

Exam

Name \_\_\_\_\_

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

- 1) Central planning relies on \_\_\_\_\_ to determine what types of products to make 1) \_\_\_\_\_
- A) government employees
  - B) collective decisions
  - C) individual businesses
  - D) consumers' wants
  - E) consumers' choices

Answer: A

- 2) Markets promote 2) \_\_\_\_\_
- A) voluntary exchange and equality.
  - B) competition and equality.
  - C) equity and competition.
  - D) competition and voluntary exchange.
  - E) equity and equality.

Answer: D

- 3) Which of the following is a problem inherent in centrally planned economies? 3) \_\_\_\_\_
- A) Production managers are more concerned with satisfying consumer wants than with satisfying government's orders.
  - B) Those who are willing and able to buy what is produced determine what is produced.
  - C) There is too little production of low-cost, high-quality goods and services.
  - D) Households and firms make poor decisions in choosing how resources are allocated.
  - E) Exports tend to exceed imports.

Answer: C

- 4) Economics is the study of the \_\_\_\_\_ people make to attain their goals, given their \_\_\_\_\_ resources. 4) \_\_\_\_\_
- A) choices; scarce
  - B) decisions; household
  - C) output; time
  - D) purchases; unlimited
  - E) income; available

Answer: A

- 5) Which of the following statements about the economic decisions consumers, firms, and the government have to make is *false*? 5) \_\_\_\_\_
- A) Governments face the problem of scarcity in making economic decisions.
  - B) Only individuals face scarcity; firms and the government do not.
  - C) Each faces the problem of scarcity which necessitates trade-offs in making economic decisions.
  - D) Both firms and individuals have to make choices.
  - E) Both firms and individuals face scarcity.

Answer: B

- 6) Changes in global weather patterns can lead to 6) \_\_\_\_\_  
A) wage increases for coffee shop employees.  
B) Canadians demanding more coffee.  
C) Canadians having to pay more for coffee.  
D) the destruction of the Canadian coffee harvest.  
E) more Canadians drinking coffee.

Answer: C

- 7) Economists assume that rational behaviour is useful in explaining choices people make 7) \_\_\_\_\_  
A) even though people may not behave rationally all the time.  
B) because irrational people do not make economic choices.  
C) because individuals act rationally all the time in all circumstances.  
D) even though people rarely, if ever, behave in a rational manner.  
E) because economic choices are not needed by rational people.

Answer: A

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

- 8) 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).

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

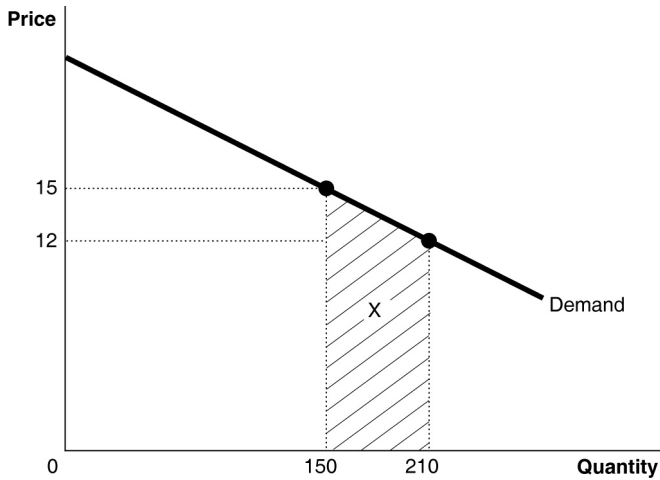
- 9) The study of economics arises due to 9) \_\_\_\_\_  
A) scarcity.  
B) money.  
C) unemployment.  
D) unlimited resources.  
E) greed.

Answer: A

- 10) Which of the following statements is *true* about profit? 10) \_\_\_\_\_  
A) Profit refers to the revenue received from the sale of a quantity of goods.  
B) The terms "accounting profit" and "economic profit" can be used interchangeably.  
C) Profit is calculated by multiplying price and quantity sold.  
D) A firm's revenue will increase as its costs increase.  
E) Profit is the difference between revenue and cost.

Answer: E

Figure 1.3



- 11) Refer to Figure 1.3. Calculate the area of the trapezoid X. 11) \_\_\_\_\_
- A) \$270                      B) \$720                      C) \$810                      D) \$2,520                      E) \$2,500

Answer: C

- 12) Microeconomics is the study of 12) \_\_\_\_\_
- A) how households and firms make choices.  
 B) topics such as inflation and economic growth.  
 C) the economy as a whole.  
 D) what determines the unemployment rate.  
 E) the global economy.

Answer: A

- 13) Obesity is one of the biggest health challenges facing Canadians, with few Canadians getting the recommended amount of daily physical activity. Economists would expect 13) \_\_\_\_\_
- A) people who agree to pay a fine for skipping exercise sessions will be less healthy.  
 B) there is no correlation between fines for skipping exercise and how often people will go to the gym.  
 C) the cost of gym memberships will decrease as people join gyms and demand increases.  
 D) people who value physical appearance to exercise less than others.  
 E) people will exercise more when the cost of skipping exercise increases.

Answer: E

- 14) Arlene quits her \$125,000-a-year job to take care of her ailing parents. What is the opportunity cost of her decision? 14) \_\_\_\_\_
- A) the total value of all alternatives that must be given up to engage in taking care of her parents  
 B) zero, since she will no longer be earning a salary  
 C) at least \$125,000  
 D) the value she attributes to the satisfaction she receives from taking care of her parents  
 E) It depends on the "going rate" for home-care providers.

