TT TEXTBOOK TESTBANKS

Test Bank for Microeconomics 9th Hubbard

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Microeconomics, 9e (Hubbard)
Chapter 1 Economics: Foundations and Models

1.1 Three Key Economic Ideas

1) Apple assembles most iPhones in China and India because the lower wages earned by Chinese and Indian workers and their experience in electronics manufacturing reduce the costs of assembling iPhones. This is an example of Apple reacting to which of the three key economic ideas?
A) People are rational.
B) People respond to economic incentives.
C) Optimal decisions are made at the margin.
D) Firms attempt to maximize revenues.
Answer: B
Diff: 2
Topic: Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Chapter Opener: Should Apple Manufacture the iPhone in the United States?

2) In economics, choices must be made because we live in a world of
A) unemployment.
B) scarcity.
C) greed.
D) unlimited resources.
Answer: B
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

3) Which of the following statements about scarcity is *true*?
A) Scarcity refers to the situation in which unlimited wants exceed limited resources.
B) Scarcity is not a problem for the wealthy.
C) Scarcity is only a problem when a country has too large a population.
D) Scarcity only arises when there is a wide disparity in income distribution.
Answer: A
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

4) The basic economic problem of ________ has always existed and will continue to exist.
A) scarcity
B) efficiency
C) inflation
D) recession
Answer: A
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

5) By definition, economics is the study of
A) how to make money in the stock market.
B) how to make money in a market economy.
C) the choices people make to attain their goals, given their scarce resources.
D) supply and demand.
Answer: C
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

6) An economic ________ is a simplified version of some aspect of economic life used to analyze an economic issue.
A) market
B) trade-off
C) variable
D) model
Answer: D
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

7) Where do economic agents such as individuals, firms, and nations interact with each other?
A) in public locations monitored by the government
B) in any arena that brings together buyers and sellers
C) in any physical location where people can physically get together for selling goods, such as shopping malls
D) in any location where transactions can be monitored by consumer groups and taxed by the government
Answer: B
Diff: 1
Topic: Markets
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

8) 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.
A) collective
B) cooperative
C) market
D) trade-off
Answer: C
Diff: 1
Topic: Markets
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

9) Economists assume that individuals
A) behave in unpredictable ways.
B) will never take actions to help others.
C) prefer to live in a society that values fairness above all else.
D) are rational and respond to incentives.
Answer: D
Diff: 1
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

10) Economists assume that rational behavior is useful in explaining choices people make
A) because irrational people do not make economic choices.
B) even though people may not behave rationally all the time.
C) because individuals act rationally all the time in all circumstances.
D) even though people rarely, if ever, behave in a rational manner.
Answer: B
Diff: 2
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

11) Economists assume that rational people do all of the following *except*
A) use all available information as they act to achieve their goals.
B) undertake activities that benefit others and hurt themselves.
C) weigh the benefits and costs of all possible alternative actions.
D) respond to economic incentives.
Answer: B
Diff: 2
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

12) 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.
A) equitably
B) rationally
C) emotionally
D) selfishly
Answer: B
Diff: 2
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

13) Consider the following statements:
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 energy drink 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, b, and c
Answer: D
Diff: 3
Topic: People Respond to Economic Incentives
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

14) 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
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
Diff: 2
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

15) 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
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
Diff: 2
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

16) 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
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
Diff: 2
Topic: People Respond to Economic Incentives
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

17) Suppose the U.S. government encouraged consumers to trade in their old automobiles for more efficient, new electric 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
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
Diff: 2
Topic: People Respond to Economic Incentives
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

18) The Pharmaceuticals and Research Manufacturers of America requested changes including 25 percent tax credits for pharmaceutical companies to build and expand manufacturing facilities , asserting the changes would promote domestic expansion and prevent product shortages. Pharmaceutical manufacturers using all available information, including whether to respond to tax-credit incentives to expand production, exemplifies which key economic idea?
A) People are rational.
B) People respond to economic incentives.
C) Optimal decisions are made at the margin.
D) The market system relies on the principle of voluntary exchange.
Answer: A
Diff: 1
Topic: People Are Rational
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: An Inside Look: Will Biden's Strategy Expand the U.S. Biotechnology Industry?

19) Leaders in the U.S. pharmaceutical industry have asked the Biden administration for tax breaks and subsidies for U.S. drug manufacturers to assist in domestic expansion and to help compete with foreign producers. Offering tax breaks and subsidies reflects an attempt to get firms to follow which key economic idea?
A) People are rational.
B) People respond to economic incentives.
C) Optimal decisions are made at the margin.
D) The market system relies on the principle of voluntary exchange.
Answer: B
Diff: 1
Topic: People Respond to Economic Incentives
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: An Inside Look: Will Biden's Strategy Expand the U.S. Biotechnology Industry?

20) If the Biden administration is successful in implementing changes to the student loan program where students could expect to pay back only half of what they borrowed, and this resulted in students actually borrowing more money than initially planned, the students would be following which key economic idea?
A) People are allocatively efficient.
B) People respond to economic incentives.
C) Optimal decisions are made at the margin.
D) The market system relies on the principle of voluntary exchange.
Answer: B
Diff: 2
Topic: People Respond to Economic Incentives
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Apply the Concept: Will Changes to the Federal Student Loan Program Unintentionally Give Colleges an Incentive to Increase Tuition?

21) The total value of outstanding student loans in the United States in 2023 was about
A) $37 billion.
B) $52 billion.
C) $825 billion.
D) $1.5 trillion.
Answer: D
Diff: 1
Topic: People Respond to Economic Incentives
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
Special Feature: Apply the Concept: Will Changes to the Federal Student Loan Program Unintentionally Give Colleges an Incentive to Increase Tuition?

22) In economics, the term ________ means "additional" or "extra."
A) allocative
B) marginal
C) equity
D) optimal
Answer: B
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

23) A grocery store sells a bag of potatoes at a fixed price of $3.75. Which of the following is a term used by economists to describe the money received from the sale of an additional bag of potatoes?
A) marginal revenue
B) gross earnings
C) pure profit
D) marginal costs
Answer: A
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

24) Economists reason that the optimal decision is to continue any activity up to the point where the
A) marginal benefit is zero.
B) marginal benefit is greater than the marginal cost.
C) marginal cost is zero.
D) marginal benefit equals the marginal cost.
Answer: D
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

25) Marginal analysis involves undertaking an activity
A) until its marginal costs start declining.
B) only when its marginal benefits are positive.
C) until its marginal benefits equal marginal costs.
D) only if its marginal costs are greater than its marginal benefits.
Answer: C
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

26) The revenue received from the sale of ________ of a product is a marginal benefit to the firm.
A) an additional unit
B) the total number of units
C) no units
D) only profitable units
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

27) Making optimal decisions "at the margin" requires
A) making decisions according to one's whims and fancies.
B) making consistently irrational decisions.
C) weighing the costs and benefits of a decision before deciding if it should be pursued.
D) making borderline decisions.
Answer: C
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

28) Making "how much" decisions involves
A) calculating the total benefits of the activity and determining if you are satisfied with that amount.
B) calculating the total costs of the activity and determining if you can afford to incur that expenditure.
C) calculating the average benefit and the average cost of an activity to determine if it is worthwhile undertaking that activity.
D) determining the additional benefits and the additional costs of that activity.
Answer: D
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

29) The extra cost associated with undertaking an activity is called
A) net loss.
B) marginal cost.
C) opportunity cost.
D) foregone cost.
Answer: B
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

30) 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 $60, and he charges $95 for this service. For a total price of $120, DeShawn will also detail the car's engine, a service that adds an additional $30 to the total cost of the package. What is DeShawn's marginal benefit if he sells a basic detailing package?
A) $60
B) $95
C) He makes a marginal loss of $25, not a marginal benefit.
D) The marginal benefit cannot be determined.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

31) 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 $60, and he charges $95 for this service. For a total price of $120, DeShawn will also detail the car's engine, a service that adds an additional $30 to the total cost of the package. What is the marginal cost of adding the engine detailing to the basic detailing package?
A) $30
B) $35
C) $85
D) $85 plus the value of his time
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

32) 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 $60, and he charges $95 for this service. For a total price of $120, DeShawn will also detail the car's engine, a service that adds an additional $30 to the total cost of the package. Should DeShawn continue to offer the engine detailing service?
A) Yes, he still makes a profit by selling the engine detailing service with the basic detailing package.
B) Yes, but only if he raises the price of the basic detailing package.
C) No, his marginal benefit is less than his marginal cost.
D) More information is needed for DeShawn to make this decision.
Answer: C
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

33) 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?
A) $35
B) $60
C) $95
D) The marginal benefit cannot be determined.
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

34) 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?
A) $35
B) $40
C) $80
D) $175
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

35) 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?
A) Yes, she still makes a profit by selling the 3-color application.
B) Yes, but only if she lowers the price of the 1-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: A
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
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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."

