the level of equity.
 B) No, an increase in equity will result in a more efficient level of production and saving.
 C) Yes, a reduction of the income gap necessitates a reduction in production and saving.
 D) Yes, there is often a trade-off between efficiency and equity.

Answer: D

Comment: Recurring

Diff: 2 Type: MC

- 44) Allocative efficiency is achieved when firms produce goods and services
A) at the lowest opportunity cost. B) at a marginal cost of zero.
C) that consumers value most. D) at the lowest possible cost.

44) _____

Answer: C

Comment: Recurring

Diff: 1 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 45) The government makes all economic decisions in a mixed economy.

45) _____

Answer: True ☒ False

Comment: Recurring

Diff: 1 Type: TF

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 46) Which of the following are primarily macroeconomic topics and which are primarily microeconomic topics?

- a. gasoline prices
- b. unemployment
- c. inflation
- d. health care costs
- e. air pollution
- f. economic growth

Answer: b, c, and f are primarily macroeconomic topics.

a, d, and e are primarily microeconomic topics.

Comment: Recurring

Diff: 2 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 47) Economists assume that rational people do all of the following *except*

47) _____

- A) undertake activities that benefit others and hurt themselves.
- B) weigh the benefits and costs of all possible alternative actions.
- C) respond to economic incentives.
- D) use all available information as they act to achieve their goals.

Answer: A

Comment: Recurring

Diff: 2 Type: MC

- 48) Economists spend much of their time

48) _____

- A) using normative analysis to develop economic models.
- B) describing how choices are made and analyzing the results of those choices.
- C) telling businesses what goods and services to produce and how to produce them.
- D) arguing that optimal decisions are rarely made at the margin.

Answer: B

Comment:

Diff: 1 Type: MC

49) Which of the following is an example of an activity undertaken by an entrepreneur?

49) _____

- A) being appointed as the head of a charitable organization
- B) starting your own cigar manufacturing business
- C) running for a seat on the city council
- D) deciding whether to purchase a gasoline-powered automobile or an electric vehicle

Answer: B

Comment: Recurring

Diff: 1 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

50) What is voluntary exchange?

Answer: Voluntary exchange is a situation that occurs in markets when both the buyer and seller of a product are made better off by the transaction.

Comment: Recurring

Diff: 2 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

51) Voluntary exchange between buyers and sellers generates _____ in a market economy.

51) _____

- A) allocative efficiency
- B) equity
- C) scarcity
- D) productive efficiency

Answer: A

Comment: Recurring

Diff: 1 Type: MC

52) Voluntary exchange _____ economic efficiency because neither the buyer nor the seller would agree to a trade unless _____.

52) _____

- A) decreases; they both benefit
- B) decreases; neither benefit
- C) increases; only one party benefits
- D) increases; they both benefit

Answer: D

Comment: Recurring

Diff: 1 Type: MC

53) If the price of milk was \$2.50 a gallon and it is now \$3.25 a gallon, what is the percentage change in price?

53) _____

- A) 13 percent
- B) 30 percent
- C) 75 percent
- D) 77 percent

Answer: B

Comment: Recurring

Diff: 2 Type: MC

- 54) Suppose when the price of laptops fall, college students buy more laptops. This implies that _____
- A) there is a one-to-one relationship between laptop prices and quantities purchased by college students.
 - B) there is a negative relationship between laptop prices and quantities purchased by college students.
 - C) there is a positive relationship between laptop prices and quantities purchased by college students.
 - D) there is a direct relationship between laptop prices and quantities purchased by college students.

Answer: B

Comment: Recurring

Diff: 1 Type: MC

- 55) Making optimal decisions "at the margin" requires _____
- A) making borderline decisions.
 - B) making consistently irrational decisions.
 - C) weighing the costs and benefits of a decision before deciding if it should be pursued.
 - D) making decisions according to one's whims and fancies.

Answer: C

Comment: Recurring

Diff: 1 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 56) What is a centrally planned economy?

Answer: A centrally planned economy is an economy in which the government decides how economic resources will be allocated.

Comment: Recurring

Diff: 3 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

Table 1-1

Extra Hours Open	Total Revenue (dollars)
1	\$50
2	75
3	95
4	110
5	120
6	125

Lydia runs a small nail salon in the town of New Hope. She is debating whether she should extend her hours of operation. Lydia figures that her sales revenue will depend on the number of extra hours the nail salon is open as shown in the table above. She would have to hire a worker for those extra hours at a wage rate of \$10 per hour.

- 57) Refer to Table 1-1. Using marginal analysis, by how many hours should Lydia extend her nail salon's hours of operations? 57) _____

A) 2 hours B) 3 hours C) 4 hours D) 5 hours E) 6 hours

Answer: D

Comment: Recurring

Diff: 3 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 58) What is an economic model?

Answer: An economic model is a simplified version of reality used to analyze real-world economic situations.

Comment: Recurring

Diff: 1 Type: ES

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 59) Scarcity refers to a situation in which unlimited wants exceed the limited resources available to fulfill those wants. 59) _____

Answer:  True False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 60) Why is it necessary for all economic systems to not only provide people with goods and services, but also restrict them from getting as much of these goods and services as they wish? 60) _____

A) Failure to do this will lead to drastic shortages of all goods and services.
B) Failure to do this could reduce the efficiency of the system by producing some goods and services that are not as highly valued as others.
C) Failure to do this could lead to an inequitable allocation of goods and services produced.
D) Failure to do this could reduce efficiency and lead to an inequitable allocation of output.

Answer: B

Comment: Recurring

Diff: 3 Type: MC

- 61) Suppose that some teachers have decided that economic and financial uncertainty have made the prospect of retiring more risky, and therefore carry a higher cost than not retiring. By using all available information as they act to achieve their goals, these teachers are exemplifying the economic idea that 61) _____
- A) people are rational.
 - B) people respond to economic incentives.
 - C) optimal decisions are made at the margin.
 - D) equity is more important than efficiency.

Answer: A

Comment: Recurring

Diff: 2 Type: MC

- 62) All of the following contributed to the downfall of the Soviet Union in 1991 *except* 62) _____
- A) lack of high-quality goods and services.
 - B) public dissatisfaction with low living standards and political repression.
 - C) lack of a strong dictator who could coordinate economic activities.
 - D) an inability to produce low-cost consumer goods that households wanted.

Answer: C

Comment: Recurring

Diff: 2 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 63) Define microeconomics.

Answer: Microeconomics is the study of how households and firms make choices, how they interact in markets, and how the government attempts to influence their choices.

Comment: Recurring

Diff: 2 Type: ES

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 64) In the market for factors of production, firms earn income by selling goods and services to households. 64) _____

Answer: True ☒ False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 65) Soo Jin shares a one-bedroom apartment with her classmate. Her share of the rent is \$700 per month. She is considering moving to a studio apartment which she will not have to share with anyone. The studio apartment rents for \$950 per month. Recently, you ran into Soo Jin on campus and she tells you that she has moved into the studio apartment. Soo Jin is as rational as any other person. As an economics student, you rightly conclude that 65) _____
- A) Soo Jin figures that the additional benefit of having her own place (as opposed to sharing) is at least \$950.
 - B) Soo Jin did not have a choice; her roommate was a slob.
 - C) Soo Jin figures that the additional benefit of having her own place (as opposed to sharing) is at least \$250.
 - D) the cost of having one's own space outweighs the benefits.

Answer: C

Comment: Recurring

Diff: 2 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 66) What is the difference between positive economic analysis and normative economic analysis? Give one example each of a positive and normative economic issue or question or statement.
- Answer: Positive economic analysis is concerned with what is. Positive economic analysis reaches conclusions based on verifiable statements. Normative economic analysis, on the other hand, is concerned with what ought to be. Normative analysis reaches conclusions based on opinions. (Students will give many different examples.)

Comment: Recurring

Diff: 2 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 67) In a modern mixed economy, who decides what goods and services will be produced? 67) _____
- A) only the producers
 - B) only the government
 - C) only consumers
 - D) producers, consumers, and government

Answer: D

Comment: Recurring

Diff: 1 Type: MC

- 68) The town of Harmonia gives away all 500 tickets to its annual Founder's Day Free Concert-in-the-Park to local residents. Each year, more than 500 people wish to attend the concert, so some of the residents who receive the free tickets sell them for as much as \$75 each. Is a transaction where someone pays a resident \$75 for a "free ticket" economically efficient? 68) _____
- A) No, people should never be allowed to sell items they received for free.
 - B) No, the buyer paid too much for the ticket.
 - C) Yes, but it is efficient only from the perspective of the seller and not from the perspective of the buyer.
 - D) Yes, it was a voluntary exchange that benefited both parties.

Answer: D

Comment: Recurring

Diff: 2 Type: MC

Table 1-2

Extra Hours Open	Total Revenue (dollars)
1	\$25
2	45
3	70
4	90
5	105
6	110

Thuy Anh runs a small flower shop in the town of Florabunda. She is debating whether she should extend her hours of operation. Thuy Anh figures that her sales revenue will depend on the number of extra hours the flower shop is open as shown in the table above. She would have to hire a worker for those extra hours at a wage rate of \$16 per hour.

- 69) Refer to Table 1-2. What is Thuy Anh's marginal cost if she decides to stay open for an extra three hours instead of two hours? 69) _____
- A) \$0 B) \$16 C) \$25 D) \$32 E) \$45

Answer: B

Comment: Recurring

Diff: 2 Type: MC

- 70) _____ have a horizontal and a vertical axis and are used in economics to illustrate relationships between two economic variables. 70) _____
- A) Two-dimensional graphs B) Pie Charts
C) One-dimensional graphs D) Bar graphs

Answer: A

Comment: Recurring

Diff: 1 Type: MC

- 71) What is the "omitted variable" problem in determining cause and effect? 71) _____
- A) It is a problem that arises when an insignificant economic variable that should have been omitted is included in an economic experiment leading to false conclusions about cause and effect.
B) It is a problem that arises when an insignificant variable is given too much weight in an economic analysis leading to skewed conclusions about cause and effect.
C) It is a problem that arises when an economic variable that affects other variables is omitted from an analysis and its omission leads to false conclusions about cause and effect.
D) It is a problem that arises when a significant variable is not given enough weight in an economic experiment leading to skewed conclusions about cause and effect.

Answer: C

Comment: Recurring

Diff: 1 Type: MC

Table 1-3

Extra Hours Open	Total Revenue (dollars)
1	\$70
2	120
3	160
4	184
5	200
6	210

Santiago runs a comic book store in the town of East Arbor. He is debating whether he should extend his hours of operation. Santiago figures that his sales revenue will depend on the number of extra hours the store is open as shown in the table above. He would have to hire a worker for those extra hours at a wage rate of \$18 per hour.

- 72) Refer to Table 1-3. Using marginal analysis, by how many hours should Santiago extend his store's hours of operations? 72) _____
- A) 2 hours B) 3 hours C) 4 hours D) 5 hours E) 6 hours

Answer: C

Comment: Recurring

Diff: 3 Type: MC

- 73) The highest-valued alternative that must be given up to engage in an activity is the definition of 73) _____
- A) marginal cost. B) marginal benefit.
C) economic equity. D) opportunity cost.

Answer: D

Comment: Recurring

Diff: 1 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 74) What is equity, and how does it differ from efficiency?

Answer: Equity refers to the fair distribution of economic benefits. In economics, efficiency refers to least cost production (productive efficiency) and producing according to human preferences (allocative efficiency).

Comment: Recurring

Diff: 2 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 75) Markets promote 75) _____
- A) voluntary exchange and equality. B) competition and voluntary exchange.
C) equity and equality. D) equity and competition.

Answer: B

Comment: Recurring

Diff: 2 Type: MC

- 76) The basic economic problem of _____ has always existed and will continue to exist. 76) _____
- A) inflation B) scarcity C) efficiency D) recession

Answer: B

Comment: Recurring

Diff: 1 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

77) "The distribution of income should be left to the market" is an example of a positive economic statement. 77) _____

Answer: True ☒ False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

78) The three fundamental questions that any economy must address are: 78) _____

A) What will be the prices of goods and services; how will these goods and services be produced; and who will receive them?

B) What goods and services to produce; how will these goods and services be produced; and who receives them?

C) How much will be saved; what will be produced; and how can these goods and services be fairly distributed?