Answer: C

- 15) Which of the following statements about positive economic analysis is *false*? 15) \_\_\_\_\_
- A) There is much more disagreement among economists over normative economic analysis than over positive economic analysis.
  - B) Positive analysis uses an economic model to estimate the costs and benefits of different course of actions.
  - 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.
  - E) Positive analysis is concerned with what is and can potentially be disproven.

Answer: C

- 16) Society faces a trade-off in all of the following situations *except* 16) \_\_\_\_\_
- A) when making a trade-off because of scarcity.
  - 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.
  - E) when deciding who will receive the goods and services produced.

Answer: D

- 17) All of the following contributed to the downfall of the Soviet Union in 1991 *except* 17) \_\_\_\_\_
- A) an overabundance of high-quality goods and services.
  - B) public dissatisfaction with low living standards and political repression.
  - C) lack of a strong dictator who can coordinate economic activities.
  - D) lack of high-quality goods and services.
  - E) an inability to produce low-cost consumer goods that households wanted.

Answer: C

- 18) Making "how much" decisions involves 18) \_\_\_\_\_
- A) calculating the average benefit and the average cost of an activity to determine if it is worthwhile undertaking that activity.
  - B) calculating the total costs of the activity and determining if you can afford to incur that expenditure.
  - C) calculating the total benefits of the activity and determining if you are satisfied with that amount.
  - D) advanced knowledge of economics and product markets.
  - E) determining the additional benefits and the additional costs of that activity.

Answer: E

- 19) Voluntary exchange between buyers and sellers generates \_\_\_\_\_ in a market economy. 19) \_\_\_\_\_
- A) equity
  - B) scarcity
  - C) allocative efficiency
  - D) productive efficiency
  - E) equality

Answer: C

- 20) If climate change continues to reduce the amount of green coffee available to roasters, 20) \_\_\_\_\_
- A) more entrepreneurs will enter the roasting business.
  - B) people working in coffee shops will receive higher wages.
  - C) the price of take out coffee will rise.
  - D) more people will want to drink coffee than before.
  - E) demand for green coffee will increase.

Answer: C

- 21) 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? 21) \_\_\_\_\_
- A) Surya is making the mistake of assuming that causation implies correlation.
  - B) Surya is right; she has evidence to back her claim. The theory must be erroneous.
  - C) 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.
  - D) Surya is making the mistake of assuming that correlation implies causation.
  - E) 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.

Answer: C

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

- 22) Positive analysis is concerned with "what ought to be," while normative analysis is concerned with "what is." 22) \_\_\_\_\_

Answer: True  False

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

- 23) DeShawn's Detailing is a service that details cars at the customers' homes or places of work. 23) \_\_\_\_\_  
DeShawn's cost for a basic detailing package is \$40, and he charges \$75 for this service. For a total price of \$90, DeShawn will also detail the car's engine, a service that adds an additional \$20 to the total cost of the package. What is DeShawn's marginal benefit if he sells a basic detailing package?
- A) \$35
  - B) \$75
  - C) zero dollars
  - D) He makes a marginal loss of \$15.
  - E) The marginal benefit cannot be determined.

Answer: B

Table 1.1

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

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

- 24) Refer to Table 1.1. What is Lydia's marginal benefit if she decides to stay open for two hours instead of one hour? 24) \_\_\_\_\_  
 A) \$25                      B) \$50                      C) \$75                      D) \$125                      E) \$150

Answer: A

- 25) In 2019, Hooverville consumed 205,000 tonnes of sugar. In 2020, sugar consumption rose to 245,000 tonnes. Calculate the percentage change in sugar consumption. 25) \_\_\_\_\_  
 A) 8.37%                      B) 11.95%                      C) 19.51%                      D) 26.33%                      E) 53%

Answer: C

- 26) Which of the following is a positive economic statement? 26) \_\_\_\_\_  
 A) People should not buy imported fruits and vegetables.  
 B) People should not buy SUVs.  
 C) Scarcity necessitates that people make trade-offs.  
 D) The government should mandate electric automobiles.  
 E) Foreign workers should not be allowed to work for lower wages than the citizens of a country.

Answer: C

- 27) The economic analysis of minimum wage involves both normative and positive analysis. 27) \_\_\_\_\_  
 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, minimum wage laws are necessary for low-skilled workers to stay in the city.  
 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.  
 E) a and d are positive statements, b and c are normative statements.

Answer: B

- 28) \_\_\_\_\_ 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. 28) \_\_\_\_\_
- A) Reverse causality
  - B) The omitted variable
  - C) Nonlinear slope
  - D) Tangent line
  - E) The positive-to-negative relationship

Answer: A

- 29) 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? 29) \_\_\_\_\_
- A) What price to charge for each range of products?
  - B) Who to produce automobiles for?
  - C) Why produce a variety of automobiles?
  - D) What to produce?
  - E) How to produce goods that consumers want?

Answer: D

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

- 30) Examining the conditions that could lead to a recession in an economy is an example of macroeconomics topic. 30) \_\_\_\_\_
- Answer:  True       False

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

- 31) As the minimum wage rises. 31) \_\_\_\_\_
- A) there will be a surplus of coffee.
  - B) the price of takeout coffee will rise.
  - C) the price of takeout coffee will fall.
  - D) there will be a shortage of coffee.
  - E) more coffee will be exported from Canada.