36) ***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?
A) gross earnings
B) marginal revenue
C) sales revenue
D) gross profit
Answer: B
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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37) ***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?
A) marginal cost
B) operating cost
C) explicit cost
D) Any of the above terms are correct.
Answer: A
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

38) ***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?
A) Its profit will be $6,700 higher.
B) Its profit will be $700 higher.
C) Its profit will be $700 lower.
D) Its profit will be $6,000 lower.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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

39) ***Refer to Table 1-1.*** Using marginal analysis, by how many hours should Lydia extend the nail salon's hours of operations?
A) 2 hours
B) 3 hours
C) 4 hours
D) 5 hours
Answer: D
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

40) ***Refer to Table 1-1.*** What is Lydia's marginal benefit if the salon stays open for an extra two hours instead of one hour?
A) $25
B) $50
C) $75
D) $125
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

41) ***Refer to Table 1-1.*** What is Lydia's marginal cost if the salon stays open for an extra two hours instead of one hour?
A) $10
B) $20
C) $25
D) $40
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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.

42) ***Refer to Table 1-2.*** Using marginal analysis, by how many hours should Thuy Anh extend her flower shop's hours of operations?
A) 2 hours
B) 3 hours
C) 4 hours
D) 5 hours
Answer: C
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

43) ***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?
A) $0
B) $20
C) $25
D) $45
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

44) ***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?
A) $0
B) $16
C) $25
D) $32
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

45) Soo Jin shares a one-bedroom apartment with her classmate. Her share of the rent is $800 per month. She is considering moving to a studio apartment which she will not have to share with anyone. The studio apartment rents for $1,100 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
A) Soo Jin did not have a choice; her roommate was a slob.
B) Soo Jin figures that the additional benefit of having her own place (as opposed to sharing) is at least $300.
C) Soo Jin figures that the additional benefit of having her own place (as opposed to sharing) is at least $1,100.
D) the cost of having one's own space outweighs the benefits.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

46) Suppose the managers at Six Flags Over Texas were trying to decide whether to reduce operations from 7 days a week to just weekends due a labor shortage following the Covid-19 pandemic. Reducing operations from 7 days a week to just weekends would be optimal
A) only if the marginal cost of reducing operations to just weekends falls to zero.
B) as long as the marginal benefit of reducing operations to just weekends is just equal to or greater than the marginal cost of reducing operations to just weekends.
C) as long as the marginal cost does not rise.
D) until the marginal benefit of this action is maximized.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Solved Problem: The Marginal Benefit and Marginal Cost of Opening Walt Disney World during the Covid-19 Pandemic

47) Consider the following statements:
a. Consumers buy more wireless earbuds from an electronics store that sells wireless earbuds 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
Answer: D
Diff: 2
Topic: People Respond to Economic Incentives
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

48) A restaurant sells a large soft drink at a fixed price of $1.79. A term used by economists to describe the money received from the sale of an additional large soft drink is
A) marginal revenue.
B) gross earnings.
C) pure profit.
D) net benefit.
Answer: A
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

49) The ________ the sale of an additional unit of a product is a marginal benefit to the firm.
A) revenue received from
B) extra cost of
C) total value of
D) sales tax on
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

50) Which of the following is an example of a "how much" decision?
A) Dinah's Diner is only open for breakfast and lunch. Dinah is trying to decide whether to open for dinner as well.
B) Zander has torn up his front yard and is debating whether to plant grass or install a rock garden.
C) 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.
D) Sergio quit his job to go back to school full time.
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

51) 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?
A) $300
B) $900
C) $1,000
D) The marginal benefit cannot be determined.
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

52) 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?
A) $300
B) $800
C) $1,100
D) $1,400
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

53) 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?
A) He should sell the machine now to make the most profit.
B) It does not matter what he does; he is going to take a loss on his project.
C) He should rewire the machine, complete the task and then sell the machine.
D) 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.
Answer: A
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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."

54) ***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
A) gross earnings.
B) marginal revenue.
C) sales revenue.
D) gross profit.
Answer: B
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

55) ***Refer to Scenario 1-2***. Using marginal analysis terminology, another economic term for the incremental cost of producing the last 300 hats is
A) marginal cost.
B) operating cost.
C) explicit cost.
D) Any of the above terms are correct.
Answer: A
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

56) ***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?
A) Its profit will be $1,100 higher.
B) Its profit will be $100 higher.
C) Its profit will be $100 lower.
D) Its profit will be $1,000 lower.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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.

57) ***Refer to Table 1-3.*** Using marginal analysis, by how many hours should Santiago extend his store's hours of operations?
A) 2 hours
B) 3 hours
C) 4 hours
D) 5 hours
Answer: C
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

58) ***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
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

59) ***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?
A) $18
B) $36
C) $38
D) $102
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

60) 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
A) Damian cannot afford the newer truck and will have to go back to sharing a truck with his sister.
B) Damian figures that the additional benefit of having his own truck (as opposed to sharing) is at least $900.
C) Damian figures that the additional benefit of having his own truck (as opposed to sharing) is at least $1,400.
D) the cost of having one's own truck outweighs the benefits.
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

Table 1-4

Extra Hours Open	Total Revenue (dollars)
1	$200
2	360
3	480
4	560
5	600
6	620

Tatiana runs an acupuncture clinic in Boston. She is debating whether she should extend her hours of operation. Tatiana figures that her sales revenue will depend on the number of extra hours the clinic is open as shown in the table above. She would have to hire a worker for those extra hours at a wage rate of $45 per hour.

61) ***Refer to Table 1-4.*** Using marginal analysis, by how many hours should Tatiana extend her clinic's hours of operations?
A) 2 hours
B) 3 hours
C) 4 hours
D) 5 hours
Answer: C
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

62) ***Refer to Table 1-4.*** What is Tatiana's marginal benefit if she decides to stay open for an extra two hours instead of one hour?
A) $120
B) $160
C) $200
D) $360
Answer: B
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

63) ***Refer to Table 1-4.*** What is Tatiana's marginal cost if she decides to stay open for an extra two hours instead of one hour?
A) $45
B) $90
C) $160
D) $360
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

64) Harriet's Mobile Hair Salon is a business that provides hair styling at the customer's home. Harriet's cost for a basic haircut is $10, and she charges $35 for this service. For a total price of $50, Harriet will also shampoo and blow dry a customer's hair, a service that adds an additional $5 to the total cost of the package. What is Harriet's marginal benefit if she just provides a basic haircut?
A) $10
B) $15
C) $35
D) The marginal benefit cannot be determined.
Answer: C
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

65) Harriet's Mobile Hair Salon is a business that provides hair styling at the customer's home. Harriet's cost for a basic haircut is $10, and she charges $35 for this service. For a total price of $50, Harriet will also shampoo and blow dry a customer's hair, a service that adds an additional $5 to the total cost of the package. What is Harriet's marginal cost of adding the shampoo and blow dry to the basic haircut?
A) $5
B) $15
C) $35
D) $50
Answer: A
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