D) Who gets jobs; what wages do workers earn; and who owns what property?

Answer: B

Comment: Recurring

Diff: 1 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

79) Explain the economic idea that "people respond to incentives."

Answer: Human beings act from a variety of motives, including religious belief, envy, and compassion. "People respond to incentives" means that people will act in the way that they feel is in their best interest.

Comment: Recurring

Diff: 2 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

80) A firm's technology may depend on which of the following factors? 80) _____

A) the skill of its managers

B) the speed and efficiency of its equipment

C) the training of its workers

D) all of the above

Answer: D

Comment: Recurring

Diff: 1 Type: MC

81) Which of the following is a normative economic statement? 81) _____

A) The federal government is considering increasing regulations on the use of fossil fuels to promote the use of wind power.

B) Farmers should not be allowed to grow and sell genetically-modified crops.

C) Rising corn prices have increased the price of corn-based ethanol.

D) With rising home prices and falling mortgage interest rates, the amount of home foreclosures has decreased.

Answer: B

Comment: Recurring

Diff: 2 Type: MC

- 82) You explain to your roommate Surya, who makes beaded headbands, about an economic theory which asserts that consumers will purchase more of a product at lower prices than they will at higher prices. She contends that the theory is incorrect because over the past two years she has lowered the price of her headbands and yet has seen a decrease in sales. How would you respond to Surya? 82) _____

- A) I will explain to her that there are some omitted variables that have contributed to a decrease in her sales such as changes in income.
- B) Surya is right; she has evidence to back her claim. The theory must be erroneous.
- C) I will explain to her that she is making the error of reverse causality: it is the decrease in demand that has caused her to lower her prices.
- D) Surya is making the mistake of assuming that correlation implies causation.

Answer: A

Comment: Recurring

Diff: 2 Type: MC

Table 1-2

Extra Hours Open	Total Revenue (dollars)
1	\$25
2	45
3	70
4	90
5	105
6	110

Thuy Anh runs a small flower shop in the town of Florabunda. She is debating whether she should extend her hours of operation. Thuy Anh figures that her sales revenue will depend on the number of extra hours the flower shop is open as shown in the table above. She would have to hire a worker for those extra hours at a wage rate of \$16 per hour.

- 83) Refer to Table 1-2. Using marginal analysis, by how many hours should Thuy Anh extend her flower shop's hours of operations? 83) _____

- A) 2 hours
- B) 3 hours
- C) 4 hours
- D) 5 hours
- E) 6 hours

Answer: C

Comment: Recurring

Diff: 3 Type: MC

- 84) In economics, the term _____ means "additional" or "extra." 84) _____

- A) allocative
- B) equity
- C) marginal
- D) optimal

Answer: C

Comment: Recurring

Diff: 1 Type: MC

- 85) Which of the following statements is *false*? 85) _____

- A) A straight line has a slope of zero.
- B) An inverse relationship has a negative slope value.
- C) A curved line has slope values that change at every point.
- D) A direct relationship has a positive slope value.

Answer: A

Comment: Recurring

Diff: 2 Type: MC

86) _____ increases economic efficiency because it forces firms to produce and sell goods and services as long as the additional benefit to consumers is greater than the additional cost of production.

- A) A centrally planned economy
- C) Competition

- B) Equity
- D) Voluntary exchange

Answer: C

Comment: Recurring

Diff: 1 Type: MC

86) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

87) What is an entrepreneur, and what decisions does an entrepreneur make in a market system?

Answer: An entrepreneur is someone who operates a business. In a market system, entrepreneurs decide what goods and services to produce and how to produce them.

Comment: Recurring

Diff: 1 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

88) The Coffee Nook, a small cafe near campus, sells cappuccinos for \$2.50 and Russian tea cakes for \$1.00 each. What is the opportunity cost of buying a cappuccino?

- A) 2 1/2 Russian tea cakes
- C) 2/5 of a Russian tea cake

- B) \$1.00
- D) \$2.50

Answer: A

Comment: Recurring

Diff: 1 Type: MC

88) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

89) Define productive efficiency. Does productive efficiency imply allocative efficiency? Explain.

Answer: Productive efficiency is an efficiency criterion that describes a situation in which goods and services are produced at the lowest possible cost. It does not imply allocative efficiency which is a criterion associated with producing goods and services that consumers value most. For example, a manufacturer may be able to produce typewriters at the lowest possible cost of \$200, but this does not necessarily mean that consumers are willing to pay \$200 for a typewriter.

Comment: Recurring

Diff: 3 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

90) Households _____ factors of production and _____ goods and services.

- A) demand; supply
- C) supply; demand

- B) supply; supply
- D) demand; demand

Answer: C

Comment: Recurring

Diff: 1 Type: MC

90) _____

- 91) DeShawn's Detailing is a service that details cars at the customers' homes or places of work. 91) _____
DeShawn's cost for a basic detailing package is \$40, and he charges \$75 for this service. For a total price of \$90, DeShawn will also detail the car's engine, a service that adds an additional \$20 to the total cost of the package. Should DeShawn continue to offer the engine detailing service?
A) Yes, but only if he raises the price of the basic detailing package.
B) No, his marginal benefit is less than his marginal cost.
C) Yes, he still makes a profit by selling the engine detailing service with the basic detailing package.
D) More information is needed for DeShawn to make this decision.

Answer: B

Comment: Recurring

Diff: 3 Type: MC

- 92) Which of the following generates productive efficiency? 92) _____
A) competition among buyers
B) government production rules and regulations
C) competition among sellers
D) government inspectors

Answer: C

Comment: Recurring

Diff: 1 Type: MC

- 93) A restaurant sells a large soft drink at a fixed price of \$1.79. A term used by economists to describe 93) _____
the money received from the sale of an additional large soft drink is
A) marginal revenue. B) net benefit.
C) gross earnings. D) pure profit.

Answer: A

Comment: Recurring

Diff: 1 Type: MC

- 94) Billie's Billiard Barn has seen its business slow down ever since Patti's Ping Pong Parlour opened 94) _____
up across the street. Since the opening of Patti's Ping Pong Parlour, the opportunity cost of shooting
pool at Billie's Billiard Barn has _____ for Billie's customers who also like to play ping pong.
A) not changed B) fallen to zero C) decreased D) increased

Answer: D

Comment: Recurring

Diff: 2 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 95) Explain the economic assumption that "people are rational."
Answer: "People are rational" means that economists assume consumers and firms will use all available information as they act to achieve their goals. Rational individuals weigh the benefits and costs of each action, and they choose an action only if the benefits exceed the costs.

Comment: Recurring

Diff: 2 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 96) Productive efficiency is achieved when 96) _____
- A) firms produce goods and services at the lowest cost.
 - B) there are no shortages or surpluses in the market.
 - C) firms produce the goods and services that consumers value most.
 - D) firms add a low profit margin to the goods and services they produce.

Answer: A

Comment: Recurring

Diff: 1 Type: MC

- 97) Arlene quits her \$125,000-a-year job to take care of her ailing parents. What is the opportunity cost of her decision? 97) _____
- A) It depends on the "going rate" for home-care providers.
 - B) the value she attributes to the satisfaction she receives from taking care of her parents
 - C) at least \$125,000
 - D) zero, since she will no longer be earning a salary

Answer: C

Comment: Recurring

Diff: 1 Type: MC

- 98) Suppose that some investors have decided that economic and financial uncertainty have made the prospect of investing in domestic stock markets more risky than investing in foreign stock markets, and therefore choose to invest in foreign markets. By using all available information as they act to achieve their goals, these investors are exemplifying the economic idea that 98) _____
- A) people are rational.
 - B) people respond to economic incentives.
 - C) optimal decisions are made at the margin.
 - D) equity is more important than efficiency.

Answer: A

Comment: Recurring

Diff: 2 Type: MC

- 99) If a straight line passes through the point $x = 24$ and $y = 8$ and also through the point $x = 8$ and $y = 16$, the slope of this line is 99) _____
- A) negative one-half.
 - B) one and one-half.
 - C) seven-tenths.
 - D) negative 8 divided by 4.

Answer: A

Comment: Recurring

Diff: 2 Type: MC

- 100) Holding all other personal characteristics-such as age, gender, and income-constant, economists would expect that 100) _____
- A) people with health insurance are more likely to be overweight than people without health insurance.
 - B) people with health insurance are less likely to be overweight than people without health insurance.
 - C) people with health insurance are equally likely to be overweight as people without health insurance.
 - D) there is no correlation between having health insurance and being overweight.

Answer: A

Comment:

Diff: 2 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 101) Optimal decisions are made at the point where marginal cost equals zero. 101) _____
- Answer: True ☒ False
- Comment: Recurring
- Diff: 1 Type: TF

- 102) A college must decide if it wants to offer more adult literacy classes. This decision involves answering the economic question of "what to produce." 102) _____
- Answer: ☒ True ☐ False
- Comment: Recurring
- Diff: 1 Type: TF

- 103) All economic questions arise from the fact that resources are unlimited. 103) _____
- Answer: True ☒ False
- Comment: Recurring
- Diff: 1 Type: TF

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 104) What is meant by the statement that "optimal decisions are made at the margin"? 104) _____
- Answer: In economics, the word "marginal" means "extra" or "additional." Economists reason that the optimal decision is to continue any activity up to the point where the marginal benefit equals the marginal cost, so optimal decisions are made at the point where the extra benefit received from an activity is equal to the extra cost associated with that activity.
- Comment: Recurring
- Diff: 2 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

Scenario 1-2

Suppose a hat manufacturer currently sells 2,000 hats per week and makes a profit of \$5,000 per week. The plant owner observes, "Although the last 300 hats we produced and sold increased our revenue by \$1,000 and our costs by \$1,100, we are still making an overall profit of \$5,000 per week so I think we're on the right track. We are producing the optimal number of hats."

- 105) Refer to Scenario 1-2. Using marginal analysis terminology, another economic term for the incremental cost of producing the last 300 hats is 105) _____
- A) explicit cost. B) marginal cost.
C) operating cost. D) Any of the above terms are correct.

Answer: B

Comment: Recurring

Diff: 1 Type: MC

- 106) Where do economic agents such as individuals, firms, and nations interact with each other? 106) _____
- A) in any location where transactions can be monitored by consumer groups and taxed by the government
B) in any physical location where people can physically get together for selling goods, such as shopping malls
C) in public locations monitored by the government
D) in any arena that brings together buyers and sellers

Answer: D

Comment: Recurring

Diff: 1 Type: MC

- 107) The branch of economics which studies the behavior of entire economies is called 107) _____
- A) microeconomics. B) public economics.
C) macroeconomics. D) normative economics.

Answer: C

Comment: Recurring

Diff: 1 Type: MC

- 108) The development of a new good or a new process for making a good is called 108) _____
- A) an invention. B) an innovation.
C) a factor of production. D) a service.

Answer: A

Comment: Recurring

Diff: 1 Type: MC

- 109) The relationship between consumer spending and disposable personal income is 109) _____
- A) a direct relationship. B) an inverse relationship.
C) a negative relationship. D) independent.

Answer: A

Comment: Recurring

Diff: 1 Type: MC

- 110) Society faces a trade-off in all of the following situations *except* 110) _____
A) when some previously unemployed workers find jobs.
B) when deciding who will receive the goods and services produced.
C) when deciding what goods and services will be produced.
D) when deciding how goods and services will be produced.
Answer: A
Comment: Recurring
Diff: 2 Type: MC
- 111) Which of the following statements is *true*? 111) _____
A) Trade-offs do not apply when the consumers purchase a product for which there is excess supply, such as with a stock clearance sale.
B) Every individual, no matter how rich or poor, is faced with situations that require trade-offs.
C) Economics is a social science that studies the trade-offs we are forced to make because resources are unlimited.
D) Any time you have to decide which action to take you are experiencing economic equity.
Answer: B
Comment: Recurring
Diff: 2 Type: MC
- 112) Which of the following correctly describes the relationship between economic efficiency and economic equity? 112) _____
A) There is often a trade-off between the two.
B) They are both automatically achieved in a free market economy.
C) There is no conflict between the two goals.
D) They always call for opposite outcomes.
Answer: A
Comment: Recurring
Diff: 2 Type: MC
- 113) Which of the following is a problem inherent in centrally planned economies? 113) _____
A) There is too little production of low-cost, high-quality goods and services.
B) Exports tend to exceed imports.
C) Households and firms make poor decisions in choosing how resources are allocated.
D) Production managers are more concerned with satisfying consumer wants than with satisfying government's orders.
Answer: A
Comment: Recurring
Diff: 2 Type: MC
- 114) Which of the following is a normative economic statement? 114) _____
A) When the price of gasoline rises, the quantity of gasoline purchased falls.
B) The price of gasoline is too high.
C) The current high price of gasoline is the result of strong worldwide demand.
D) When the price of gasoline rises, transportation costs rise.
Answer: B
Comment: Recurring
Diff: 2 Type: MC

115) Which of the following statements is true?