Answer: B

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

- 32) One desirable outcome of a market economy is that it leads to a more equitable distribution of income. 32) \_\_\_\_\_
- Answer:  True       False

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

- 33) As professors and teachers get closer to retirement age they typically spend more time reading and thinking about the financial planning as well as the stock market. By gathering and using all available information as they act to achieve their goals, these teachers are exemplifying the economic idea that 33) \_\_\_\_\_
- A) people make identical choices.
  - B) people respond to economic incentives.
  - C) people are rational.
  - D) equity is more important than efficiency.
  - E) optimal decisions are made at the margin.

Answer: C

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

- 34) 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.

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

- 35) Which of the following statements is *false*? 35) \_\_\_\_\_
- A) A direct relationship has a positive slope value.
  - B) Few economic relationships are actually linear.
  - C) A curved line has slope values that change at every point.
  - D) A straight line has a slope of zero.
  - E) An inverse relationship has a negative slope value.

Answer: D

- 36) Scarcity refers to the situation in which 36) \_\_\_\_\_
- A) unlimited wants exceed limited resources.
  - B) unlimited resources exceed limited wants.
  - C) our needs and wants are finite.
  - D) a country's population is larger than its resource base.
  - E) a nation's poverty level increases faster than its population.

Answer: A

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

- 37) 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.



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

- 38) Which of the following is a macroeconomics question? 38) \_\_\_\_\_
- A) How is the production quantity of digital cameras determined?
  - B) What determines the inflation rate?
  - C) What factors determine the price of iPhones?
  - D) What determines the wage of auto workers?
  - E) What determines the size of the film industry in Canada?

Answer: B

- 39) The extra cost associated with undertaking an activity is called 39) \_\_\_\_\_
- A) net loss.
  - B) activity cost.
  - C) opportunity cost.
  - D) foregone cost.
  - E) marginal cost.

Answer: E

- 40) Economic models do all of the following *except* 40) \_\_\_\_\_
- A) answer economic questions.
  - B) simplify versions of reality.
  - C) portray reality in all its minute details.
  - D) make economic ideas explicit and concrete for use by decision makers.
  - E) simplify some aspect of economic life.

Answer: C

- 41) Which of the following is an example of an efficiency-equity trade-off faced by economic agents? 41) \_\_\_\_\_
- A) Some Canadian universities are actively recruiting foreign students for their technology-based programs.
  - B) The growing demand for corn by ethanol producers has led to a surge in the price of tortillas, a staple in the Mexican diet. To quell public outcry over rising tortilla prices, the Mexican government released government corn stocks at prices well below the market, and pressured states to impose price ceilings on tortillas.
  - C) Municipal sports programs must charge all participants the same price, even when participants don't live in the municipality.
  - D) 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.
  - E) Provincial health programs are not cost effective. Instead of focusing on universal access to the health care system, money should be spent on programs that prevent disease first and treating disease second.

Answer: E

- 42) The approximately 12 seconds between episodes on Netflix means that binge watching is 42) \_\_\_\_\_
- A) an indication of how quickly Netflix users can make decisions.
  - B) something every one plans to when they first login to Netflix.
  - C) the result of a series of marginal decisions.
  - D) a rational decision.
  - E) something Netflix forces viewers to do.

Answer: C

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

- 43) 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.)

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

- 44) Optimal decisions are made at the point where marginal cost equals zero.

44) \_\_\_\_\_

Answer: True  False

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

- 45) The term \_\_\_\_\_ in economics refers to a group of buyers and sellers of a product and the arrangement by which they come together to trade.

45) \_\_\_\_\_

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

Answer: C

- 46) Which of the following is a normative economic statement?

46) \_\_\_\_\_

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

Answer: B

- 47) Which of the following is a positive economic statement?

47) \_\_\_\_\_

- A) The Ontario government should not have bailed out Canadian auto manufacturers.
- B) The standard of living in Canada should be higher.
- C) The government should restructure the health care system.
- D) The government should close income tax loopholes.
- E) If the price of iPhones falls, a larger quantity of iPhones will be purchased.

Answer: E

- 48) Which of the following statements about economic resources is *true*?

48) \_\_\_\_\_

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

Answer: C

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

49) The government makes all economic decisions in a mixed economy. 49) \_\_\_\_\_

Answer: True  False

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

50) If a graph has a line that shows the amount of outsourcing in the last ten years, it is known as 50) \_\_\_\_\_

- A) a time-series graph.
- B) a flow chart.
- C) a supply curve of outsourcing.
- D) a pie chart.
- E) a demand curve for outsourcing.

Answer: A

51) In economics, the term \_\_\_\_\_ means "additional" or "extra." 51) \_\_\_\_\_

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

Answer: C

52) Technology is defined as 52) \_\_\_\_\_

- A) the process of recycling products.
- B) new innovations and creations.
- C) the machines that workers have to work with.
- D) the process of developing and revising models.
- E) the processes used to produce goods and services.

Answer: E

53) Marginal analysis involves undertaking an activity 53) \_\_\_\_\_

- A) only when its marginal benefits are positive.
- B) until its marginal cost is zero.
- C) until its marginal benefits equal marginal costs.
- D) only if its marginal costs are greater than its marginal benefits.
- E) until its marginal costs start declining.