66) Harriet's Mobile Hair Salon is a business that provides hair styling at the customer's home. Harriet's cost for a basic haircut is $10, and she charges $35 for this service. For a total price of $50, Harriet will also shampoo and blow dry a customer's hair, a service that adds an additional $5 to the total cost of the package. Should Harriet continue to offer the shampoo and blow dry service?
A) Yes, her marginal benefit is greater than her marginal cost.
B) Yes, but only if she raises the price of the basic haircut.
C) No, her marginal benefit is less than her marginal cost.
D) More information is needed for Harriet to make this decision.
Answer: A
Diff: 3
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

67) Scarcity refers to a situation in which unlimited wants exceed the limited resources available to fulfill those wants.
Answer: TRUE
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

68) Scarcity is a problem that will eventually disappear as technology advances.
Answer: FALSE
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

69) An economic model is a simplified version of reality used to analyze real-world economic situations.
Answer: TRUE
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

70) The sales revenue a seller receives from the sale of an additional unit of goods is called the marginal benefit.
Answer: TRUE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

71) Optimal decisions are made at the point where marginal cost equals zero.
Answer: FALSE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

72) 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.
Answer: TRUE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

73) Suppose the extra cost for an amusement park to increase its operations from 9 to 12 months a year is $1.5 million per year. The amusement park should increase operations to 12 months a year if it can generate an additional benefit of $1.5 million per year.
Answer: TRUE
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Solved Problem: The Marginal Benefit and Marginal Cost of Opening Walt Disney World during the Covid-19 Pandemic

74) All economic questions arise from the fact that resources are unlimited.
Answer: FALSE
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

75) Even if the population declines, scarcity will still exist.
Answer: TRUE
Diff: 1
Topic: Scarcity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

76) The term "market" refers to trading arrangements by which buyers and sellers come together.
Answer: TRUE
Diff: 1
Topic: Markets
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

77) The additional cost to a producer of hiring an additional unit of labor is called the marginal cost.
Answer: TRUE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

78) Marginal benefit refers to the additional benefit that your activity provides to you.
Answer: TRUE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

79) 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.
Answer: TRUE
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

80) Suppose the extra cost to a carnival of increasing its hours from 12 to 16 hours per day is $40,000 per year. The carnival should increase its hours from 12 to 16 hours per day if doing so results in an additional benefit of less than $40,000 per year.
Answer: FALSE
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Solved Problem: The Marginal Benefit and Marginal Cost of Opening Walt Disney World during the Covid-19 Pandemic

81) 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.
Diff: 2
Topic: People Are Rational
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

82) 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.
Diff: 2
Topic: People Respond to Economic Incentives
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

83) What is meant by the statement that "optimal decisions are made at the margin"?
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.
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

84) Assume that an additional $800,000 in benefits will be received each year from the U.S. Postal Service delivering packages for Amazon on Sundays. What must the additional cost of this Sunday delivery policy be to make this policy economically rational?
Answer: The additional cost to the U.S. Postal Service of Sunday delivery for Amazon packages must be no more than $8000,000 for the year to make the policy economically rational.
Diff: 2
Topic: People Are Rational
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Solved Problem: The Marginal Benefit and Marginal Cost of Opening Walt Disney World during the Covid-19 Pandemic

85) What is an economic model?
Answer: An economic model is a simplified version of reality used to analyze real-world economic situations.
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

86) What is a marginal benefit?
Answer: Marginal benefit is the additional benefit received from continuing with an activity.
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

87) What is a marginal cost?
Answer: Marginal cost is the additional cost associated with continuing with an activity.
Diff: 1
Topic: Optimal Decisions Are Made at the Margin
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

88) 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.
Diff: 2
Topic: Optimal Decisions Are Made at the Margin
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Solved Problem: The Marginal Benefit and Marginal Cost of Opening Walt Disney World during the Covid-19 Pandemic

1.2 The Economic Problem That Every Society Must Solve

1) The three fundamental questions that any economy must address are:
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) Who gets jobs; what wages do workers earn; and who owns what property?
D) How much will be saved; what will be produced; and how can these goods and services be fairly distributed?
Answer: B
Diff: 1
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

2) 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
A) optimization.
B) efficiency.
C) a trade-off.
D) equity.
Answer: C
Diff: 1
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

3) Society faces a trade-off in all of the following situations *except*
A) when deciding who will receive the goods and services produced.
B) when deciding what goods and services will be produced.
C) when deciding how goods and services will be produced.
D) when some previously unemployed workers find jobs.
Answer: D
Diff: 2
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

4) Which of the following statements is *true*?
A) Any time you have to decide which action to take you are experiencing economic equity.
B) Trade-offs do not apply when the consumers purchase a product for which there is excess supply, such as with a stock clearance sale.
C) Every individual, no matter how rich or poor, is faced with situations that require trade-offs.
D) Economics is a social science that studies the trade-offs we are forced to make because resources are unlimited.
Answer: C
Diff: 2
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

5) Which of the following is *not* an example of an economic trade-off that a firm has to face?
A) whether it is cheaper to produce with more machines or with more workers
B) whether it is to outsource the production of a good or service
C) whether or not consumers will buy its products
D) whether it should produce more of its product
Answer: C
Diff: 1
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

6) The highest-valued alternative that must be given up to engage in an activity is the definition of
A) economic equity.
B) marginal benefit.
C) opportunity cost.
D) marginal cost.
Answer: C
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

7) Billie's Billiard Barn has seen its business slow down ever since Patti's Ping Pong Parlour opened 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) decreased
B) increased
C) fallen to zero
D) not changed
Answer: B
Diff: 2
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

8) 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
B) 2/5 of a Russian tea cake
C) $2.50
D) $1.00
Answer: A
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

9) 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?
A) 2 1/2 cappuccinos
B) 2/5 of a cappuccino
C) $2.50
D) $1.00
Answer: B
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

10) Arlene quits her $125,000-a-year job to take care of her ailing parents. What is the opportunity cost of her decision?
A) zero, since she will no longer be earning a salary
B) It depends on the "going rate" for home-care providers.
C) at least $125,000
D) the value she attributes to the satisfaction she receives from taking care of her parents
Answer: C
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

11) The distribution of income primarily determines which of the fundamental economic questions?
A) What goods and services are to be produced?
B) How the goods and services are to be produced?
C) Who will receive the goods and services produced?
D) How will the economy be planned?
Answer: C
Diff: 2
Topic: Who Will Receive the Goods and Services Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

12) 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?
A) How to produce goods that consumers want?
B) Why produce a variety of automobiles?
C) What to produce?
D) Who to produce automobiles for?
Answer: C
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

13) Consider the following economic agents:
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) the government
B) producers
C) consumers
D) consumers and producers
Answer: A
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

14) The decision about what goods and services will be produced in a market economy is made by
A) lawmakers in the government voting on what will be produced.
B) workers deciding to produce only what the boss says must be produced.
C) producers deciding what society wants most.
D) consumers and firms choosing which goods and services to buy or produce.
Answer: D
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

15) Which of the following statements about the economic decisions consumers, firms, and the government have to make is *false*?
A) Governments face the problem of scarcity in making economic decisions.
B) Only individuals face scarcity; firms and the government do not.
C) Both firms and individuals face scarcity.
D) Each faces the problem of scarcity which necessitates trade-offs in making economic decisions.
Answer: B
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

16) 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?
A) 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.
B) Failure to do this could lead to an inequitable allocation of goods and services produced.
C) Failure to do this will lead to drastic shortages of all goods and services.
D) Failure to do this could reduce efficiency and lead to an inequitable allocation of output.
Answer: A
Diff: 3
Topic: Who Will Receive the Goods and Services Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

17) Who receives the most of what is produced in a market economy?
A) lawmakers and other politically favored groups
B) those who are most willing and able to buy them
C) everyone receives an equal amount
D) people who earn the highest incomes
Answer: B
Diff: 1
Topic: Who Will Receive the Goods and Services Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