115) _____

- A) Only government policymakers can improve decision making by using economic principles.
- B) Only government policymakers and business managers can improve decision making by using economic principles.
- C) Government policymakers, business managers, and individuals can all improve decision making by using economic principles.
- D) Only business managers and individuals can improve decision making by using economic principles.

Answer: C

Comment:

Diff: 1 Type: MC

Table 1-1

Extra Hours Open	Total Revenue (dollars)
1	\$50
2	75
3	95
4	110
5	120
6	125

Lydia runs a small nail salon in the town of New Hope. She is debating whether she should extend her hours of operation. Lydia figures that her sales revenue will depend on the number of extra hours the nail salon is open as shown in the table above. She would have to hire a worker for those extra hours at a wage rate of \$10 per hour.

116) Refer to Table 1-1. What is Lydia's marginal cost if she decides to stay open for an extra two hours instead of one hour?

116) _____

- A) \$10
- B) \$20
- C) \$25
- D) \$40

Answer: A

Comment: Recurring

Diff: 2 Type: MC

117) Which of the following statements about the economic decisions consumers, firms, and the government have to make is *false*?

117) _____

- A) Only individuals face scarcity; firms and the government do not.
- B) Each faces the problem of scarcity which necessitates trade-offs in making economic decisions.
- C) Both firms and individuals face scarcity.
- D) Governments face the problem of scarcity in making economic decisions.

Answer: A

Comment: Recurring

Diff: 1 Type: MC

- 118) Of the following examples, which would most likely be performed by an economist working for the U.S. Federal Trade Commission? 118) _____
- A) assessing whether Amazon should build its new headquarters in New York or Texas
 - B) using economic models to forecast future inflation rates.
 - C) forecasting employment trends in New England
 - D) analyzing data related to a potential merger of two companies

Answer: D

Comment:

Diff: 1 Type: MC

- 119) The _____ the sale of an additional unit of a product is a marginal benefit to the firm. 119) _____
- A) extra cost of
 - B) revenue received from
 - C) sales tax on
 - D) total value of

Answer: B

Comment: Recurring

Diff: 2 Type: MC

- 120) All centrally planned economies 120) _____
- A) have been political dictatorships.
 - B) have become mixed economies.
 - C) began as mixed economies.
 - D) started out as market economies.

Answer: A

Comment: Recurring

Diff: 1 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 121) The term "market" refers to trading arrangements by which buyers and sellers come together. 121) _____
- Answer: ☒ True ☐ False
- Comment: Recurring
- Diff: 1 Type: TF

- 122) Suppose the extra cost to a city of lowering the speed limits in all school zones by 10 mph is \$10,000 per year. Then, the city should lower the school-zone speed limits by 10 mph if doing so results in an additional benefit of less than \$10,000 per year. 122) _____
- Answer: ☐ True ☒ False
- Comment:
- Diff: 2 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 123) Allison's Auto Art is a company that applies pinstripes to vehicles. Allison's cost for a basic 1-color pinstriping job is \$35, and she charges \$95 for this service. For a total price of \$175, Allison will apply a fancier 3-color pinstripe application to an automobile, a service that adds an additional \$40 to the total cost of the package. What is Allison's marginal benefit if she sells a basic 1-color job? 123) _____
- A) \$35
 - B) \$60
 - C) \$95
 - D) The marginal benefit cannot be determined.

Answer: C

Comment: Recurring

Diff: 2 Type: MC

- 124) Which of the following is part of an economic model? 124) _____
- A) norms
 - B) opinions
 - C) preferences of economic agents
 - D) hypotheses

Answer: D

Comment: Recurring

Diff: 1 Type: MC

- 125) Which of the following is an example of an activity undertaken by an entrepreneur? 125) _____
- A) running for the president of the United States
 - B) washing and ironing your own shirts instead of taking them to the cleaners
 - C) starting your own pet sitting business
 - D) holding a position as the president of a liberal arts college

Answer: C

Comment: Recurring

Diff: 1 Type: MC

- 126) Which of the following statements about positive economic analysis is *false*? 126) _____
- A) Positive analysis uses an economic model to estimate the costs and benefits of different course of actions.
 - B) Unlike normative economic analysis, positive economic analysis can be tested.
 - C) There is much more disagreement among economists over normative economic analysis than over positive economic analysis.
 - D) There is much more disagreement among economists over positive economic analysis than over normative economic analysis.

Answer: D

Comment: Recurring

Diff: 2 Type: MC

Scenario 1-1

Suppose a cell phone manufacturer currently sells 20,000 cell phones per week and makes a profit of \$5,000 per week. A manager at the plant observes, "Although the last 3,000 cell phones we produced and sold increased our revenue by \$6,000 and our costs by \$6,700, we are still making an overall profit of \$5,000 per week so I think we're on the right track. We are producing the optimal number of cell phones."

- 127) Refer to Scenario 1-1. Using marginal analysis terminology, what is another economic term for the incremental revenue received from the sale of the last 3,000 cell phones? 127) _____
- A) gross profit
 - B) sales revenue
 - C) marginal revenue
 - D) gross earnings

Answer: C

Comment: Recurring

Diff: 1 Type: MC

- 128) Which of the following is a macroeconomic question? 128) _____
- A) What factors determine the price of carrots?
 - B) What determines the wage of auto workers?
 - C) What determines the inflation rate?
 - D) What determines the production of DVDs?

Answer: C

Comment: Recurring

Diff: 2 Type: MC

- 129) In economics, all of the following is counted as "capital" *except* 129) _____
A) money. B) factory buildings.
C) machine tools. D) warehouses.

Answer: A

Comment: Recurring

Diff: 2 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 130) An economic model is a simplified version of reality used to analyze real-world economic situations. 130) _____

Answer: ☒ True False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 131) How are the fundamental economic decisions determined in North Korea? 131) _____
A) These decisions are made by the country's elders who have had much experience in answering these questions.
B) The United Nations decides because North Korea is a developing economy.
C) Individuals, firms, and the government interact in a market to make these economic decisions.
D) The government decides because North Korea is a centrally planned economy.

Answer: D

Comment: Recurring

Diff: 1 Type: MC

- 132) Damian shares a small food truck with his sister. His share of the expenses is \$500 per month. He has decided to get his own, newer food truck which he will not have to share with anyone. His expenses for the newer truck are \$1,400 per month. Damian is as rational as any other person. As an economics major, you rightly conclude that 132) _____
A) Damian figures that the additional benefit of having his own truck (as opposed to sharing) is at least \$1,400.
B) Damian figures that the additional benefit of having his own truck (as opposed to sharing) is at least \$900.
C) Damian cannot afford the newer truck and will have to go back to sharing a truck with his sister.
D) the cost of having one's own truck outweighs the benefits.

Answer: B

Comment: Recurring

Diff: 2 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 133) Explain why economics is considered a social science.
Answer: Economics is a social science because it studies the actions of individuals. As a social science, economics considers human behavior, particularly decision-making behavior, in every context.
Comment: Recurring
Diff: 2 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 134) Microeconomics is the study of 134) _____
A) how households and firms make choices.
B) the global economy.
C) topics such as unemployment, inflation, and economic growth.
D) the economy as a whole.

Answer: A

Comment: Recurring

Diff: 1 Type: MC

- 135) Which of the following is a positive economic statement? 135) _____
A) If the price of iPhones falls, a larger quantity of iPhones will be purchased.
B) The U.S. government should not have bailed out U.S. auto manufacturers.
C) The government should revamp the health care system.
D) The standard of living in the United States should be higher.

Answer: A

Comment: Recurring

Diff: 2 Type: MC

- 136) All of the following questions or statements regarding tariffs are positive statements *except*: 136) _____
A) Economic models can be used to estimate the dollar amounts gained by the winners from the imposition of a tariff.
B) Economic models can be used to estimate the dollar amounts lost by the losers from the imposition of a tariff.
C) Economic analysis can show the size of the loss of economic efficiency from the imposition of a tariff.
D) Economic analysis can, by itself, decide whether a tariff proposal should be enacted.

Answer: D

Comment:

Diff: 2 Type: MC

- 137) Which of the following is motivated by an equity concern? 137) _____
A) The United States offers patent protection to pharmaceutical manufacturers to prevent others from duplicating their products.
B) Following the implementation of subsidies for energy conservation, household demand for rooftop solar panels increased quite significantly in California.
C) The United Network for Organ Sharing advocates a system of rationing scarce kidneys that would favor young patients over old in an effort to wring more life out of donated organs.
D) Some states have transferred funds to food bank programs in order to increase benefits to lower-income families.

Answer: D

Comment: Recurring

Diff: 3 Type: MC

- 138) Economists reason that the optimal decision is to continue any activity up to the point where the _____
 A) marginal benefit equals the marginal cost.
 B) marginal benefit is zero.
 C) marginal cost is zero.
 D) marginal benefit is greater than the marginal cost.

Answer: A

Comment: Recurring

Diff: 2 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 139) The government makes all economic decisions in a market economy. _____

Answer: True ☒ False

Comment: Recurring

Diff: 1 Type: TF

- 140) Suppose the extra cost for a town to lower its speed limit by 5 mph is \$20 per day. Then, the town _____
 should lower the speed limit if it can generate an additional benefit of \$20 per day.

Answer: ☒ True ☐ False

Comment:

Diff: 2 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 141) When production reflects consumer preferences, _____ occurs. _____
 A) efficient central planning B) equity
 C) productive efficiency D) allocative efficiency

Answer: D

Comment: Recurring

Diff: 1 Type: MC

Table 1-3

Extra Hours Open	Total Revenue (dollars)
1	\$70
2	120
3	160
4	184
5	200
6	210

Santiago runs a comic book store in the town of East Arbor. He is debating whether he should extend his hours of operation. Santiago figures that his sales revenue will depend on the number of extra hours the store is open as shown in the table above. He would have to hire a worker for those extra hours at a wage rate of \$18 per hour.

- 142) Refer to Table 1-3. What is Santiago's marginal benefit if he decides to stay open for an extra two _____
 hours instead of one hour?
 A) \$40 B) \$50 C) \$120 D) \$190

Answer: B

Comment: Recurring

Diff: 2 Type: MC

- 143) If the price of gasoline was \$3.25 a gallon and it is now \$3.75 a gallon, what is the percentage change in price? 143) _____
- A) 7.1 percent B) 13.3 percent C) 15.4 percent D) 33.3 percent

Answer: C

Comment:

Diff: 2 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 144) Examining the conditions that could lead to unemployment in an economy is an example of a microeconomic topic. 144) _____

Answer: True ☒ False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 145) Which of the following is a normative economic statement? 145) _____
- A) When the price of wheat falls, the quantity of wheat purchased rises.
B) When the price of wheat falls, the cost of wheat-based products falls.
C) The price of wheat is too low.
D) The current low price of wheat is the result of increased worldwide supply.

Answer: C

Comment: Recurring

Diff: 2 Type: MC

- 146) How are the fundamental economic questions answered in a market economy? 146) _____
- A) Households and firms interact in markets to decide the answers to these questions.
B) Individuals, firms, and the government interact in markets to decide the answers to these questions.
C) Large corporations alone decide the answers.
D) The government alone decides the answers.