Answer: C

54) Who receives the most of what is produced in a market economy? 54) \_\_\_\_\_

- A) those who are willing and able to buy them
- B) everyone receives an equal amount
- C) lawmakers and other politically favoured groups
- D) those who need them the most
- E) people who earn the highest incomes

Answer: A

- 55) Which of the following is motivated by an equity concern? 55) \_\_\_\_\_
- A) Following the implementation of subsidies for energy conservation, household demand for rooftop solar panels increased quite significantly in BC.
  - B) Following the removal of subsidies in urban water use, household demand for water decreased quite significantly in Bogor, Indonesia.
  - C) Some provinces allow automotive insurance companies to charge men and women different rates for insurance.
  - D) Some provinces and municipalities have transferred funds to food bank programs in order to increase benefits to lower-income families.
  - E) Canada offers patent protection to pharmaceutical manufacturers to prevent others from duplicating their products.

Answer: D

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

- 56) 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).

- 57) Suppose that watching one more episode of your favourite Netflix show is worth \$ 200 to you. Suppose that studying for that same amount of time will boost your mark enough to get you a bursary. What is the smallest size of the bursary that would cause you to study instead of watching another episode (assuming you are rational)?

Answer: The bursary would have to be at least \$200 for a rational person to choose to study instead of watching the next episode — assuming there are no other benefits to studying.

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

- 58) Consider the following economic agents: 58) \_\_\_\_\_
- 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) consumers
- B) producers
- C) the government
- D) consumers and producers
- E) the government, consumers and producers

Answer: C

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

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

Answer:  True       False

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

- 60) The decision about what goods and services will be produced made in a market economy is made by \_\_\_\_\_ 60)
- A) consumers dictating to firms what they need most.
  - B) workers deciding to produce only what the boss says must be produced.
  - C) lawmakers in the government voting on what will be produced.
  - D) producers deciding what society wants most.
  - E) consumers and firms choosing which goods and services to buy or produce.

Answer: E

- 61) By charging users that skip workouts, the designers of a gym are \_\_\_\_\_ 61)
- A) increasing the marginal benefit of exercise.
  - B) increasing the marginal cost of exercise.
  - C) increasing both the marginal cost and the marginal benefit of exercise.
  - D) assuming gym members are rational.
  - E) decreasing the marginal cost and the marginal benefit of exercise.

Answer: A

- 62) Which of the following is an example of an activity undertaken by an entrepreneur? \_\_\_\_\_ 62)
- A) holding a position as the president of a small university
  - B) designing your landscaping for your new home
  - C) running for Prime Minister of Canada
  - D) choosing the color scheme for your renovated kitchen
  - E) starting your own pet sitting business

Answer: E

- 63) How are the fundamental economic decisions determined in North Korea? \_\_\_\_\_ 63)
- A) The government decides because North Korea is a centrally planned economy.
  - B) Individuals, firms, and the government interact in a market to make these economic decisions.
  - C) North Korean firms decide as they determine production.
  - D) These decisions are made by the country's elders who have had much experience in answering these questions.
  - E) The United Nations decides because North Korea is a developing economy.

Answer: A

- 64) How are the fundamental economic questions answered in a market economy? \_\_\_\_\_ 64)
- A) Individuals, firms, and the government interact in markets to decide the answers to these questions.
  - B) Households and firms interact in markets to decide the answers to these questions.
  - C) Wealthy individuals alone decide the answers.
  - D) The government alone decides the answers.
  - E) Large corporations alone decide the answers.

Answer: B

65) If the price of milk was \$2.50 a litre and it is now \$3.25 a litre, what is the percentage change in price? 65) \_\_\_\_\_  
A) 13 percent  
B) 30 percent  
C) 75 percent  
D) 77 percent  
E) 130 percent

Answer: B

66) Which of the following questions or statements regarding minimum wage is normative? 66) \_\_\_\_\_  
A) People working in the retail sector deserve higher pay.  
B) Wages play a role in causing someone to apply for a job.  
C) Higher minimum wages will cause firms to employ fewer people.  
D) How do changes in minimum wages affect the employment opportunities of teens?  
E) The minimum wage law causes unemployment.

Answer: A

67) DeShawn's Detailing is a service that details cars at the customers' homes or places of work. 67) \_\_\_\_\_  
DeShawn's cost for a basic detailing package is \$40, and he charges \$75 for this service. For a total price of \$90, DeShawn will also detail the car's engine, a service that adds an additional \$20 to the total cost of the package. What is the marginal cost of adding the engine detailing to the basic detailing package?  
A) \$20  
B) \$30  
C) \$60  
D) \$60 plus the value of his time  
E) \$0

Answer: A

68) In economics, the term "equity" means 68) \_\_\_\_\_  
A) only elected officials have high standards of living.  
B) economic benefits are distributed freely.  
C) economic benefits are distributed fairly.  
D) the hardest working individuals consume all they want.  
E) everyone has an equal standard of living.

Answer: C

69) The revenue received from the sale of \_\_\_\_\_ of a product is a marginal benefit to the firm. 69) \_\_\_\_\_  
A) the total number of units  
B) no units  
C) all the units  
D) only profitable units  
E) an additional unit

Answer: E

- 70) 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 70) \_\_\_\_\_
- A) one and seven tenths
  - B) negative 11 divided by 6.
  - C) negative seven tenths.
  - D) 6 divided by 11.
  - E) seven tenths.

Answer: C

### 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."

- 71) 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 if so by how much? 71) \_\_\_\_\_
- A) Its profit will be unchanged.
  - B) Its profit will be \$700 lower.
  - C) Its profit will be \$6,000 lower.
  - D) Its profit will be \$700 higher.
  - E) Its profit will be \$6,700 higher.