18) How are the fundamental economic decisions determined in North Korea?
A) Individuals, firms, and the government interact in a market to make these economic decisions.
B) These decisions are made by the country's elders who have had much experience in answering these questions.
C) The government decides because North Korea is a centrally planned economy.
D) The United Nations decides because North Korea is a developing economy.
Answer: C
Diff: 1
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

19) How are the fundamental economic questions answered in a market economy?
A) The government alone decides the answers.
B) Individuals, firms, and the government interact in markets to decide the answers to these questions.
C) Households and firms interact in markets to decide the answers to these questions.
D) Large corporations alone decide the answers.
Answer: C
Diff: 2
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

20) Which of the following is a problem inherent in centrally planned economies?
A) Households and firms make poor decisions in choosing how resources are allocated.
B) There is too little production of low-cost, high-quality goods and services.
C) Production managers are more concerned with satisfying consumer wants than with satisfying government's orders.
D) Exports tend to exceed imports.
Answer: B
Diff: 2
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

21) All of the following contributed to the downfall of the Soviet Union in 1991 *except*
A) public dissatisfaction with low living standards and political repression.
B) an inability to produce low-cost consumer goods that households wanted.
C) lack of high-quality goods and services.
D) lack of a strong dictator who could coordinate economic activities.
Answer: D
Diff: 2
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

22) ________ is a situation in which a good or service is produced at the lowest possible cost.
A) Allocative efficiency
B) Productive efficiency
C) Equity
D) Optimal marginalism
Answer: B
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

23) Productive efficiency is achieved when
A) firms add a low profit margin to the goods and services they produce.
B) firms produce the goods and services that consumers value most.
C) firms produce goods and services at the lowest cost.
D) there are no shortages or surpluses in the market.
Answer: C
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

24) When production reflects consumer preferences, ________ occurs.
A) allocative efficiency
B) productive efficiency
C) equity
D) efficient central planning
Answer: A
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

25) Allocative efficiency is achieved when firms produce goods and services
A) at the lowest possible cost.
B) that consumers value most.
C) at the lowest opportunity cost.
D) at a marginal cost of zero.
Answer: B
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

26) Markets promote
A) equity and competition.
B) voluntary exchange and equality.
C) equity and equality.
D) competition and voluntary exchange.
Answer: D
Diff: 2
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

27) Which of the following statements about competition in a market is *true*?
A) Competition forces firms to outsource the production of their labor-intensive products.
B) Competition forces firms to undercut their selling price, thus benefiting consumers who will be able to purchase products at the lowest price possible.
C) Competition forces firms to produce and sell products as long as the marginal benefit to consumers exceeds the marginal cost of production.
D) Competition forces firms to add only low profit margins to their costs of production.
Answer: C
Diff: 2
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

28) ________ 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) Competition
B) Voluntary exchange
C) Equity
D) A centrally planned economy
Answer: A
Diff: 1
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

29) Which of the following generates productive efficiency?
A) competition among sellers
B) competition among buyers
C) government inspectors
D) government production rules and regulations
Answer: A
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

30) Voluntary exchange between buyers and sellers generates ________ in a market economy.
A) scarcity
B) allocative efficiency
C) productive efficiency
D) equity
Answer: B
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

31) Which of the following is a result of a market economy?
A) environmental protection
B) an equal income distribution
C) agreement on equity
D) voluntary exchange
Answer: D
Diff: 1
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

32) 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?
A) 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.
B) Yes, it was a voluntary exchange that benefited both parties.
C) No, Wendy paid too much for four dinners.
D) Yes, but only if the dinners served actually cost $1,000 each.
Answer: B
Diff: 2
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

33) In economics, the term "equity" means
A) everyone has an equal standard of living.
B) the hardest working individuals consume all they want.
C) only elected officials have high standards of living.
D) economic benefits are distributed fairly.
Answer: D
Diff: 1
Topic: Equity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

34) Which of the following is motivated by an equity concern?
A) Some states have transferred funds to food bank programs in order to increase benefits to lower-income families.
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) The United States offers patent protection to pharmaceutical manufacturers to prevent others from duplicating their products.
Answer: A
Diff: 3
Topic: Equity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

35) Which of the following is motivated by an efficiency concern?
A) In December 2006, the Bush administration restarted a short-term housing assistance program for victims of Hurricane Katrina.
B) 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.
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) 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.
Answer: C
Diff: 3
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

36) Which of the following is an example of an efficiency-equity trade-off faced by economic agents?
A) 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.
B) 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.
C) Some U.S. colleges are actively recruiting foreign students for their technology-based programs.
D) All New York City art museums are considering adopting a free-admission policy for local residents one weekend per month.
Answer: A
Diff: 3
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

37) Which of the following correctly describes the relationship between economic efficiency and economic equity?
A) They are both automatically achieved in a free market economy.
B) They always call for opposite outcomes.
C) There is no conflict between the two goals.
D) There is often a trade-off between the two.
Answer: D
Diff: 2
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

38) Allocative efficiency best explains ________, and productive efficiency best explains ________.
A) how something will be produced; when 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) what will be produced; how something will be produced
Answer: D
Diff: 2
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

39) Trina's Tropical Fish Store sells goldfish for $2 each and angelfish for $10 each. What is the opportunity cost of buying a goldfish?
A) 5 angelfish
B) 1/5 of an angelfish
C) $10
D) $2
Answer: B
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

40) 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?
A) 0 since he will no longer be earning a salary
B) depends on the "going rate" of museum employees
C) at least $80,000
D) the value he attributes to the joy of working at a museum
Answer: C
Diff: 1
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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?
A) How to produce goods that consumers want?
B) Why produce a variety of items?
C) What to produce?
D) Who to produce the items for?
Answer: C
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

42) Consider the following economic agents:
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) the government
B) producers
C) consumers
D) consumers and producers
Answer: D
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

43) In a modern mixed economy, who decides what goods and services will be produced?
A) only the producers
B) only consumers
C) only the government
D) producers, consumers, and government
Answer: D
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

44) How are most fundamental economic decisions now determined in China?
A) Individuals, firms, and the government interact in a market to make these economic decisions.
B) These decisions are made by the country's elders who have had much experience in answering these questions.
C) The government decides because China is a centrally planned economy.
D) The United Nations decides because China is a developing economy.
Answer: A
Diff: 1
Topic: Mixed Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

45) When every good or service is produced up to the point where the last unit provides ________, allocative efficiency occurs.
A) a marginal benefit to society equal to the marginal cost of producing it
B) a marginal benefit to society greater than the marginal cost of producing it
C) a marginal benefit to society less than the marginal cost of producing it
D) a marginal benefit to society equal to zero
Answer: A
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

46) Voluntary exchange ________ economic efficiency because neither the buyer nor the seller would agree to a trade unless ________.
A) increases; they both benefit
B) increases; only one party benefits
C) decreases; neither benefit
D) decreases; they both benefit
Answer: A
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

47) All centrally planned economies
A) have been political dictatorships.
B) started out as market economies.
C) began as mixed economies.
D) have become mixed economies.
Answer: A
Diff: 1
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

48) 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
A) allocatively efficient.
B) productively efficient.
C) guaranteed to make a profit.
D) all of the above
Answer: B
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

49) 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
A) allocatively efficient.
B) productively efficient.
C) guaranteed to make a profit.
D) all of the above
Answer: A
Diff: 1
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

50) 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?
A) No, people should never be allowed to sell items they received for free.
B) Yes, it was a voluntary exchange that benefited both parties.
C) No, the buyer paid too much for the ticket.
D) Yes, but it is efficient only from the perspective of the seller and not from the perspective of the buyer.
Answer: B
Diff: 2
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

Article Summary

According to a U.S. Department of Commerce news blog, geographic income inequality in the United States has increased by more than 40% from 1980 to 2021. This income gap between richer places and poorer places has even increased over the past few years despite recent wage growth being strongest for lower-wage workers. Geographic income inequality is measured as the variation in average income in all places across the country. The increase in geographic income inequality was largely due to the richer places getting richer than to the poorer places getting poorer. For poorer areas, real per-capita income grew between 55 and 60 percent, while for richer areas, the growth rate was between 80 and 172 percent. Economic activity has increased in these richer areas, which tend to be larger metropolitan areas, and economic activity becoming more concentrated in a small number of places has widened the gap in the distribution of income.