Answer: A

Comment: Recurring

Diff: 2 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 147) Individuals can use economic principles to improve their decision-making process. 147) _____

Answer: ☒ True False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 148) Of the following examples, which would likely be performed by an economist working for Apple? 148) _____
- A) using economic models to analyze the future of cell phone usage in the United States
 - B) analyzing data related to a potential buyout of semiconductor manufacturer Intel Corp.
 - C) forecasting the demand for wearable technology that synchronizes with the iPhone
 - D) all of the above

Answer: D

Comment:

Diff: 1 Type: MC

- 149) Which of the following is an example of an efficiency-equity trade-off faced by economic agents? 149) _____
- A) Concerned about the falling birth rate, the French government has pledged more money for families with three children, in an effort to encourage working women to have more babies.
 - B) According to an article by in the American Journal of Public Health by Edward Kaplan and Michael Merson of Yale University School of Medicine, the federal government's current method of allocating HIV-prevention resources is not cost-effective. Instead of allocating resources to states in proportion to reported AIDS cases, resources should flow first to those activities that prevent more infections per dollar and then to less and less effective combinations of programs and populations until funds are exhausted, even if it means that some populations would be left without any prevention services.
 - C) All New York City art museums are considering adopting a free-admission policy for local residents one weekend per month.
 - D) Some U.S. colleges are actively recruiting foreign students for their technology-based programs.

Answer: B

Comment: Recurring

Diff: 3 Type: MC

- 150) Allocative efficiency best explains _____, and productive efficiency best explains _____. 150) _____
- A) what will be produced; how something will be produced
 - B) when something will be produced; why something will be produced
 - C) why something will be produced; what will be produced
 - D) how something will be produced; when something will be produced

Answer: A

Comment: Recurring

Diff: 2 Type: MC

- 151) When every good or service is produced up to the point where the last unit provides _____, allocative efficiency occurs. 151) _____
- A) a marginal benefit to society less than the marginal cost of producing it
 - B) a marginal benefit to society equal to zero
 - C) a marginal benefit to society equal to the marginal cost of producing it
 - D) a marginal benefit to society greater than the marginal cost of producing it

Answer: C

Comment: Recurring

Diff: 1 Type: MC

152) Pookie's Pinball Palace restores old Pinball machines. Pookie has just spent \$300 purchasing and cleaning a 1960s-era machine which he expects to sell for \$2,000 once he is finished with the restoration. After having spent \$300, Pookie discovers that he will need to rewire the entire machine at a cost of \$1,100 in order to finish the restoration. Alternatively, he can sell the machine "as is" now for \$1,000. What should he do? 152) _____

- A) He should have never purchased the machine because he has already spent too much time on it and has not been paid for that time.
- B) He should rewire the machine, complete the task and then sell the machine.
- C) He should sell the machine now to make the most profit.
- D) It does not matter what he does; he is going to take a loss on his project.

Answer: C

Comment: Recurring

Diff: 3 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

153) What is an economic variable?

Answer: An economic variable is something measurable that can have different values, such as the wages of software programmers.

Comment: Recurring

Diff: 1 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

154) DeShawn's Detailing is a service that details cars at the customers' homes or places of work. DeShawn's cost for a basic detailing package is \$40, and he charges \$75 for this service. For a total price of \$90, DeShawn will also detail the car's engine, a service that adds an additional \$20 to the total cost of the package. What is the marginal cost of adding the engine detailing to the basic detailing package? 154) _____

- A) \$20
- B) \$30
- C) \$60
- D) \$60 plus the value of his time

Answer: A

Comment: Recurring

Diff: 2 Type: MC

Scenario 1-2

Suppose a hat manufacturer currently sells 2,000 hats per week and makes a profit of \$5,000 per week. The plant owner observes, "Although the last 300 hats we produced and sold increased our revenue by \$1,000 and our costs by \$1,100, we are still making an overall profit of \$5,000 per week so I think we're on the right track. We are producing the optimal number of hats."

155) Refer to Scenario 1-2. Had the firm not produced and sold the last 300 hats, would its profit be higher or lower, and by how much? 155) _____

- A) Its profit will be \$1,100 higher.
- B) Its profit will be \$100 lower.
- C) Its profit will be \$1,000 lower.
- D) Its profit will be \$100 higher.

Answer: D

Comment: Recurring

Diff: 2 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 156) If it costs Sinclair \$300 to produce 3 suede jackets and \$420 to produce 4 suede jackets, then the difference of \$120 is the marginal cost of producing the 4th suede jacket. 156) _____

Answer: ☒ True ☐ False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 157) Which of the following is a microeconomic question? 157) _____
- A) Why has growth in the economy increased since the end of the recession?
 - B) Will the merger of American Airlines and US Airways increase or decrease airfares?
 - C) Why do economies experience periods of high inflation?
 - D) Will Federal Reserve intervention lower the inflation rate?

Answer: B

Comment: Recurring

Diff: 1 Type: MC

- 158) Since 1994, obesity rates in the United States 158) _____
- A) have remained fairly constant throughout the country.
 - B) have increased in all 50 states.
 - C) have been on a slow and steady decline.
 - D) have primarily increased in the Southeast and remained constant or slightly decreased in the remainder of the country.

Answer: B

Comment:

Diff: 1 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 159) "A decrease in the price of tablet computers will decrease the demand for desktop computers." This statement is an example of a normative economic statement. 159) _____

Answer: ☐ True ☒ False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 160) In economics, the term "equity" means 160) _____
- A) economic benefits are distributed fairly.
 - B) only elected officials have high standards of living.
 - C) the hardest working individuals consume all they want.
 - D) everyone has an equal standard of living.

Answer: A

Comment: Recurring

Diff: 1 Type: MC

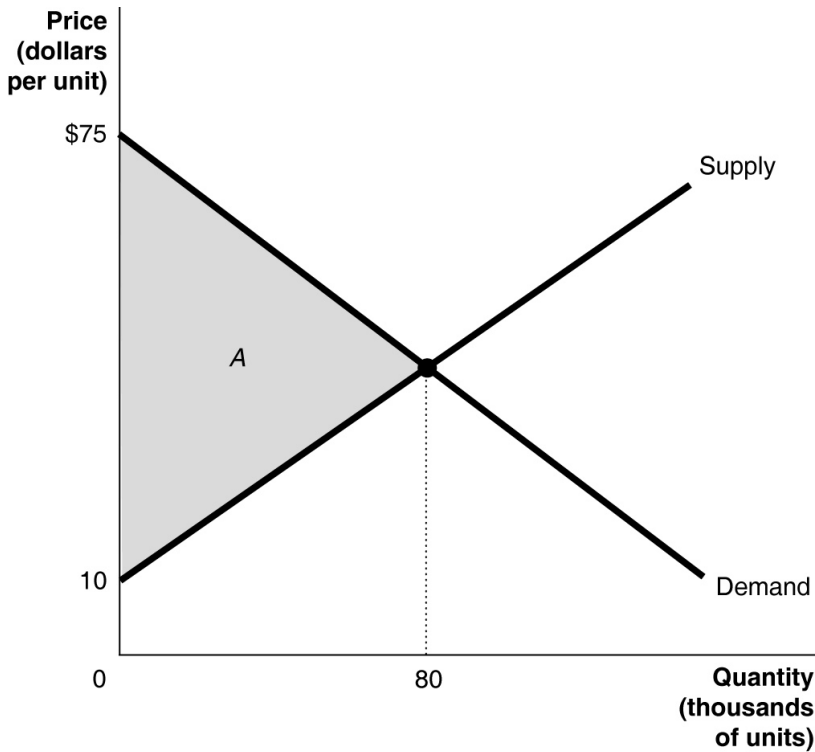
- 161) If a straight line passes through the point $x = 14$ and $y = 3$ and also through the point $x = 4$ and $y = 10$, the slope of this line is _____
- A) negative seven-tenths. B) seven-tenths.
C) 6 divided by 11. D) negative 11 divided by 6.

Answer: A

Comment: Recurring

Diff: 2 Type: MC

Figure 1-2



- 162) Refer to Figure 1-2. Calculate the area of the triangle A. _____
- A) \$1.3 million B) \$2.6 million C) \$3.4 million D) \$5.2 million

Answer: B

Comment: Recurring

Diff: 1 Type: MC

- 163) _____ is a problem that occurs when one concludes that a change in variable X caused a change in variable Y when in actual fact, it is a change in variable Y that caused a change in variable X. _____
- A) Reverse causality B) The omitted variable
C) The positive-to-negative relationship D) Nonlinear slope

Answer: A

Comment: Recurring

Diff: 1 Type: MC

Table 1-3

Extra Hours Open	Total Revenue (dollars)
1	\$70
2	120
3	160
4	184
5	200
6	210

Santiago runs a comic book store in the town of East Arbor. He is debating whether he should extend his hours of operation. Santiago figures that his sales revenue will depend on the number of extra hours the store is open as shown in the table above. He would have to hire a worker for those extra hours at a wage rate of \$18 per hour.

- 164) Refer to Table 1-3. What is Santiago's marginal cost if he decides to stay open for an extra two hours instead of one hour? 164) _____
- A) \$18 B) \$36 C) \$38 D) \$102

Answer: A

Comment: Recurring

Diff: 2 Type: MC

- 165) Technology is defined as 165) _____
- A) the processes used to produce goods and services.
 B) the process of developing and revising models.
 C) new innovations and creations.
 D) the process of recycling products.

Answer: A

Comment: Recurring

Diff: 1 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 166) When voluntary exchange takes place, neither party gains from the exchange. 166) _____

Answer: True ☒ False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 167) Economic models do all of the following *except* 167) _____
- A) answer economic questions.
 B) portray reality in all its minute details.
 C) simplify some aspect of economic life.
 D) make economic ideas explicit and concrete for use by decision makers.

Answer: B

Comment: Recurring

Diff: 1 Type: MC

Article Summary

In a January, 2017 report, the World Economic Forum stated that the growing income gap has become one of the biggest threats to the global economy and cannot be remedied solely by higher economic growth. Although income inequality has fallen over the past 30 years on a global level, in high-income countries like the United States and the United Kingdom, the top 1% of income earners have benefitted disproportionately from economic growth. This has led a growing belief that the traditional model for economic growth does not result in a population-wide increase in income. According to the report, "The growing mood of anti-establishment populism suggests we may have passed the stage where [reviving economic growth] alone would remedy fractures in society: reforming market capitalism must also be added to the agenda."

Source: Lauren Gensler, "Rising Income Inequality Is Throwing The Future Of Capitalism Into Question, Says World Economic Forum," *Forbes*, January 11, 2017.

168) *Refer to the Article Summary.* The article discusses income inequality and how economic growth alone is no longer resulting in a more equitable distribution of income. What is meant by a more equitable distribution of income?

168) _____

- A) a more productively efficient distribution of income
- B) a more allocatively efficient distribution of income
- C) a more fair distribution of income
- D) income distributed based on wealth levels

Answer: C

Comment: Recurring

Diff: 2 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

169) What is the difference between goods and services?

Answer: Goods are tangible merchandise such as cell phones or automobiles. Services are activities done for others, such as providing medical care or legal advice.

Comment:

Diff: 1 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

170) Which of the following is an example of a "how much" decision?

170) _____

- A) Zander has torn up his front yard and is debating whether to plant grass or install a rock garden.
- B) Sergio quit his job to go back to school full time.
- C) Dinah's Diner is only open for breakfast and lunch. Dinah is trying to decide whether to open for dinner as well.
- D) You received a nice birthday check from your grandmother and are deciding on whether to spend it on a trip to New York or a trip to San Francisco.

Answer: C

Comment: Recurring

Diff: 2 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

171) What is a mixed economy?

Answer: A mixed economy is an economy in which most economic decisions result from the interaction of buyers and sellers in markets but in which the government plays a significant role in the allocation of resources.

Comment: Recurring

Diff: 3 Type: ES

172) List the four main factors of production.

Answer: The four main factors of production are labor, capital, natural resources, and entrepreneurial ability.

Comment: Recurring

Diff: 1 Type: ES

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

173) Positive analysis is concerned with "what ought to be," while normative analysis is concerned with "what is." 173) _____

Answer: True ☒ False

Comment: Recurring

Diff: 2 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

174) Which of the following statements about economic resources is *true*? 174) _____

- A) All economic resources are man-made.
- B) Economic resources include financial capital and money.
- C) Economic resources are used only by businesses.
- D) Economic resources are also called factors of production.

Answer: D

Comment: Recurring

Diff: 1 Type: MC

175) The extra cost associated with undertaking an activity is called 175) _____

- A) opportunity cost.
- B) marginal cost.
- C) foregone cost.
- D) net loss.

Answer: B

Comment: Recurring

Diff: 1 Type: MC

176) Which of the following is a macroeconomic question? 176) _____

- A) What determines the growth rate of gross domestic product?
- B) What determines the salaries of Wall Street executives?
- C) What factors determine the price of electronic cigarettes?
- D) How is the production quantity of snowboards determined?