Answer: D

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

- 72) One example of human capital is the amount of skills that you have. 72) \_\_\_\_\_
- Answer:  True       False
- 73) When voluntary exchange takes place, both parties gain from the exchange. 73) \_\_\_\_\_
- Answer:  True       False

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

- 74) Which of the following statements is *true* about competition in a market? 74) \_\_\_\_\_
- A) Competition forces firms to outsource the production of their labour-intensive products.
  - B) Competition forces firms to add only low profit margins to their costs of production.
  - C) Competition forces firms to undercut their selling price, thus benefiting consumers who will be able to purchase products at the lowest price possible.
  - D) Competition forces firms to add only high profit margins to their costs of production.
  - E) Competition forces firms to produce and sell products as long as the marginal benefit to consumers exceeds the marginal cost of production.

Answer: E

- 75) Which of the following is a microeconomics question? 75) \_\_\_\_\_
- A) Why do economies experience periods of recession?
  - B) How much will be saved and how much will be produced in the entire economy?
  - C) What will the level of economic growth be in the entire economy?
  - D) What factors determine the price of carrots?
  - E) What determines the average price level and inflation?

Answer: D

76) An economic \_\_\_\_\_ is a simplified version of some aspect of economic life used to analyze an economic issue. 76) \_\_\_\_\_  
A) model  
B) variable  
C) trade-off  
D) opportunity cost  
E) market

Answer: A

77) The term "market" in economics refers to 77) \_\_\_\_\_  
A) a group of buyers and sellers and the arrangement by which they come together to trade.  
B) a legal institution where exchange can take place between a group of buyers and sellers.  
C) a place where stocks are traded between a group of international buyers and sellers.  
D) an organization which sells goods and services to a group of buyers who make decisions at the margin.  
E) a place where money changes hands between institutions and the arrangements they make.

Answer: A

78) Productive efficiency is achieved when 78) \_\_\_\_\_  
A) there are no surpluses in the market.  
B) firms produce the goods and services that consumers value most.  
C) there are no shortages in the market.  
D) firms add a low profit margin to the goods and services they produce.  
E) firms produce goods and services at the lowest cost.

Answer: E



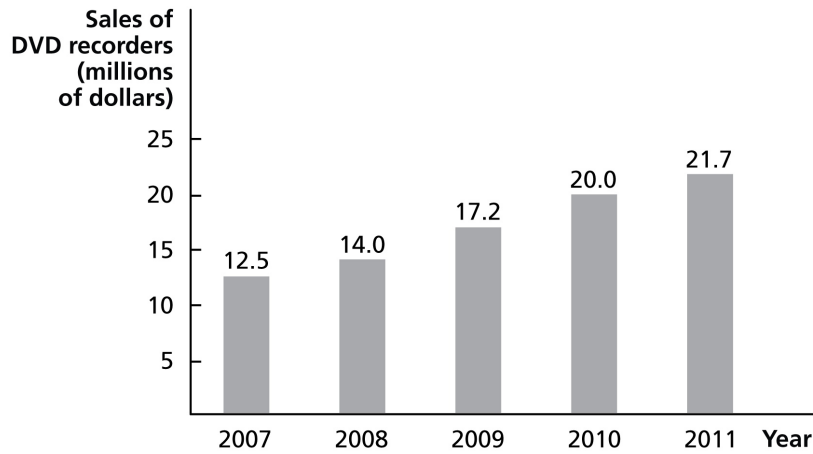
ESSAY. Write your answer in the space provided or on a separate sheet of paper.

Table 1.2

Year	DVD Recorders (millions)
2007	12.5
2008	14.0
2009	17.2
2010	20.0
2011	21.7

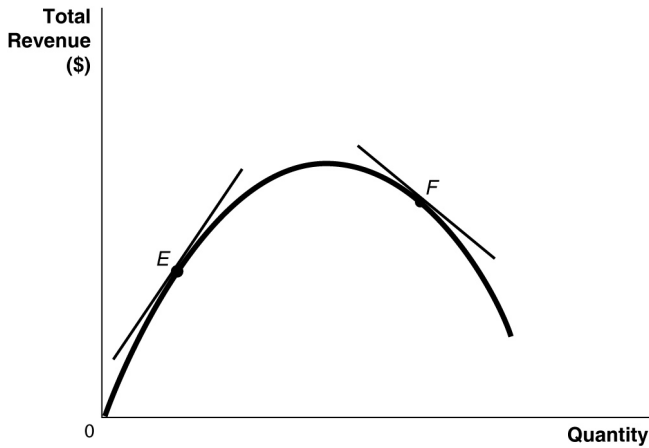
79) Refer to Table 1.2. The table above shows the sales of DVD recorders in North America. Present the information using a bar graph.

Answer:



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

Figure 1.4



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

80) \_\_\_\_\_

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

Answer: B

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

81) 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 say, \$200, but this does not necessarily mean that consumers are willing to pay \$200 for a typewriter.

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

82) Suppose your provincial government encouraged new medical school graduates to take over rural and small town 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

82) \_\_\_\_\_

- A) people are rational.
- B) optimal decisions are made at the margin.
- C) people respond to economic incentives.
- D) people make identical choices.
- E) equity is more important than efficiency.

Answer: C

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

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

83) \_\_\_\_\_

Answer: True  False

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

84) 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.

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

85) Economists reason that the optimal decision is to continue any activity up to the point where the 85) \_\_\_\_\_  
A) marginal benefit starts declining.  
B) marginal benefit is zero.  
C) marginal cost is zero.  
D) marginal benefit equals the marginal cost.  
E) marginal benefit is greater than the marginal cost.