Source: Jed Kolko, "Geographic Inequality on the Rise in the U.S.", U.S. Department of Commerce, June 15, 2023.

51) ***Refer to the Article Summary***. The article discusses income inequality and how economic growth has not resulted in a more equitable distribution of income. What is meant by a more equitable distribution of income?

A) a more allocatively efficient distribution of income

B) a more productively efficient distribution of income

C) a more fair distribution of income

D) income distributed based on wealth levels

Answer: C

Diff: 2

Topic: Equity

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytical thinking

Special Feature: Apply the Concept: Geographic Inequality on the Rise in the U.S.

52) ***Refer to the Article Summary***. The article discusses income inequality and how economic growth has not resulted 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?

A) No, an increase in equity will result in a more efficient level of production and saving.

B) No, greater production and saving will take place regardless of the level of equity.

C) Yes, there is often a trade-off between efficiency and equity.

D) Yes, a reduction of the income gap necessitates a reduction in production and saving.

Answer: C

Diff: 2

Topic: Equity

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytical thinking

Special Feature: Apply the Concept: Geographic Inequality on the Rise in the U.S.

53) The government makes all economic decisions in a mixed economy.
Answer: FALSE
Diff: 1
Topic: Mixed Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

54) When voluntary exchange takes place, both parties gain from the exchange.
Answer: TRUE
Diff: 1
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

55) A college must decide if it wants to offer more Internet-based classes. This decision involves answering the economic question of "what to produce."
Answer: TRUE
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

56) One desirable outcome of a market economy is that it leads to a more equitable distribution of income.
Answer: FALSE
Diff: 1
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

57) The government makes all economic decisions in a market economy.
Answer: FALSE
Diff: 1
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

58) When voluntary exchange takes place, neither party gains from the exchange.
Answer: FALSE
Diff: 1
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

59) A college must decide if it wants to offer more adult literacy classes. This decision involves answering the economic question of "what to produce."
Answer: TRUE
Diff: 1
Topic: What Goods and Services Will Be Produced?
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

60) In a centrally planned economy, the households and firms decide how economic resources will be allocated.
Answer: FALSE
Diff: 1
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

61) 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).
Diff: 2
Topic: Equity
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

62) 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).
Diff: 2
Topic: Opportunity Cost
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

63) 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.
Diff: 3
Topic: Efficiency
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

64) 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.
Diff: 3
Topic: Centrally Planned Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

65) 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.
Diff: 2
Topic: Trade-offs
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

66) 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.
Diff: 3
Topic: Market Economies
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

1.3   Economic Models

1) Economic models do all of the following *except*
A) answer economic questions.
B) portray reality in all its minute details.
C) make economic ideas explicit and concrete for use by decision makers.
D) simplify some aspect of economic life.
Answer: B
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

2) All of the following are part of an economic model *except*
A) assumptions.
B) hypotheses.
C) data.
D) opinions.
Answer: D
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

3) Which of the following statements about positive economic analysis is *false*?
A) Positive analysis uses an economic model to estimate the costs and benefits of different course of actions.
B) There is much more disagreement among economists over normative economic analysis than over positive economic analysis.
C) There is much more disagreement among economists over positive economic analysis than over normative economic analysis.
D) Unlike normative economic analysis, positive economic analysis can be tested.
Answer: C
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

4) Which of the following is a positive economic statement?
A) The standard of living in the United States should be higher.
B) If the price of iPhones falls, a larger quantity of iPhones will be purchased.
C) The government should revamp the health care system.
D) The U.S. government should not have bailed out U.S. auto manufacturers.
Answer: B
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

5) Which of the following is a positive economic statement?
A) People should not buy SUVs.
B) The government should mandate electric automobiles.
C) Scarcity necessitates that people make trade-offs.
D) Foreign workers should not be allowed to work for lower wages than the citizens of a country.
Answer: C
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

6) Which of the following is a normative economic statement?
A) Rising global demand for coal has led to increases in the price of coal.
B) With rising mortgage rates and rising unemployment rates, the number of unsold homes has increased.
C) The state of Texas is considering increasing funds for light-rail development to promote the use of public transportation.
D) Pharmaceutical manufacturers should not be allowed to patent their products so prescription drugs would be more affordable.
Answer: D
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

7) Which of the following is a normative economic statement?
A) The price of gasoline is too high.
B) The current high price of gasoline is the result of strong worldwide demand.
C) When the price of gasoline rises, the quantity of gasoline purchased falls.
D) When the price of gasoline rises, transportation costs rise.
Answer: A
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

8) All of the following questions or statements regarding tariffs are positive statements *except:*
A) Economic models can be used to estimate the dollar amounts gained by the winners from the imposition of a tariff.
B) Economic analysis can, by itself, decide whether a tariff proposal should be enacted.
C) Economic analysis can show the size of the loss of economic efficiency from the imposition of a tariff.
D) Economic models can be used to estimate the dollar amounts lost by the losers from the imposition of a tariff.
Answer: B
Diff: 2
Topic: Positive and Normative Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Apply the Concept: What Can Economics Contribute to the Debate over Tariffs?

9) The economic analysis of minimum wage involves both normative and positive analysis. Consider the following consequences of a minimum wage:
a. The minimum wage law causes unemployment.
b. A minimum wage law benefits some groups and hurts others.
c. 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.
d. 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) a, b, and c are positive statements and d is a normative statement.
B) a and b are positive statements, c and d are normative statement.
C) Only a is a positive statement, b, c, and d are normative statements.
D) a and c are positive statements, b and d are normative statements.
Answer: B
Diff: 2
Topic: Positive and Normative Analysis
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking
Special Feature: Don't Let This Happen to You: Don't Confuse Positive Analysis with Normative Analysis

10) Which of the following is part of an economic model?
A) norms
B) hypotheses
C) opinions
D) preferences of economic agents
Answer: B
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

11) Which of the following is a positive economic statement?
A) The standard of living in the United States is too low.
B) If the price of beef falls, a larger quantity of it will be bought.
C) The government should implement a national consumption tax.
D) The U.S. government should increase regulations on the banking industry.
Answer: B
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

12) Which of the following is a positive economic statement?
A) U.S. citizens should only buy products which are produced in the United States.
B) The government should ban the production and sale of incandescent light bulbs.
C) Raising the tax on gasoline raises the selling price of gasoline.
D) The government should revamp its immigration policies.
Answer: C
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

13) Which of the following is a normative economic statement?
A) Rising corn prices have increased the price of corn-based ethanol.
B) With rising home prices and falling mortgage interest rates, the amount of home foreclosures has decreased.
C) The federal government is considering increasing regulations on the use of fossil fuels to promote the use of wind power.
D) Farmers should not be allowed to grow and sell genetically-modified crops.
Answer: D
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Ethical understanding and reasoning

14) Which of the following is a normative economic statement?
A) The price of wheat is too low.
B) The current low price of wheat is the result of increased worldwide supply.
C) When the price of wheat falls, the quantity of wheat purchased rises.
D) When the price of wheat falls, the cost of wheat-based products falls.
Answer: A
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

15) "An increase in the price of gasoline will increase the demand for hybrid vehicles." This statement is an example of a positive economic statement.
Answer: TRUE
Diff: 1
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

16) "The distribution of income should be left to the market" is an example of a positive economic statement.
Answer: FALSE
Diff: 1
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

17) Positive analysis is concerned with "what ought to be," while normative analysis is concerned with "what is."
Answer: FALSE
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

18) "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.
Answer: FALSE
Diff: 1
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