Answer: A

Comment: Recurring

Diff: 1 Type: MC

177) Economists assume that rational behavior is useful in explaining choices people make 177) _____

- A) because individuals act rationally all the time in all circumstances.
- B) even though people rarely, if ever, behave in a rational manner.
- C) because irrational people do not make economic choices.
- D) even though people may not behave rationally all the time.

Answer: D

Comment: Recurring

Diff: 2 Type: MC

- 178) Pookie's Pinball Palace restores old Pinball machines. Pookie has just spent \$300 purchasing and cleaning a 1960s-era machine which he expects to sell for \$2,000 once he is finished with the restoration. After having spent \$300, Pookie discovers that he will need to rewire the entire machine at a cost of \$1,100 in order to finish the restoration. Alternatively, he can sell the machine "as is" now for \$1,000. What is his marginal benefit if he sells the machine "as is" now? 178) _____
- A) \$300
 - B) \$900
 - C) \$1,000
 - D) The marginal benefit cannot be determined.

Answer: C

Comment: Recurring

Diff: 2 Type: MC

- 179) Which of the following statements about scarcity is *true*? 179) _____
- A) Scarcity is only a problem when a country has too large a population.
 - B) Scarcity is not a problem for the wealthy.
 - C) Scarcity refers to the situation in which unlimited wants exceed limited resources.
 - D) Scarcity only arises when there is a wide disparity in income distribution.

Answer: C

Comment: Recurring

Diff: 1 Type: MC

- 180) One reason some manufacturing companies have moved production from overseas locations back to the United States is an increasing preference by U.S. consumers for products made in the United States. If buyers have increased their preference for domestically produced goods and manufacturers believe they can increase revenues by supplying more of these goods, firms are following which key economic idea when they return production to the United States? 180) _____
- A) The market system relies on the principle of voluntary exchange.
 - B) People respond to economic incentives.
 - C) Optimal decisions are made at the margin.
 - D) People are rational.

Answer: B

Comment:

Diff: 1 Type: MC

- 181) Consider the following economic agents: 181) _____
- a. the government
 - b. consumers
 - c. producers

Who, in a market economy, decides what goods and services will be produced with the scarce resources available in that economy?

- A) producers
- B) the government
- C) consumers
- D) consumers and producers
- E) the government, consumers, and producers

Answer: D

Comment: Recurring

Diff: 1 Type: MC

- 182) The prime minister of the tiny island nation of Wowza has proposed that the speed limit on its only highway be reduced by 10 miles per hour on Thursdays. Enacting this proposal would be optimal 182) _____
- A) as long as the marginal benefit of reducing the speed limit is just equal to or greater than the marginal cost of reducing the speed limit.
 - B) as long as the marginal cost does not rise.
 - C) until the marginal benefit of this action is maximized.
 - D) only if the marginal cost of reducing the speed limit falls to zero.

Answer: A

Comment:

Diff: 2 Type: MC

- 183) DeShawn's Detailing is a service that details cars at the customers' homes or places of work. 183) _____
- DeShawn's cost for a basic detailing package is \$40, and he charges \$75 for this service. For a total price of \$90, DeShawn will also detail the car's engine, a service that adds an additional \$20 to the total cost of the package. What is DeShawn's marginal benefit if he sells a basic detailing package?
- A) \$35
 - B) \$75
 - C) He makes a marginal loss of \$15, not a marginal benefit.
 - D) The marginal benefit cannot be determined.

Answer: B

Comment: Recurring

Diff: 2 Type: MC

- 184) Suppose the U.S. government encouraged consumers to trade in their old automobiles for more efficient, new models by paying up to \$5,000 for the old automobiles. These consumers who did trade in their old automobiles to take advantage of the government offer would be exemplifying the economic idea that 184) _____
- A) people are rational.
 - B) people respond to economic incentives.
 - C) optimal decisions are made at the margin.
 - D) equity is more important than efficiency.

Answer: B

Comment: Recurring

Diff: 2 Type: MC

- 185) How are most fundamental economic decisions now determined in China? 185) _____
- A) The government decides because China is a centrally planned economy.
 - B) Individuals, firms, and the government interact in a market to make these economic decisions.
 - C) These decisions are made by the country's elders who have had much experience in answering these questions.
 - D) The United Nations decides because China is a developing economy.

Answer: B

Comment: Recurring

Diff: 1 Type: MC

- 186) Which of the following is a microeconomic question? 186) _____
- A) What will the level of economic growth be in the entire economy?
 - B) What determines the average price level and inflation?
 - C) How much will be saved and how much will be produced in the entire economy?
 - D) What factors determine the price of carrots?

Answer: D

Comment: Recurring

Diff: 2 Type: MC

- 187) At a recent company meeting, Ravi Batra, sales manager of Life's a Beach, a surfboard producer, announced, "We have increased our sales by 13 percent in just 9 months." Suppose 9 months ago, its sales amounted to \$245,000. What is the value of its sales today? 187) _____
- A) \$31,850
 - B) \$207,638
 - C) \$276,850
 - D) \$359,905

Answer: C

Comment: Recurring

Diff: 2 Type: MC

- 188) Pookie's Pinball Palace restores old Pinball machines. Pookie has just spent \$300 purchasing and cleaning a 1960s-era machine which he expects to sell for \$2,000 once he is finished with the restoration. After having spent \$300, Pookie discovers that he will need to rewire the entire machine at a cost of \$1,100 in order to finish the restoration. Alternatively, he can sell the machine "as is" now for \$1,000. What is the marginal cost of completing the task? 188) _____
- A) \$300
 - B) \$800
 - C) \$1,100
 - D) \$1,400

Answer: C

Comment: Recurring

Diff: 2 Type: MC

- 189) _____ is a situation in which a good or service is produced at the lowest possible cost. 189) _____
- A) Optimal marginalism
 - B) Equity
 - C) Productive efficiency
 - D) Allocative efficiency

Answer: C

Comment: Recurring

Diff: 1 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 190) One example of human capital is the amount of skills that you have. 190) _____
- Answer: ☒ True ☐ False
- Comment: Recurring
- Diff: 1 Type: TF

- 191) One example of physical capital is the amount of savings that you have. 191) _____
- Answer: ☐ True ☒ False
- Comment: Recurring
- Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 192) Which of the following statements about competition in a market is *true*? 192) _____
- A) Competition forces firms to produce and sell products as long as the marginal benefit to consumers exceeds the marginal cost of production.
 - B) Competition forces firms to add only low profit margins to their costs of production.
 - C) Competition forces firms to outsource the production of their labor-intensive products.
 - D) Competition forces firms to undercut their selling price, thus benefiting consumers who will be able to purchase products at the lowest price possible.

Answer: A

Comment: Recurring

Diff: 2 Type: MC

- 193) By definition, economics is the study of 193) _____
- A) how to make money in a market economy.
 - B) the choices people make to attain their goals, given their scarce resources.
 - C) supply and demand.
 - D) how to make money in the stock market.

Answer: B

Comment: Recurring

Diff: 1 Type: MC

- 194) The idea that because of scarcity, producing more of one good or service means producing less of another good or service refers to the economic concept of 194) _____
- A) equity.
 - B) efficiency.
 - C) a trade-off.
 - D) optimization.

Answer: C

Comment: Recurring

Diff: 1 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 195) A primary role of economists is to not only describe how choices are made and analyze the results of those choices, but also to advise on how better decisions can be made. 195) _____

Answer: ☒ True ☐ False

Comment: Recurring

Diff: 1 Type: TF

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 196) Assume that an additional \$50,000 in benefits will be received each year if a town hires an additional police officer whose only job would be to catch drivers who drive over the speed limit on its only street. What must the additional cost of this additional police officer be to make this hiring economically rational?

Answer: The additional cost of the additional police officer must be no more than \$50,000 for the year to make the hiring economically rational.

Comment:

Diff: 2 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 197) Which of the following is a positive economic statement? 197) _____
- A) Raising the tax on gasoline raises the selling price of gasoline.
 - B) The government should ban the production and sale of incandescent light bulbs.
 - C) The government should revamp its immigration policies.
 - D) U.S. citizens should only buy products which are produced in the United States.

Answer: A

Comment: Recurring

Diff: 2 Type: MC

- 198) Trinh quits his \$80,000-a-year job to become a full-time volunteer at a museum. What is the opportunity cost of his decision? 198) _____
- A) depends on the "going rate" of museum employees
 - B) at least \$80,000
 - C) the value he attributes to the joy of working at a museum
 - D) 0 since he will no longer be earning a salary

Answer: B

Comment: Recurring

Diff: 1 Type: MC

- 199) Ford assembles some cars in Mexico because the lower wages the company pays to Mexican workers and the lower prices it pays for auto parts in Mexico reduces Ford's costs. This is an example of Ford reacting to which of the three key economic ideas? 199) _____
- A) People are rational.
 - B) People respond to economic incentives.
 - C) Firms attempt to maximize revenues.
 - D) Optimal decisions are made at the margin.

Answer: B

Comment:

Diff: 2 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 200) Policies based on positive economic ideas tend to decrease economic efficiency and reduce equity. 200) _____

Answer: True ☒ False

Comment: Recurring

Diff: 2 Type: TF

- 201) "An increase in the price of gasoline will increase the demand for hybrid vehicles." This statement is an example of a positive economic statement. 201) _____

Answer: ☒ True ☐ False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

202) Which of the following is a normative economic statement?

202) _____

- A) Rising global demand for coal has led to increases in the price of coal.
- B) The state of Texas is considering increasing funds for light-rail development to promote the use of public transportation.
- C) With rising mortgage rates and rising unemployment rates, the number of unsold homes has increased.
- D) Pharmaceutical manufacturers should not be allowed to patent their products so prescription drugs would be more affordable.

Answer: D

Comment: Recurring

Diff: 2 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

203) Which of the following are positive economic statements and which are normative economic statements?

- a. An increase in the price of gasoline will decrease the quantity of gasoline purchased.
- b. The government should eliminate the minimum wage.
- c. All states should raise the minimum wage to at least \$10 per hour.
- d. The government should scrap its current income tax structure in favor of a flat tax.
- e. Unemployment has increased since the onset of the recession.
- f. The government should not bail out investment banks during a financial crisis.

Answer: Statements a and e are positive economic statements. Statements b, c, d, and f are normative economic statements.

Comment:

Diff: 2 Type: ES

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

204) Which of the following is *not* an example of an economic trade-off that a firm has to face?

204) _____

- A) whether or not consumers will buy its products
- B) whether it is to outsource the production of a good or service
- C) whether it is cheaper to produce with more machines or with more workers
- D) whether it should produce more of its product

Answer: A

Comment: Recurring

Diff: 1 Type: MC

Scenario 1-1

Suppose a cell phone manufacturer currently sells 20,000 cell phones per week and makes a profit of \$5,000 per week. A manager at the plant observes, "Although the last 3,000 cell phones we produced and sold increased our revenue by \$6,000 and our costs by \$6,700, we are still making an overall profit of \$5,000 per week so I think we're on the right track. We are producing the optimal number of cell phones."

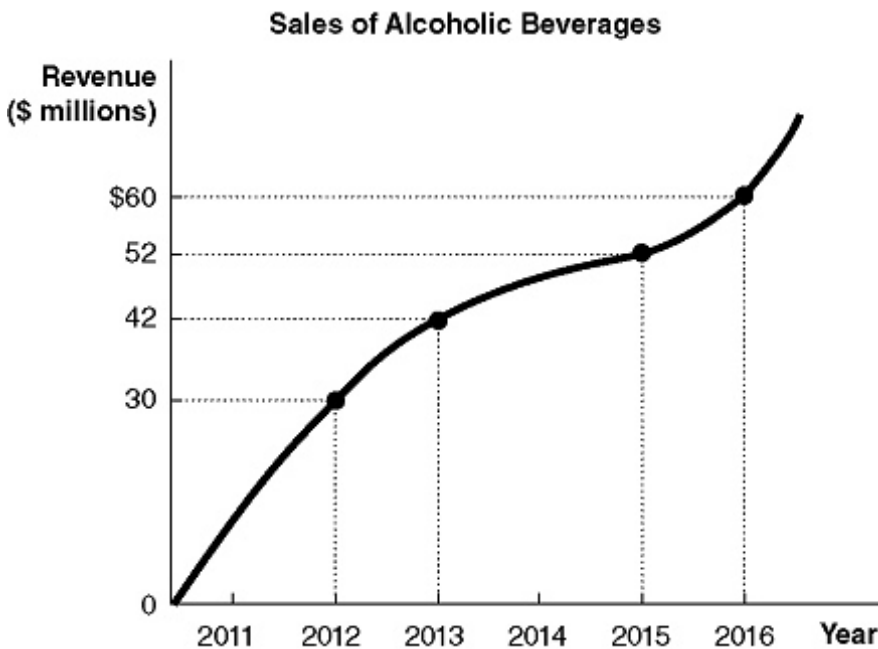
- 205) Refer to Scenario 1-1. Had the firm not produced and sold the last 3,000 cell phones, would its profit be higher or lower, and by how much? 205) _____
- A) Its profit will be \$6,000 lower. B) Its profit will be \$6,700 higher.
C) Its profit will be \$700 lower. D) Its profit will be \$700 higher.