Answer: D

Table 1.1

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

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

86) Refer to Table 1.1. What is Lydia's marginal cost if she decides to stay open for two hours instead of one hour? 86) \_\_\_\_\_  
A) \$10                      B) \$20                      C) \$25                      D) \$40                      E) \$50

Answer: A

87) All of the following are part of an economic model *except* 87) \_\_\_\_\_  
A) assumptions.  
B) hypotheses.  
C) data.  
D) theory.  
E) opinions.

Answer: E

- 88) 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 nursing home causes Alzheimer's dementia. What is the flaw in the student's reasoning? 88) \_\_\_\_\_
- A) The student is drawing a false conclusion; he is confusing cause and effect.
  - B) The student is using an inadequate sample size.
  - C) The student is drawing a false conclusion by making the mistake of omitting the age of the residents.
  - D) The student is drawing a false conclusion by making the mistake of omitting the gender of the residents.
  - E) The student has failed to take into account other causes of Alzheimer's disease.

Answer: A

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

- 89) 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.

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

*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."

- 90) 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? 90) \_\_\_\_\_
- A) a foregone cost
  - B) a loss
  - C) an opportunity cost
  - D) an explicit cost
  - E) a marginal cost.

Answer: E

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

- 91) 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. 91) \_\_\_\_\_

Answer:  True  False

- 92) An economic model is a simplified version of reality used to analyze real-world economic situations. 92) \_\_\_\_\_

Answer:  True  False

- 93) In the market for factors of production, firms earn income by selling goods and services to households. 93) \_\_\_\_\_

Answer:  True  False

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

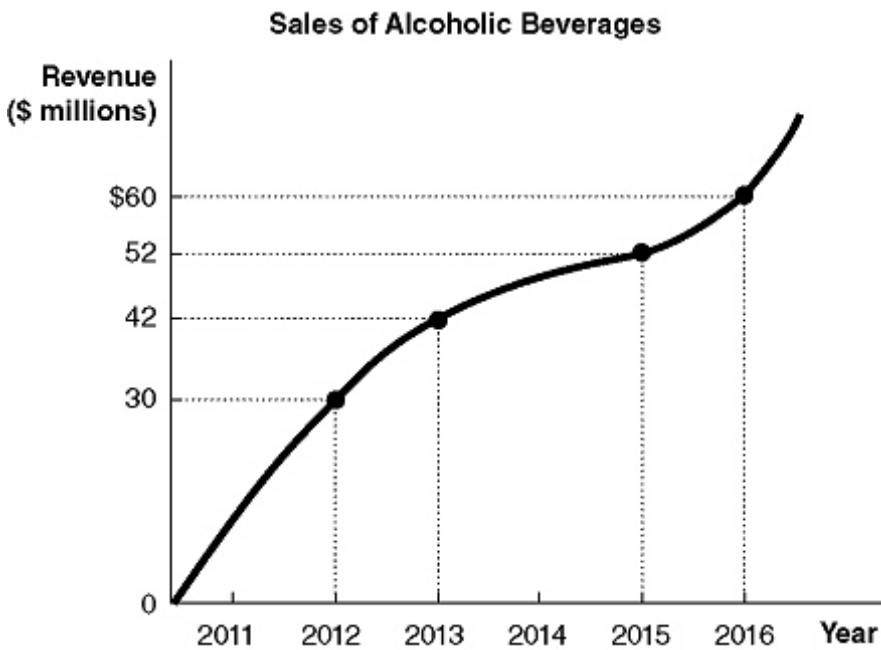
- 94) The idea that because of scarcity, producing more of one good or service means producing less of another good or service refers to the economic concept of 94) \_\_\_\_\_
- A) consumption.
  - B) efficiency.
  - C) equity.
  - D) trade-off.
  - E) optimization.

Answer: D

- 95) 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? 95) \_\_\_\_\_
- A) 2/5 of a Russian tea cake
  - B) \$0.40
  - C) 2 1/2 Russian tea cakes
  - D) \$1.00
  - E) \$2.50

Answer: C

Figure 1.1



- 96) Refer to Figure 1-1. Using the information in the figure above, calculate the percentage change in revenue from alcoholic beverage sales between 2013 and 2015. 96) \_\_\_\_\_
- A) 23.8%
  - B) 30%
  - C) 40%
  - D) 42.9%
  - E) 73.3%

Answer: A

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

- 97) List the five main factors of production.

Answer: The five main factors of production are labour, capital, human capital, natural resources, and entrepreneurial ability.

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

- 98) Assume an economics instructor want to promote equity in their classroom. To do this, announce that all students will receive a final grade equal to the class average. Based on the equity-efficiency tradeoff, what is a likely outcome? 98) \_\_\_\_\_
- A) Students will demand the same grade allocation in all their other courses.
  - B) Most students will spend their time on other courses, resulting in little learning and a low class average.
  - C) Freed from competition, students will fully apply themselves to an economics course causing the class average to rise.
  - D) Student behaviour will not change, but everyone in the class will have the same mark.
  - E) Students will put extra effort into this economics course solely to help other students do well.