19) "The distribution of income should be determined by the government" is an example of a positive economic statement.
Answer: FALSE
Diff: 1
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

20) Policies based on positive economic ideas tend to decrease economic efficiency and reduce equity.
Answer: FALSE
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

21) 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.)
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

22) 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.
Diff: 2
Topic: Economics as a Social Science
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

23) What is an economic variable?
Answer: An economic variable is something measurable that can have different values, such as the wages of software programmers.
Diff: 1
Topic: Economic Models
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

24) 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.
Diff: 2
Topic: Positive and Normative Analysis
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

1.4 Microeconomics and Macroeconomics

1) Which of the following is a microeconomic question?
A) How much will be saved and how much will be produced in the entire economy?
B) What will the level of economic growth be in the entire economy?
C) What factors determine the price of carrots?
D) What determines the average price level and inflation?
Answer: C
Diff: 2
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

2) Microeconomics is the study of
A) how households and firms make choices.
B) the economy as a whole.
C) the global economy.
D) topics such as unemployment, inflation, and economic growth.
Answer: A
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

3) Which of the following is a macroeconomic question?
A) What determines the inflation rate?
B) What determines the production of electric scooters?
C) What factors determine the price of carrots?
D) What determines the wage of auto workers?
Answer: A
Diff: 2
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

4) Macroeconomics is the study of
A) how households make choices.
B) how firms make choices.
C) how households and firms make choices.
D) the economy as a whole.
Answer: D
Diff: 1
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

5) Which of the following is a microeconomic question?
A) Why do economies experience periods of high inflation?
B) Will Federal Reserve intervention lower the inflation rate?
C) Why has growth in the economy increased since the end of the recession?
D) Will the merger of Kroger and Albertsons increase or decrease grocery prices?
Answer: D
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

6) The branch of economics which studies how households and firms interact in markets is called
A) macroeconomics.
B) microeconomics.
C) positive economics.
D) normative economics.
Answer: B
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

7) Which of the following is a macroeconomic question?
A) What determines the growth rate of gross domestic product?
B) How is the production quantity of snowboards determined?
C) What factors determine the price of electronic cigarettes?
D) What determines the salaries of Wall Street executives?
Answer: A
Diff: 1
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

8) The branch of economics which studies the behavior of entire economies is called
A) public economics.
B) microeconomics.
C) macroeconomics.
D) normative economics.
Answer: C
Diff: 1
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

9) When Mr. Peabody decides on the companies to which he will donate his time and money, a ________ issue is being addressed.
A) microeconomic
B) macroeconomic
C) positive economic
D) normative economic
Answer: A
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

10) Examining the conditions that could lead to a recession in an economy is an example of a macroeconomic topic.
Answer: TRUE
Diff: 1
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

11) The decisions Apple makes in determining production levels for its iPhone is an example of a microeconomic topic.
Answer: TRUE
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

12) Examining the conditions that could lead to unemployment in an economy is an example of a microeconomic topic.
Answer: FALSE
Diff: 1
Topic: Macroeconomics
*: Recurring
Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns
AACSB: Analytical thinking

13) Suppose that to increase sales of hybrid vehicles, auto manufacturers are offering large cash incentives. This is an example of a macroeconomic topic.
Answer: FALSE
Diff: 1
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

14) 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.
Diff: 2
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

15) 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.
Diff: 2
Topic: Microeconomics
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

1.5 Economic Skills and Economics as a Career

1) Which of the following statements is *true*?
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) Only business managers and individuals can improve decision making by using economic principles.
D) Government policymakers, business managers, and individuals can all improve decision making by using economic principles.
Answer: D
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

2) Economists spend much of their time
A) describing how choices are made and analyzing the results of those choices.
B) arguing that optimal decisions are rarely made at the margin.
C) using normative analysis to develop economic models.
D) telling businesses what goods and services to produce and how to produce them.
Answer: A
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

3) Of the following examples, which would most likely be performed by an economist working for the U.S. Federal Trade Commission?
A) forecasting employment trends in New England
B) assessing whether Amazon should build its new headquarters in New York or Texas
C) analyzing data related to a potential merger of two companies
D) using economic models to forecast future inflation rates
Answer: C
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

4) Of the following examples, which would likely be performed by an economist working for Apple?
A) forecasting the demand for wearable technology that synchronizes with the iPhone
B) using economic models to analyze the future of cell phone usage in the United States
C) analyzing data related to a potential buyout of semiconductor manufacturer Intel Corp
D) all of the above
Answer: D
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

5) Individuals can use economic principles to improve their decision-making process.
Answer: TRUE
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

6) 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.
Answer: TRUE
Diff: 1
Topic: Economic Skills
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

1.6 A Preview of Important Economic Terms

1) Which of the following statements is *true* about profit?
A) Profit refers to the revenue received from the sale of a quantity of goods.
B) Profit is calculated by multiplying price and quantity sold.
C) The terms "accounting profit" and "economic profit" can be used interchangeably.
D) Profit is the difference between revenue and cost.
Answer: D
Diff: 2
Topic: Profit
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

2) In economics, the accumulated skills and training that workers have is known as
A) human capital.
B) entrepreneurship.
C) physical capital.
D) innovation.
Answer: A
Diff: 1
Topic: Human Capital
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

3) Which of the following is an example of an activity undertaken by an entrepreneur?
A) washing and ironing your own shirts instead of taking them to the cleaners
B) holding a position as the president of a liberal arts college
C) running for the president of the United States
D) starting your own pet sitting business
Answer: D
Diff: 1
Topic: Entrepreneur
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

4) The machines that workers have to work with are considered
A) human capital.
B) physical capital.
C) entrepreneurship.
D) financial capital.
Answer: B
Diff: 2
Topic: Capital
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

5) Technology is defined as
A) the process of developing and revising models.
B) new innovations and creations.
C) the processes used to produce goods and services.
D) the process of recycling products.
Answer: C
Diff: 1
Topic: Technology
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

6) Which of the following statements about economic resources is *true*?
A) Economic resources include financial capital and money.
B) Economic resources are also called factors of production.
C) Economic resources are used only by businesses.
D) All economic resources are man-made.
Answer: B
Diff: 1
Topic: Resources
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

7) The development of a new good or a new process for making a good is called
A) an innovation.
B) an invention.
C) a factor of production.
D) a service.
Answer: B
Diff: 1
Topic: Invention
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

8) In economics, an organization that produces a good or service is called a
A) firm.
B) company.
C) business.
D) All of the above are correct.
Answer: D
Diff: 1
Topic: Firms
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

9) Which of the following is an example of an activity undertaken by an entrepreneur?
A) deciding whether to purchase a gasoline-powered automobile or an electric vehicle
B) being appointed as the head of a charitable organization
C) running for a seat on the city council
D) starting your own cigar manufacturing business
Answer: D
Diff: 1
Topic: Entrepreneur
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

10) In economics, all of the following is counted as "capital" *except*
A) money.
B) machine tools.
C) factory buildings.
D) warehouses.
Answer: A
Diff: 2
Topic: Capital
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

11) A firm's technology may depend on which of the following factors?
A) the skill of its managers
B) the training of its workers
C) the speed and efficiency of its equipment
D) all of the above
Answer: D
Diff: 1
Topic: Technology
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

12) Households ________ factors of production and ________ goods and services.
A) supply; demand
B) supply; supply
C) demand; supply
D) demand; demand
Answer: A
Diff: 1
Topic: Households
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

13) The U.S. Bureau of Labor Statistics forecasts that by 2031, total employment in U.S. manufacturing will
A) decline to 12.2 million.
B) increase to 12.8 million.
C) remain the same as it was in 2019.
D) virtually cease to exist.
Answer: A
Diff: 1
Topic: Human Capital
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
Special Feature: Economics in Your Life & Career: Should You Consider a Career in Manufacturing?