Answer: D

Comment: Recurring

Diff: 2 Type: MC

Figure 1.1



- 206) Refer to Figure 1-1. Using the information in the figure above, calculate the percentage change in revenue from alcoholic beverage sales between 2012 and 2016. 206) _____
- A) 30% B) 50% C) 66.7% D) 100%

Answer: D

Comment:

Diff: 1 Type: MC

- 207) A grocery store sells a bag of potatoes at a fixed price of \$2.30. Which of the following is a term used by economists to describe the money received from the sale of an additional bag of potatoes? 207) _____
- A) marginal revenue
 - B) gross earnings
 - C) net benefit
 - D) marginal costs
 - E) pure profit

Answer: A

Comment: Recurring

Diff: 1 Type: MC

- 208) The Coffee Nook, a small cafe near campus, sells cappuccinos for \$2.50 and Russian tea cakes for \$1.00 each. What is the opportunity cost of buying a Russian tea cake? 208) _____
- A) 2 1/2 cappuccinos
 - B) \$2.50
 - C) 2/5 of a cappuccino
 - D) \$1.00

Answer: C

Comment: Recurring

Diff: 1 Type: MC

- 209) Which of the following is a result of a market economy? 209) _____
- A) environmental protection
 - B) an equal income distribution
 - C) voluntary exchange
 - D) agreement on equity

Answer: C

Comment: Recurring

Diff: 1 Type: MC

- 210) Trina's Tropical Fish Store sells goldfish for \$2 each and angelfish for \$10 each. What is the opportunity cost of buying a goldfish? 210) _____
- A) \$10
 - B) 5 angelfish
 - C) 1/5 of an angelfish
 - D) \$2

Answer: C

Comment: Recurring

Diff: 1 Type: MC

- 211) At a recent faculty meeting, Lorraine Waverly, president of Skywalker College, announced that enrollment is up by 12 percent over the previous semester. If enrollment the previous semester was 3,250 students, what is the student enrollment this semester? 211) _____
- A) 390
 - B) 2,860
 - C) 3,640
 - D) 4,030

Answer: C

Comment: Recurring

Diff: 2 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 212) A college must decide if it wants to offer more Internet-based classes. This decision involves answering the economic question of "what to produce." 212) _____

Answer: ☒ True ☐ False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 213) The U.S. Bureau of Labor Statistics forecasts that by 2024, total employment in U.S. manufacturing will _____ 213) _____
- A) remain the same as it was in 2016. B) decline to 11.4 million.
C) increase to 12.3 million. D) virtually cease to exist.

Answer: B

Comment:

Diff: 1 Type: MC

- 214) Economists assume that individuals _____ 214) _____
- A) behave in unpredictable ways.
B) are rational and respond to incentives.
C) prefer to live in a society that values fairness above all else.
D) will never take actions to help others.

Answer: B

Comment: Recurring

Diff: 1 Type: MC

- 215) Consider the following statements: _____ 215) _____
- a. Consumers buy more MP3 players from an electronics store that sells MP3 players at a lower price than other rival electronics stores in the area.
b. Schools take steps to increase security since they believe it is more costly to allow vandalism than to hire additional security guards.
c. Citrus growers produce more oranges when the selling price of oranges falls.

Which of the above statements demonstrates that economic agents respond to incentives?

- A) a only B) b only C) c only D) a and b E) a, b, and c

Answer: D

Comment: Recurring

Diff: 2 Type: MC

Table 1-1

Extra Hours Open	Total Revenue (dollars)
1	\$50
2	75
3	95
4	110
5	120
6	125

Lydia runs a small nail salon in the town of New Hope. She is debating whether she should extend her hours of operation. Lydia figures that her sales revenue will depend on the number of extra hours the nail salon is open as shown in the table above. She would have to hire a worker for those extra hours at a wage rate of \$10 per hour.

- 216) Refer to Table 1-1. What is Lydia's marginal benefit if she decides to stay open for an extra two hours instead of one hour? 216) _____
- A) \$25 B) \$50 C) \$75 D) \$125

Answer: A

Comment: Recurring

Diff: 2 Type: MC

- 217) The economic analysis of minimum wage involves both normative and positive analysis. Consider the following consequences of a minimum wage: 217) _____
- The minimum wage law causes unemployment.
 - A minimum wage law benefits some groups and hurts others.
 - In some cities such as San Francisco and New York, it would be impossible for low-skilled workers to live comfortably in the city without minimum wage laws.
 - The gains to winners of a minimum wage law should be valued more highly than the losses to losers because the latter primarily comprises businesses.

Which of the consequences above are positive statements and which are normative statements?

- a and b are positive statements, c and d are normative statement.
- a, b, and c are positive statements and d is a normative statement.
- a and c are positive statements, b and d are normative statements.
- Only a is a positive statement, b, c, and d are normative statements.

Answer: A

Comment:

Diff: 2 Type: MC

- 218) In economics, choices must be made because we live in a world of 218) _____
- unemployment.
 - greed.
 - scarcity.
 - unlimited resources.

Answer: C

Comment: Recurring

Diff: 1 Type: MC

- 219) Which of the following statements is *true* about profit? 219) _____
- A) Profit is the difference between revenue and cost.
 - B) The terms "accounting profit" and "economic profit" can be used interchangeably.
 - C) Profit refers to the revenue received from the sale of a quantity of goods.
 - D) Profit is calculated by multiplying price and quantity sold.

Answer: A

Comment: Recurring

Diff: 2 Type: MC

- 220) Who receives the most of what is produced in a market economy? 220) _____
- A) everyone receives an equal amount
 - B) lawmakers and other politically favored groups
 - C) people who earn the highest incomes
 - D) those who are most willing and able to buy them

Answer: D

Comment: Recurring

Diff: 1 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 221) What is a marginal benefit?

Answer: Marginal benefit is the additional benefit received from continuing with an activity.

Comment: Recurring

Diff: 1 Type: ES

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 222) In a centrally planned economy, the households and firms decide how economic resources will be allocated. 222) _____

Answer: True ☐ False ☒

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 223) In economics, the term _____ refers to a group of buyers and sellers of a product and the arrangement by which they come together to trade. 223) _____

A) trade-off B) market C) collective D) cooperative

Answer: B

Comment: Recurring

Diff: 1 Type: MC

Table 1-2

Extra Hours Open	Total Revenue (dollars)
1	\$25
2	45
3	70
4	90
5	105
6	110

Thuy Anh runs a small flower shop in the town of Florabunda. She is debating whether she should extend her hours of operation. Thuy Anh figures that her sales revenue will depend on the number of extra hours the flower shop is open as shown in the table above. She would have to hire a worker for those extra hours at a wage rate of \$16 per hour.

- 224) Refer to Table 1-2. What is Thuy Anh's marginal benefit if she decides to stay open for an extra three hours instead of two hours? 224) _____
- A) \$0 B) \$20 C) \$25 D) \$45 E) \$70

Answer: C

Comment: Recurring

Diff: 2 Type: MC

- 225) The branch of economics which studies how households and firms interact in markets is called 225) _____
- A) macroeconomics. B) normative economics.
C) positive economics. D) microeconomics.

Answer: D

Comment: Recurring

Diff: 1 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 226) "The distribution of income should be determined by the government" is an example of a positive economic statement. 226) _____

Answer: True ☒ False

Comment: Recurring

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 227) Macroeconomics is the study of 227) _____
- A) how households make choices. B) how households and firms make choices.
C) the economy as a whole. D) how firms make choices.

Answer: C

Comment: Recurring

Diff: 1 Type: MC

- 228) Political candidates often hold fundraisers by charging "per plate" for dinner. Wendy purchased four tickets to a \$1,000 per plate dinner for a local city council candidate. Does this transaction benefit both parties? 228) _____
- A) Yes, it was a voluntary exchange that benefited both parties.
 - B) No, political candidates should never be allowed to overcharge for a fundraising dinner as that limits the number of people who can afford to attend.
 - C) No, Wendy paid too much for four dinners.
 - D) Yes, but only if the dinners served actually cost \$1,000 each.

Answer: A

Comment: Recurring

Diff: 2 Type: MC

- 229) Consider the following economic agents: 229) _____
- a. the government
 - b. consumers
 - c. producers

Who, in a centrally planned economy, decides what goods and services will be produced with the scarce resources available in that economy?

- A) producers
- B) consumers
- C) the government
- D) consumers and producers
- E) the government, consumers, and producers

Answer: C

Comment: Recurring

Diff: 1 Type: MC

- 230) If a graph has a line that shows the amount of outsourcing in the last ten years, it is known as 230) _____
- A) a time-series graph.
 - B) a supply curve of outsourcing.
 - C) a demand curve for outsourcing.
 - D) a pie chart.

Answer: A

Comment: Recurring

Diff: 1 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 231) Suppose that to increase sales of hybrid vehicles, auto manufacturers are offering large cash incentives. This is an example of a macroeconomic topic. 231) _____

Answer: True ☒ False

Comment:

Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 232) One reason some manufacturing companies have moved production from overseas locations back to the United States is rising foreign labor costs. Assuming that managers at these companies used all available information, including the rising cost of foreign labor, when making the decision to move production back to the United States exemplifies which key economic idea? 232) _____
- A) People are rational.
 - B) Optimal decisions are made at the margin.
 - C) The market system relies on the principle of voluntary exchange.
 - D) People respond to economic incentives.

Answer: A

Comment:

Diff: 1 Type: MC

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 233) The additional cost to a producer of hiring an additional unit of labor is called the marginal cost. 233) _____
- Answer: ☒ True False
- Comment: Recurring
- Diff: 1 Type: TF

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 234) Marginal analysis involves undertaking an activity 234) _____
- A) only if its marginal costs are greater than its marginal benefits.
 - B) until its marginal costs start declining.
 - C) until its marginal benefits equal marginal costs.
 - D) only when its marginal benefits are positive.

Answer: C

Comment: Recurring

Diff: 1 Type: MC

- 235) Making "how much" decisions involves 235) _____
- A) calculating the average benefit and the average cost of an activity to determine if it is worthwhile undertaking that activity.
 - B) determining the additional benefits and the additional costs of that activity.
 - C) calculating the total costs of the activity and determining if you can afford to incur that expenditure.
 - D) calculating the total benefits of the activity and determining if you are satisfied with that amount.

Answer: B

Comment: Recurring

Diff: 2 Type: MC

- 236) Mr. Peabody chooses to invest in companies that produce goods and services based on consumer preferences. Mr. Peabody is investing in companies that are attempting to be 236) _____
- A) productively efficient.
 - B) allocatively efficient.
 - C) guaranteed to make a profit.
 - D) all of the above

Answer: B

Comment:

Diff: 1 Type: MC

Scenario 1-2

Suppose a hat manufacturer currently sells 2,000 hats per week and makes a profit of \$5,000 per week. The plant owner observes, "Although the last 300 hats we produced and sold increased our revenue by \$1,000 and our costs by \$1,100, we are still making an overall profit of \$5,000 per week so I think we're on the right track. We are producing the optimal number of hats."

- 237) Refer to Scenario 1-2. Using marginal analysis terminology, another economic term for the incremental revenue received from the sale of the last 300 hats is 237) _____
- A) marginal revenue. B) gross earnings.
C) gross profit. D) sales revenue.