Answer: B

- 99) On a two-dimensional graph, \_\_\_\_\_ allows for the effects of additional variables. 99) \_\_\_\_\_
- A) shifting curves
  - B) eliminating a curve
  - C) moving along a curve
  - D) eliminating colour
  - E) adding an additional curve

Answer: A

- 100) \_\_\_\_\_ is a situation in which a good or service is produced at the lowest possible cost. 100) \_\_\_\_\_
- A) Optimal marginalism
  - B) Allocative efficiency
  - C) Equality
  - D) Productive efficiency
  - E) Equity

Answer: D

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

- 101) Suppose the extra cost of producing an extra million kilograms of french fries is \$1 million. Then, McCain Foods Ltd. should make the extra french fries if they generate additional revenue of \$1 million. 101) \_\_\_\_\_

Answer:  True       False

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

- 102) \_\_\_\_\_ have a horizontal and a vertical axis and are used in economics to illustrate relationships between two economic variables. 102) \_\_\_\_\_
- A) One-dimensional graphs
  - B) Pie charts
  - C) Two-dimensional graphs
  - D) Bar graphs
  - E) Flow charts

Answer: C

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

103) 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 if they feel it is in their best economic interest to do so.

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

104) Which of the following is a normative economic statement? 104) \_\_\_\_\_

- A) When the price of gasoline falls, oil companies cut production.
- B) The current high price of gasoline is the result of strong worldwide demand.
- C) The price of gasoline is too high.
- D) When the price of gasoline rises, transportation costs rise.
- E) When the price of gasoline rises, the quantity of gasoline purchased falls.

Answer: C

105) 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? 105) \_\_\_\_\_

- A) 390
- B) 2,860
- C) 3,640
- D) 4,030
- E) 3,238

Answer: C

106) The highest valued alternative that must be given up to engage in an activity is the definition of 106) \_\_\_\_\_

- A) economic stability.
- B) marginal benefit.
- C) economic equity.
- D) opportunity cost.
- E) marginal cost.

Answer: D

107) Which of the following correctly describes the relationship between economic efficiency and economic equity? 107) \_\_\_\_\_

- A) There is often a trade-off between the two.
- B) They always call for opposite outcomes.
- C) They are both automatically achieved in a free market economy.
- D) There is no conflict between the two goals.
- E) There is no trade-off between the two.

Answer: A

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

108) "An increase in the price of gasoline will increase the demand for hybrid vehicles." This statement is an example of a positive economic statement. 108) \_\_\_\_\_

Answer:  True       False

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

- 109) Soo Jin shares a one-bedroom apartment with her classmate. Her share of the rent is \$700 per month. She is considering moving to a studio apartment which she will not have to share with anyone. The studio apartment rents for \$950 per month. Recently, you ran into Soo Jin on campus and she tells you that she has moved into the studio apartment. Soo Jin is as rational as any other person. As an economics major, you rightly conclude that 109) \_\_\_\_\_
- A) the cost of having one's own space outweighs the benefits.
  - B) Soo Jin figures that the additional benefit of having her own place (as opposed to sharing) is at least \$250.
  - C) Soo Jin did not have a choice; her roommate was a slob.
  - D) you made an error in assuming that Soo Jin is rational.
  - E) Soo Jin figures that the benefit of having her own place (as opposed to sharing) is at least \$950.

Answer: B

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

- 110) The sales revenue a seller receives from the sale of an additional unit of goods is called the marginal benefit. 110) \_\_\_\_\_
- Answer:  True       False

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

- 111) Which of the following generates productive efficiency? 111) \_\_\_\_\_
- A) competition among sellers
  - B) competition among buyers
  - C) government production rules
  - D) government regulations
  - E) government inspectors

Answer: A

- 112) Economists assume that 112) \_\_\_\_\_
- A) people put other people's interests ahead of their own.
  - B) society's output should be equally distributed.
  - C) individuals behave in unpredictable ways.
  - D) consumer behaviour is explained by the existence of unlimited resources.
  - E) optimal decisions are made at the margin.

Answer: E

- 113) Economics does not study correct or incorrect behaviours but rather it assumes that economic agents behave \_\_\_\_\_, meaning they make the best decisions given their knowledge of the costs and benefits. 113) \_\_\_\_\_
- A) selfishly
  - B) rationally
  - C) equitably
  - D) emotionally
  - E) erratically

Answer: B



- 114) The distribution of income primarily determines which of the fundamental economic questions? 114) \_\_\_\_\_
- A) How the goods and services are to be produced?
  - B) How to plan the economy?
  - C) Who will receive the goods and services produced?
  - D) How to redistribute the goods and services?
  - E) What goods and services are to be produced?

Answer: C

- 115) Consider the following statements: 115) \_\_\_\_\_
- a. Car owners purchase more gasoline from a gas station that sells gasoline at a lower price than other rival gas stations in the area.
  - b. Banks do not take steps to increase security since they believe it is less costly to allow some bank robberies than to install expensive security monitoring equipment.
  - c. Firms produce more of a particular DVD when its selling price rises.

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

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

Answer: E

- 116) \_\_\_\_\_ 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. 116) \_\_\_\_\_
- A) Equity
  - B) Voluntary exchange
  - C) Equality
  - D) Competition
  - E) A centrally planned economy

Answer: D

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

- 117) What are some of the reasons given for the the increase in coffee prices?

Answer: The reasons include bad weather in Colombia, wages, and the actions of individual firms.

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

Table 1.1

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

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

118) Refer to Table 1.1. Using marginal analysis, determine how many hours should Lydia extend her nail salon's hours of operations? 118) \_\_\_\_\_

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

Answer: D

119) A grocery store sells a bag of potatoes at a fixed price of \$5.50. Which of the following is a term used by economists to describe the money received from the sale of an additional bag of potatoes? 119) \_\_\_\_\_

- A) marginal costs  
B) marginal revenue  
C) pure profit  
D) net benefit  
E) gross earnings

Answer: B

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

120) 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 behaviour, particularly decision-making behaviour, in every context.