14) In the market for factors of production, firms earn income by selling goods and services to households.
Answer: FALSE
Diff: 1
Topic: Resources
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

15) One example of human capital is the amount of skills that you have.
Answer: TRUE
Diff: 1
Topic: Human Capital
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

16) In the market for factors of production, firms earn income by selling factors of production to households.
Answer: FALSE
Diff: 1
Topic: Resources
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

17) One example of physical capital is the amount of savings that you have.
Answer: FALSE
Diff: 1
Topic: Capital
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

18) List the four main factors of production.
Answer: The four main factors of production are labor, capital, natural resources, and entrepreneurial ability.
Diff: 1
Topic: Resources
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

19) 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.
Diff: 1
Topic: Innovation
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

20) Explain the difference between a firm's revenue and its profit.
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.
Diff: 1
Topic: Revenue
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

21) 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.
Diff: 1
Topic: Goods and Services
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

22) 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.
Diff: 1
Topic: Entrepreneur
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

23) 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.
Diff: 1
Topic: Firms
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

1.7 Appendix: Using Graphs and Formulas

1) If a graph has a line that shows the amount of outsourcing in the last ten years, it is known as
A) a pie chart.
B) a time-series graph.
C) a demand curve for outsourcing.
D) a supply curve of outsourcing.
Answer: B
Diff: 1
Topic: Graphs
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

2) ________ have a horizontal and a vertical axis and are used in economics to illustrate relationships between two economic variables.
A) Two-dimensional graphs
B) One-dimensional graphs
C) Pie Charts
D) Bar graphs
Answer: A
Diff: 1
Topic: Graphs
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

3) 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 11 divided by 6.
B) seven-tenths.
C) negative seven-tenths.
D) 6 divided by 11.
Answer: C
Diff: 2
Topic: Slope
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

4) On a two-dimensional graph, ________ illustrate the effects of additional variables.
A) moving along a curve
B) shifting curves
C) eliminating a curve
D) adding an additional curve
Answer: B
Diff: 2
Topic: Graphs
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

5) Which of the following statements is *false*?
A) An inverse relationship has a negative slope value.
B) A direct relationship has a positive slope value.
C) A curved line has slope values that change at every point.
D) A straight line has a slope of zero.
Answer: D
Diff: 2
Topic: Slope
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

6) The relationship between consumer spending and disposable personal income is
A) an inverse relationship.
B) a direct relationship.
C) a negative relationship.
D) independent.
Answer: B
Diff: 1
Topic: Positive and Negative Relationships
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

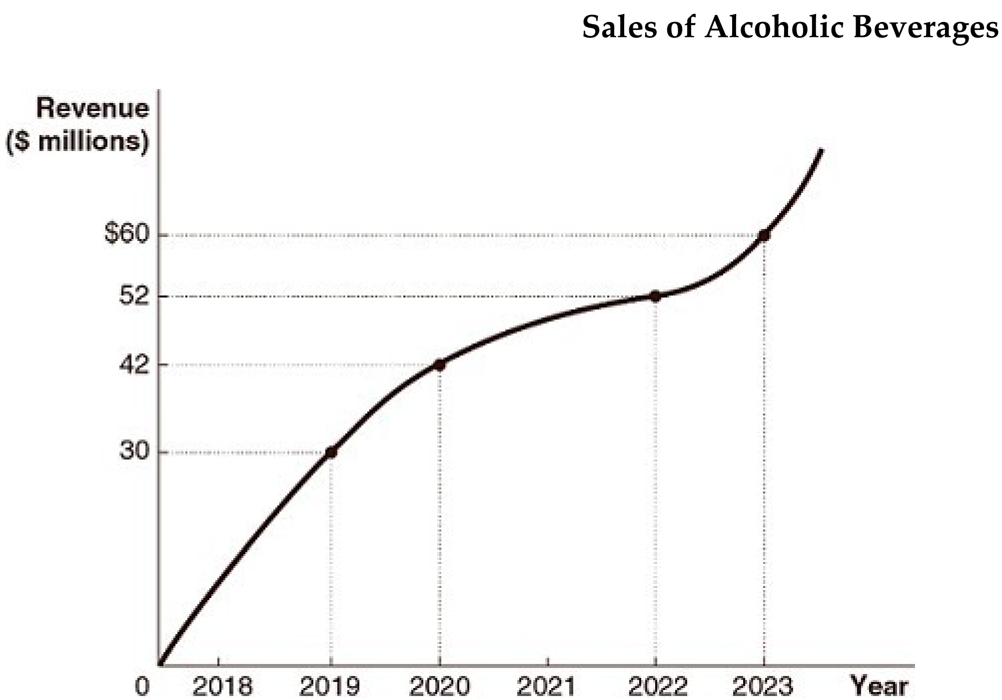
7) Suppose when the price of laptops fall, college students buy more laptops. This implies that
A) there is a positive relationship between laptop prices and quantities purchased by college students.
B) there is a negative relationship between laptop prices and quantities purchased by college students.
C) there is a direct relationship between laptop prices and quantities purchased by college students.
D) there is a one-to-one relationship between laptop prices and quantities purchased by college students.
Answer: B
Diff: 1
Topic: Positive and Negative Relationships
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

8) 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?
A) 13 percent
B) 30 percent
C) 75 percent
D) 77 percent
Answer: B
Diff: 2
Topic: Formulas
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

9) In 2022, Hooverville consumed 205,000 tons of sugar. In 2023, sugar consumption rose to 245,000 tons. Calculate the percentage change in sugar consumption.
A) 8.37%
B) 11.95%
C) 19.51%
D) 26.33%
Answer: C
Diff: 2
Topic: Formulas
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

10) 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?
A) 390
B) 2,860
C) 3,640
D) 4,030
Answer: C
Diff: 2
Topic: Formulas
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

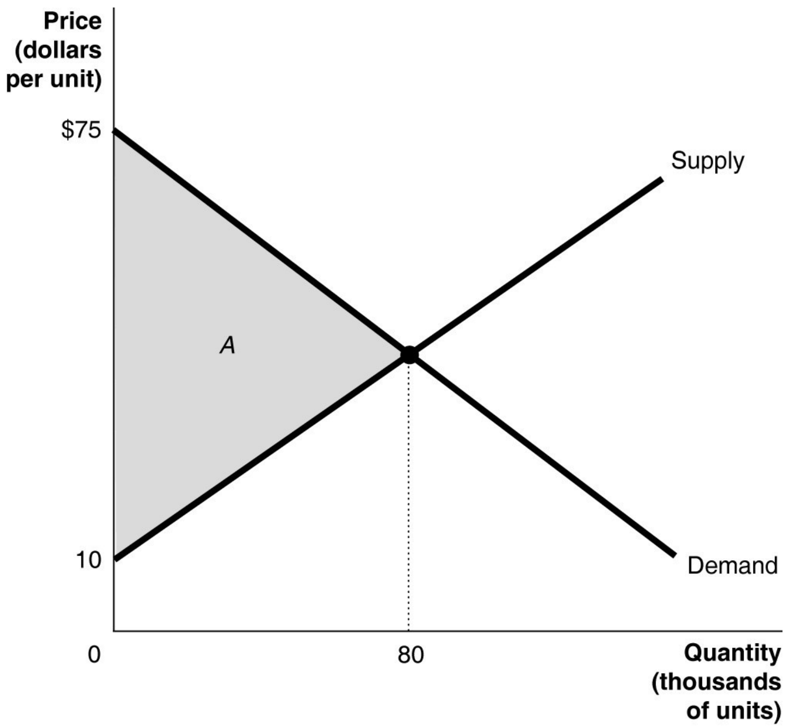
Figure 1.1



11) ***Refer to Figure 1-1.*** Using the information in the figure above, calculate the percentage change in revenue from alcoholic beverage sales between 2020 and 2023.
A) 23.1%
B) 23.8%
C) 30%
D) 42.9%
Answer: D
Diff: 1
Topic: Formulas
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