Answer: A

Comment: Recurring

Diff: 1 Type: MC

- 238) In economics, the accumulated skills and training that workers have is known as 238) _____
- A) physical capital. B) innovation.
C) entrepreneurship. D) human capital.

Answer: D

Comment: Recurring

Diff: 1 Type: MC

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 239) Suppose a town can earn an additional \$10,000 per year in revenue if it installs a red-light camera at its busiest intersection. At what additional cost would installing this camera not be considered economically rational?

Answer: If the additional cost of the red-light camera exceeds \$10,000 per year, the decision would not be economically rational.

Comment:

Diff: 2 Type: ES

- 240) What is a firm? What other terms do economists use interchangeably with the term "firm"?

Answer: A firm is an organization that produces a good or service. Firms are also called companies or businesses.

Comment: Recurring

Diff: 1 Type: ES

Answer Key

Testname: CH1

- 1) B
Diff: 2 Page Ref: 5
Topic: People Respond to Economic Incentives
- 2) A
Diff: 1 Page Ref: 11
Topic: Efficiency
- 3) FALSE
Diff: 1 Page Ref: 10
Topic: Market Economies
- 4) D
Diff: 1 Page Ref: 17-18
Topic: Firms
- 5) A
Diff: 1 Page Ref: 12
Topic: Economic Models
- 6) TRUE
Diff: 1 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 7) C
Diff: 2 Page Ref: 34
Topic: Cause and Effect
- 8) B
Diff: 2 Page Ref: 9
Topic: Who Will Receive the Goods and Services Produced?
- 9) A
Diff: 1 Page Ref: 35-36
Topic: Slope
- 10) TRUE
Diff: 1 Page Ref: 16
Topic: Microeconomics
- 11) Opportunity cost refers to the highest-valued alternative that must be given up to engage in an activity. For example, the opportunity cost of taking this economics class is what you are giving up to take the class, which may be taking another class such as accounting or psychology, working extra hours at your job, or extra sleep (whichever is your highest-valued alternative).
Diff: 2 Page Ref: 9
Topic: Opportunity Cost
- 12) C
Diff: 1 Page Ref: 16
Topic: Microeconomics
- 13) A
Diff: 1 Page Ref: 10
Topic: What Goods and Services Will Be Produced?
- 14) E
Diff: 3 Page Ref: 5
Topic: People Respond to Economic Incentives
- 15) C
Diff: 1 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin

Answer Key
Testname: CH1

16) C

Diff: 1 Page Ref: 4
Topic: Economic Models

17) TRUE

Diff: 1 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin

18) A

Diff: 2 Page Ref: 5
Topic: People Are Rational

19) D

Diff: 2 Page Ref: 14
Topic: Positive and Normative Analysis

20) B

Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin

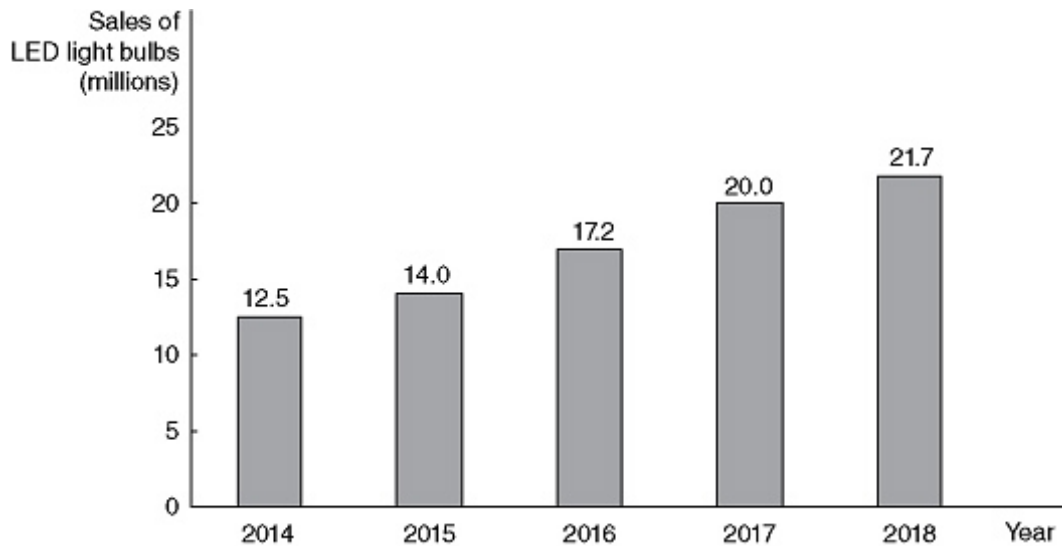
21) FALSE

Diff: 1 Page Ref: 18
Topic: Resources

22) A

Diff: 3 Page Ref: 12
Topic: Efficiency

23)



Diff: 1 Page Ref: 29
Topic: Graphs

24) B

Diff: 3 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin

25) C

Diff: 2 Page Ref: 37
Topic: Formulas

26) TRUE

Diff: 1 Page Ref: 16
Topic: Macroeconomics

Answer Key

Testname: CH1

- 27) A firm's revenue is the total amount received for selling a good or service. It is calculated by multiplying the price per unit by the number of units sold. A firm's profit is the difference between its revenue and its costs.
Diff: 1 Page Ref: 18
Topic: Revenue
- 28) TRUE
Diff: 1 Page Ref: 4
Topic: Scarcity
- 29) An invention is the development of a new good or a new process for making a good. An innovation is the practical application of an invention. Innovation could also refer to any significant improvement in a good or in the means of producing a good.
Diff: 1 Page Ref: 18
Topic: Innovation
- 30) TRUE
Diff: 1 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 31) C
Diff: 2 Page Ref: 37
Topic: Formulas
- 32) D
Diff: 2 Page Ref: 32
Topic: Graphs
- 33) TRUE
Diff: 1 Page Ref: 11
Topic: Market Economies
- 34) C
Diff: 2 Page Ref: 18
Topic: Capital
- 35) Marginal cost is the additional cost associated with continuing with an activity.
Diff: 1 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 36) B
Diff: 2 Page Ref: 14
Topic: Positive and Normative Analysis
- 37) FALSE
Diff: 1 Page Ref: 4
Topic: Scarcity
- 38) C
Diff: 1 Page Ref: 9
Topic: What Goods and Services Will Be Produced?
- 39) A
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 40) D
Diff: 1 Page Ref: 37
Topic: Formulas
- 41) B
Diff: 1 Page Ref: 9
Topic: What Goods and Services Will Be Produced?

Answer Key

Testname: CH1

- 42) C
Diff: 2 Page Ref: 37-38
Topic: Formulas
- 43) D
Diff: 2 Page Ref: 11-12
Topic: Equity
- 44) C
Diff: 1 Page Ref: 11
Topic: Efficiency
- 45) FALSE
Diff: 1 Page Ref: 11
Topic: Mixed Economies
- 46) b, c, and f are primarily macroeconomic topics.
a, d, and e are primarily microeconomic topics.
Diff: 2 Page Ref: 16
Topic: Microeconomics
- 47) A
Diff: 2 Page Ref: 5
Topic: People Are Rational
- 48) B
Diff: 1 Page Ref: 16
Topic: Economic Skills
- 49) B
Diff: 1 Page Ref: 18
Topic: Entrepreneur
- 50) Voluntary exchange is a situation that occurs in markets when both the buyer and seller of a product are made better off by the transaction.
Diff: 2 Page Ref: 11
Topic: Trade-offs
- 51) A
Diff: 1 Page Ref: 11
Topic: Efficiency
- 52) D
Diff: 1 Page Ref: 11
Topic: Efficiency
- 53) B
Diff: 2 Page Ref: 37
Topic: Formulas
- 54) B
Diff: 1 Page Ref: 32
Topic: Positive and Negative Relationships
- 55) C
Diff: 1 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 56) A centrally planned economy is an economy in which the government decides how economic resources will be allocated.
Diff: 3 Page Ref: 10
Topic: Centrally Planned Economies

Answer Key
Testname: CH1

- 57) D
Diff: 3 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 58) An economic model is a simplified version of reality used to analyze real-world economic situations.
Diff: 1 Page Ref: 5
Topic: Economic Models
- 59) TRUE
Diff: 1 Page Ref: 4
Topic: Scarcity
- 60) B
Diff: 3 Page Ref: 9
Topic: Who Will Receive the Goods and Services Produced?
- 61) A
Diff: 2 Page Ref: 5
Topic: People Are Rational
- 62) C
Diff: 2 Page Ref: 10
Topic: Centrally Planned Economies
- 63) Microeconomics is the study of how households and firms make choices, how they interact in markets, and how the government attempts to influence their choices.
Diff: 2 Page Ref: 16
Topic: Microeconomics
- 64) FALSE
Diff: 1 Page Ref: 18
Topic: Resources
- 65) C
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 66) Positive economic analysis is concerned with what is. Positive economic analysis reaches conclusions based on verifiable statements. Normative economic analysis, on the other hand, is concerned with what ought to be. Normative analysis reaches conclusions based on opinions. (Students will give many different examples.)
Diff: 2 Page Ref: 14
Topic: Positive and Normative Analysis
- 67) D
Diff: 1 Page Ref: 11
Topic: What Goods and Services Will Be Produced?
- 68) D
Diff: 2 Page Ref: 11
Topic: Market Economies
- 69) B
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 70) A
Diff: 1 Page Ref: 30
Topic: Graphs
- 71) C
Diff: 1 Page Ref: 34
Topic: Cause and Effect

Answer Key
Testname: CH1

- 72) C
Diff: 3 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 73) D
Diff: 1 Page Ref: 9
Topic: Opportunity Cost
- 74) Equity refers to the fair distribution of economic benefits. In economics, efficiency refers to least cost production (productive efficiency) and producing according to human preferences (allocative efficiency).
Diff: 2 Page Ref: 11-12
Topic: Equity
- 75) B
Diff: 2 Page Ref: 10
Topic: Market Economies
- 76) B
Diff: 1 Page Ref: 4
Topic: Scarcity
- 77) FALSE
Diff: 1 Page Ref: 14
Topic: Positive and Normative Analysis
- 78) B
Diff: 1 Page Ref: 9
Topic: Trade-offs
- 79) Human beings act from a variety of motives, including religious belief, envy, and compassion. "People respond to incentives" means that people will act in the way that they feel is in their best interest.
Diff: 2 Page Ref: 5
Topic: People Respond to Economic Incentives
- 80) D
Diff: 1 Page Ref: 18
Topic: Technology
- 81) B
Diff: 2 Page Ref: 14
Topic: Positive and Normative Analysis
- 82) A
Diff: 2 Page Ref: 34
Topic: Cause and Effect
- 83) C
Diff: 3 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 84) C
Diff: 1 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 85) A
Diff: 2 Page Ref: 31
Topic: Slope
- 86) C
Diff: 1 Page Ref: 10
Topic: Market Economies

Answer Key

Testname: CH1

- 87) An entrepreneur is someone who operates a business. In a market system, entrepreneurs decide what goods and services to produce and how to produce them.
Diff: 1 Page Ref: 18
Topic: Entrepreneur
- 88) A
Diff: 1 Page Ref: 9
Topic: Opportunity Cost
- 89) Productive efficiency is an efficiency criterion that describes a situation in which goods and services are produced at the lowest possible cost. It does not imply allocative efficiency which is a criterion associated with producing goods and services that consumers value most. For example, a manufacturer may be able to produce typewriters at the lowest possible cost of \$200, but this does not necessarily mean that consumers are willing to pay \$200 for a typewriter.
Diff: 3 Page Ref: 11
Topic: Efficiency
- 90) C
Diff: 1 Page Ref: 18
Topic: Households
- 91) B
Diff: 3 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 92) C
Diff: 1 Page Ref: 11
Topic: Efficiency
- 93) A
Diff: 1 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 94) D
Diff: 2 Page Ref: 9
Topic: Opportunity Cost
- 95) "People are rational" means that economists assume consumers and firms will use all available information as they act to achieve their goals. Rational individuals weigh the benefits and costs of each action, and they choose an action only if the benefits exceed the costs.
Diff: 2 Page Ref: 5
Topic: People Are Rational
- 96) A
Diff: 1 Page Ref: 11
Topic: Efficiency
- 97) C
Diff: 1 Page Ref: 9
Topic: Opportunity Cost
- 98) A
Diff: 2 Page Ref: 5
Topic: People Are Rational
- 99) A
Diff: 2 Page Ref: 31
Topic: Slope
- 100) A
Diff: 2 Page Ref: 5-7
Topic: People Respond to Economic Incentives

Answer Key
Testname: CH1

101) FALSE

Diff: 1 Page Ref: 7

Topic: Optimal Decisions Are Made at the Margin

102) TRUE

Diff: 1 Page Ref: 9

Topic: What Goods and Services Will Be Produced?