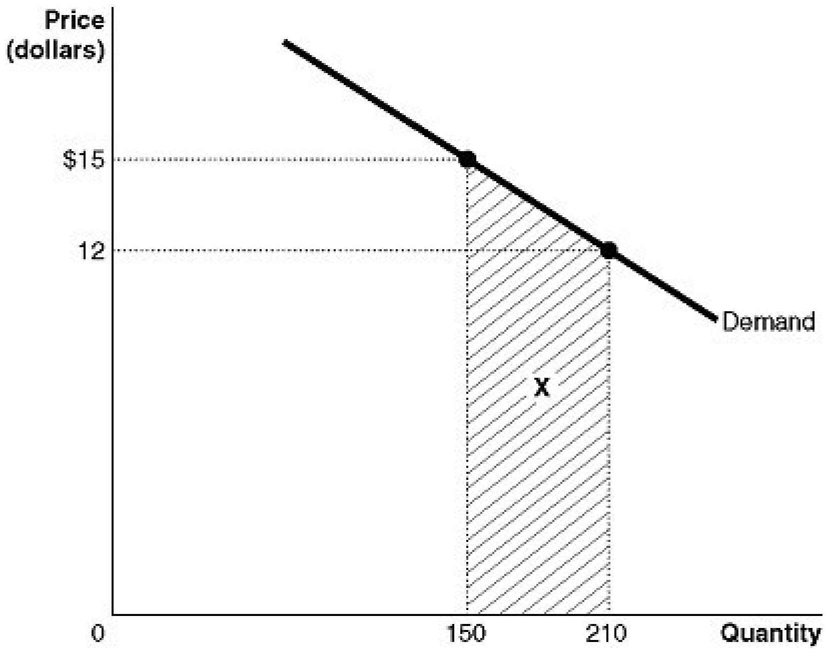
12) ***Refer to Figure 1-1.*** Using the information in the figure above, calculate the percentage change in revenue from alcoholic beverage sales between 2019 and 2023.
A) 30%
B) 50%
C) 66.7%
D) 100%
Answer: D
Diff: 1
Topic: Formulas
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

Figure 1-2



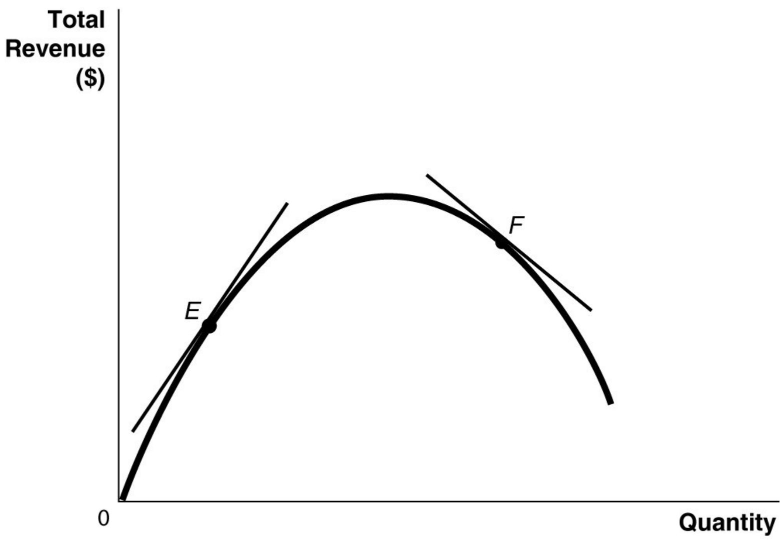
13) ***Refer to Figure 1-2.*** Calculate the area of the triangle *A*.
A) $1.3 million
B) $2.6 million
C) $3.4 million
D) $5.2 million
Answer: B
Diff: 1
Topic: Formulas
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

Figure 1-3



14) ***Refer to Figure 1-3.*** Calculate the area of the trapezoid *X*.
A) $270
B) $720
C) $810
D) $2,520
Answer: C
Diff: 2
Topic: Formulas
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

Figure 1-4



15) ***Refer to Figure 1-4.*** Which of the following statements is *false*?
A) The slope of the tangent at *E* is positive.
B) The slope of the tangent at *F* is negative.
C) The slope of the tangent at *E* and the slope of the tangent at *F* are equal.
D) Neither the slope of the tangent at *E* nor the slope of the tangent at *F* are equal to zero.
Answer: C
Diff: 1
Topic: Slope
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
AACSB: Analytical thinking

16) What is the "omitted variable" problem in determining cause and effect?
A) 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.
B) 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.
C) 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.
D) 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.
Answer: D
Diff: 1
Topic: Cause and Effect
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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17) ________ 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) The omitted variable
B) The positive-to-negative relationship
C) Reverse causality
D) Nonlinear slope
Answer: C
Diff: 1
Topic: Cause and Effect
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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18) 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?
A) The student has failed to take into account other causes of Alzheimer's disease.
B) The student is drawing a false conclusion; he is confusing cause and effect.
C) The student is using an inadequate sample size.
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: B
Diff: 2
Topic: Cause and Effect
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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19) 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?
A) Surya is right; she has evidence to back her claim. The theory must be erroneous.
B) Surya is making the mistake of assuming that correlation implies causation.
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) 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.
Answer: D
Diff: 2
Topic: Cause and Effect
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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20) In 2022, Smileytown consumed 12,000 gallons of mouthwash. In 2023, mouthwash consumption rose to 17,000 gallons. Calculate the percentage change in mouthwash consumption.
A) 17.2%
B) 29.4%
C) 41.7%
D) 70.6%
Answer: C
Diff: 2
Topic: Formulas
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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21) 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
A) negative 8 divided by 4.
B) seven-tenths.
C) negative one-half.
D) one and one-half.
Answer: C
Diff: 2
Topic: Slope
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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22) 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?
A) 7.1 percent
B) 13.3 percent
C) 15.4 percent
D) 33.3 percent
Answer: C
Diff: 2
Topic: Formulas
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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23) 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?
A) $31,850
B) $207,638
C) $276,850
D) $359,905
Answer: C
Diff: 2
Topic: Formulas
*: Recurring
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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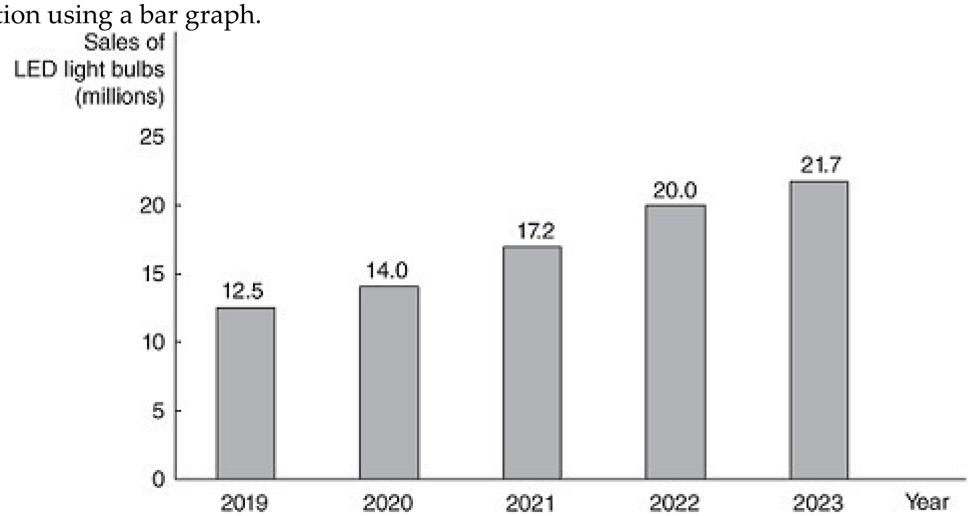
Table 1-5

Year	LED Light Bulbs (millions)
2019	12.5
2020	14.0
2021	17.2
2022	20.0
2023	21.7

24) ***Refer to Table 1-5.*** The table above shows the sales of LED light bulbs in North America. Present the information using a bar graph.



Answer:
Diff: 1
Topic: Graphs
*: Recurring
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs
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