103) FALSE

Diff: 1 Page Ref: 4

Topic: Scarcity

104) In economics, the word "marginal" means "extra" or "additional." Economists reason that the optimal decision is to continue any activity up to the point where the marginal benefit equals the marginal cost, so optimal decisions are made at the point where the extra benefit received from an activity is equal to the extra cost associated with that activity.

Diff: 2 Page Ref: 7

Topic: Optimal Decisions Are Made at the Margin

105) B

Diff: 1 Page Ref: 7

Topic: Optimal Decisions Are Made at the Margin

106) D

Diff: 1 Page Ref: 4

Topic: Markets

107) C

Diff: 1 Page Ref: 16

Topic: Macroeconomics

108) A

Diff: 1 Page Ref: 18

Topic: Invention

109) A

Diff: 1 Page Ref: 33

Topic: Positive and Negative Relationships

110) A

Diff: 2 Page Ref: 9

Topic: Trade-offs

111) B

Diff: 2 Page Ref: 9

Topic: Trade-offs

112) A

Diff: 2 Page Ref: 12

Topic: Efficiency

113) A

Diff: 2 Page Ref: 10

Topic: Centrally Planned Economies

114) B

Diff: 2 Page Ref: 14

Topic: Positive and Normative Analysis

115) C

Diff: 1 Page Ref: 17

Topic: Economic Skills

Answer Key
Testname: CH1

- 116) A
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 117) A
Diff: 1 Page Ref: 9
Topic: What Goods and Services Will Be Produced?
- 118) D
Diff: 1 Page Ref: 17
Topic: Economic Skills
- 119) B
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 120) A
Diff: 1 Page Ref: 10
Topic: Centrally Planned Economies
- 121) TRUE
Diff: 1 Page Ref: 5
Topic: Markets
- 122) FALSE
Diff: 2 Page Ref: 7-8
Topic: Optimal Decisions Are Made at the Margin
- 123) C
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 124) D
Diff: 1 Page Ref: 13
Topic: Economic Models
- 125) C
Diff: 1 Page Ref: 18
Topic: Entrepreneur
- 126) D
Diff: 2 Page Ref: 14
Topic: Positive and Normative Analysis
- 127) C
Diff: 1 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 128) C
Diff: 2 Page Ref: 16
Topic: Macroeconomics
- 129) A
Diff: 2 Page Ref: 18
Topic: Capital
- 130) TRUE
Diff: 1 Page Ref: 4
Topic: Economic Models
- 131) D
Diff: 1 Page Ref: 10
Topic: Centrally Planned Economies

Answer Key

Testname: CH1

- 132) B
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 133) Economics is a social science because it studies the actions of individuals. As a social science, economics considers human behavior, particularly decision-making behavior, in every context.
Diff: 2 Page Ref: 15
Topic: Economics as a Social Science
- 134) A
Diff: 1 Page Ref: 16
Topic: Microeconomics
- 135) A
Diff: 2 Page Ref: 14
Topic: Positive and Normative Analysis
- 136) D
Diff: 2 Page Ref: 15-16
Topic: Positive and Normative Analysis
- 137) D
Diff: 3 Page Ref: 12
Topic: Equity
- 138) A
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 139) FALSE
Diff: 1 Page Ref: 10
Topic: Centrally Planned Economies
- 140) TRUE
Diff: 2 Page Ref: 7-8
Topic: Optimal Decisions Are Made at the Margin
- 141) D
Diff: 1 Page Ref: 11
Topic: Efficiency
- 142) B
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 143) C
Diff: 2 Page Ref: 37
Topic: Formulas
- 144) FALSE
Diff: 1 Page Ref: 16
Topic: Macroeconomics
- 145) C
Diff: 2 Page Ref: 14
Topic: Positive and Normative Analysis
- 146) A
Diff: 2 Page Ref: 10
Topic: Market Economies
- 147) TRUE
Diff: 1 Page Ref: 17
Topic: Economic Skills

Answer Key

Testname: CH1

- 148) D
Diff: 1 Page Ref: 17
Topic: Economic Skills
- 149) B
Diff: 3 Page Ref: 12
Topic: Efficiency
- 150) A
Diff: 2 Page Ref: 11
Topic: Efficiency
- 151) C
Diff: 1 Page Ref: 11
Topic: Efficiency
- 152) C
Diff: 3 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 153) An economic variable is something measurable that can have different values, such as the wages of software programmers.
Diff: 1 Page Ref: 13
Topic: Economic Models
- 154) A
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 155) D
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 156) TRUE
Diff: 1 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 157) B
Diff: 1 Page Ref: 16
Topic: Microeconomics
- 158) B
Diff: 1 Page Ref: 5-7
Topic: People Respond to Economic Incentives
- 159) FALSE
Diff: 1 Page Ref: 14
Topic: Positive and Normative Analysis
- 160) A
Diff: 1 Page Ref: 12
Topic: Equity
- 161) A
Diff: 2 Page Ref: 31
Topic: Slope
- 162) B
Diff: 1 Page Ref: 38
Topic: Formulas
- 163) A
Diff: 1 Page Ref: 35
Topic: Cause and Effect

Answer Key

Testname: CH1

- 164) A
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 165) A
Diff: 1 Page Ref: 18
Topic: Technology
- 166) FALSE
Diff: 1 Page Ref: 11
Topic: Market Economies
- 167) B
Diff: 1 Page Ref: 12
Topic: Economic Models
- 168) C
Diff: 2 Page Ref: 12
Topic: Equity
- 169) Goods are tangible merchandise such as cell phones or automobiles. Services are activities done for others, such as providing medical care or legal advice.
Diff: 1 Page Ref: 18
Topic: Goods and Services
- 170) C
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 171) A mixed economy is an economy in which most economic decisions result from the interaction of buyers and sellers in markets but in which the government plays a significant role in the allocation of resources.
Diff: 3 Page Ref: 12
Topic: Market Economies
- 172) The four main factors of production are labor, capital, natural resources, and entrepreneurial ability.
Diff: 1 Page Ref: 18
Topic: Resources
- 173) FALSE
Diff: 2 Page Ref: 14
Topic: Positive and Normative Analysis
- 174) D
Diff: 1 Page Ref: 18
Topic: Resources
- 175) B
Diff: 1 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 176) A
Diff: 1 Page Ref: 16
Topic: Macroeconomics
- 177) D
Diff: 2 Page Ref: 5
Topic: People Are Rational
- 178) C
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 179) C
Diff: 1 Page Ref: 4
Topic: Scarcity

Answer Key
Testname: CH1

- 180) B
Diff: 1 Page Ref: 5
Topic: People Respond to Economic Incentives
- 181) D
Diff: 1 Page Ref: 10
Topic: What Goods and Services Will Be Produced?
- 182) A
Diff: 2 Page Ref: 7-8
Topic: Optimal Decisions Are Made at the Margin
- 183) B
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 184) B
Diff: 2 Page Ref: 5
Topic: People Respond to Economic Incentives
- 185) B
Diff: 1 Page Ref: 11
Topic: Mixed Economies
- 186) D
Diff: 2 Page Ref: 16
Topic: Microeconomics
- 187) C
Diff: 2 Page Ref: 37
Topic: Formulas
- 188) C
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 189) C
Diff: 1 Page Ref: 11
Topic: Efficiency
- 190) TRUE
Diff: 1 Page Ref: 19
Topic: Human Capital
- 191) FALSE
Diff: 1 Page Ref: 18
Topic: Capital
- 192) A
Diff: 2 Page Ref: 10
Topic: Market Economies
- 193) B
Diff: 1 Page Ref: 4
Topic: Scarcity
- 194) C
Diff: 1 Page Ref: 9
Topic: Trade-offs
- 195) TRUE
Diff: 1 Page Ref: 17
Topic: Economic Skills

Answer Key

Testname: CH1

- 196) The additional cost of the additional police officer must be no more than \$50,000 for the year to make the hiring economically rational.
Diff: 2 Page Ref: 7-8
Topic: People Are Rational
- 197) A
Diff: 2 Page Ref: 14
Topic: Positive and Normative Analysis
- 198) B
Diff: 1 Page Ref: 9
Topic: Opportunity Cost
- 199) B
Diff: 2 Page Ref: 2
Topic: Scarcity
- 200) FALSE
Diff: 2 Page Ref: 14
Topic: Positive and Normative Analysis
- 201) TRUE
Diff: 1 Page Ref: 14
Topic: Positive and Normative Analysis
- 202) D
Diff: 2 Page Ref: 14
Topic: Positive and Normative Analysis
- 203) Statements a and e are positive economic statements. Statements b, c, d, and f are normative economic statements.
Diff: 2 Page Ref: 14
Topic: Positive and Normative Analysis
- 204) A
Diff: 1 Page Ref: 9
Topic: Trade-offs
- 205) D
Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 206) D
Diff: 1 Page Ref: 37
Topic: Formulas
- 207) A
Diff: 1 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin
- 208) C
Diff: 1 Page Ref: 9
Topic: Opportunity Cost
- 209) C
Diff: 1 Page Ref: 11
Topic: Market Economies
- 210) C
Diff: 1 Page Ref: 9
Topic: Opportunity Cost
- 211) C
Diff: 2 Page Ref: 37
Topic: Formulas

Answer Key

Testname: CH1

212) TRUE

Diff: 1 Page Ref: 9

Topic: What Goods and Services Will Be Produced?

213) B

Diff: 1 Page Ref: 19

Topic: Human Capital

214) B

Diff: 1 Page Ref: 5

Topic: People Are Rational

215) D

Diff: 2 Page Ref: 5

Topic: People Respond to Economic Incentives

216) A

Diff: 2 Page Ref: 7

Topic: Optimal Decisions Are Made at the Margin

217) A

Diff: 2 Page Ref: 14

Topic: Positive and Normative Analysis

218) C

Diff: 1 Page Ref: 4

Topic: Scarcity

219) A

Diff: 2 Page Ref: 18

Topic: Profit

220) D

Diff: 1 Page Ref: 10

Topic: Who Will Receive the Goods and Services Produced?

221) Marginal benefit is the additional benefit received from continuing with an activity.

Diff: 1 Page Ref: 7

Topic: Optimal Decisions Are Made at the Margin

222) FALSE

Diff: 1 Page Ref: 10

Topic: Centrally Planned Economies

223) B

Diff: 1 Page Ref: 4

Topic: Markets

224) C

Diff: 2 Page Ref: 7

Topic: Optimal Decisions Are Made at the Margin

225) D

Diff: 1 Page Ref: 16

Topic: Microeconomics

226) FALSE

Diff: 1 Page Ref: 14

Topic: Positive and Normative Analysis

227) C

Diff: 1 Page Ref: 16

Topic: Macroeconomics

Answer Key

Testname: CH1

228) A

Diff: 2 Page Ref: 11
Topic: Market Economies

229) C

Diff: 1 Page Ref: 10
Topic: What Goods and Services Will Be Produced?

230) A

Diff: 1 Page Ref: 29
Topic: Graphs

231) FALSE

Diff: 1 Page Ref: 16
Topic: Microeconomics

232) A

Diff: 1 Page Ref: 5
Topic: People Are Rational

233) TRUE

Diff: 1 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin

234) C

Diff: 1 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin

235) B

Diff: 2 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin

236) B

Diff: 1 Page Ref: 11
Topic: Efficiency

237) A

Diff: 1 Page Ref: 7
Topic: Optimal Decisions Are Made at the Margin

238) D

Diff: 1 Page Ref: 19
Topic: Human Capital

239) If the additional cost of the red-light camera exceeds \$10,000 per year, the decision would not be economically rational.

Diff: 2 Page Ref: 7-8
Topic: Optimal Decisions Are Made at the Margin

240) A firm is an organization that produces a good or service. Firms are also called companies or businesses.

Diff: 1 Page Ref: 17-18
Topic: Firms