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

121) 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? 121) \_\_\_\_\_

- 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 drastic shortages of good and services.  
C) Failure to do this could lead to an equal allocation of goods and services produced.  
D) Failure to do this could reduce efficiency and lead to an inequitable allocation of output.  
E) Failure to do this could lead to an inequitable allocation of goods and services produced.

Answer: A

- 122) Political candidates often hold fund raisers by charging "per plate" for dinner. Wendy purchased four tickets to a \$1,000 per plate dinner for a local city council candidate. Is this transaction economically efficient? 122) \_\_\_\_\_
- A) No, Wendy paid too much for four dinners.
  - B) No, political candidates should never be allowed to overcharge for a fund raising dinner.
  - C) Yes, it is efficient only from the perspective of Wendy but not from the perspective of the candidate.
  - D) Yes, it was a voluntary exchange that benefited both parties.
  - E) Yes, it is efficient only from the perspective of the candidate but not from the perspective of Wendy.

Answer: D

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

- 123) 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.

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

- 124) "The distribution of income should be left to the market" is an example of a positive economic statement. 124) \_\_\_\_\_

Answer: True  False

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

- 125) Making optimal decisions "at the margin" requires 125) \_\_\_\_\_
- A) making decisions according to one's whims and fancies.
  - B) making borderline decisions.
  - C) advanced knowledge of economics.
  - D) making consistently irrational decisions.
  - E) weighing the costs and benefits of a decision.

Answer: E

- 126) Economists assume that rational people do all of the following *except* 126) \_\_\_\_\_
- 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) do things to make themselves better off.
  - E) respond to economic incentives.

Answer: B

- 127) Which of the following is *not* an example of an economic trade-off that a firm has to make? 127) \_\_\_\_\_
- A) whether or not consumers will buy its products
  - B) whether it should produce less of its product
  - C) whether it is to outsource the production of a good or service
  - D) whether it is cheaper to produce with more machines or with more workers
  - E) whether it should produce more of its product

Answer: A

- 128) McCain Foods Ltd. is one of the largest producers of frozen french fries in the world. If the marginal cost of producing an extra million kilograms of french fries is \$1 million, then McCain Foods Ltd. should produce the extra french fries
- A) as long as the marginal benefit the firm receives is just equal to or greater than \$1 million.
  - B) until the marginal benefit the firm receives reaches zero.
  - C) as long as the marginal cost does not rise.
  - D) only if the marginal benefit is greater than \$1 million plus an acceptable profit margin.
  - E) More information is needed for McCain Foods to make this decision.

128) \_\_\_\_\_

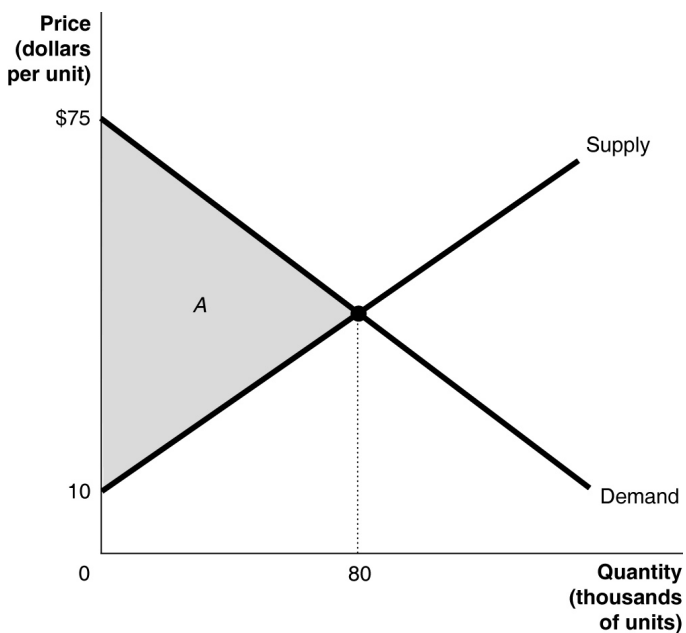
Answer: A

- 129) Macroeconomics is the study of
- A) how households make choices.
  - B) how firms make choices.
  - C) the impact of government interventions on market outcomes.
  - D) how households and firms make choices.
  - E) the economy as a whole.

129) \_\_\_\_\_

Answer: E

Figure 1.2



- 130) 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
  - E) \$8.4 million

130) \_\_\_\_\_

Answer: B

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

131) 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.

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

132) Which of the following is motivated by an efficiency concern? 132) \_\_\_\_\_

- A) In 2013 the Alberta government handed out pre-paid credit and debit cards to flood victims.
- B) Organ transplant waiting lists rationing scarce kidneys that would favour young patients over old in an effort to wring more life out of donated organs.
- C) The federal government Equalization program which makes larger transfers to poor provinces than to wealthy ones.
- D) The right to purchase tickets to the Grey Cup is decided by a lottery.
- E) Some university scholarships have been cut back since these programs siphon money from need-based programs, thus harming lower-income students with greater financial need.

Answer: B

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

133) A university must decide if it wants to offer more Internet-based classes. This decision involves answering the economic question of "what to produce." 133) \_\_\_\_\_

Answer:  True       False

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

134) The machines workers have to work with are considered 134) \_\_\_\_\_

- A) human capital.
- B) financial capital.
- C) entrepreneurship.
- D) physical capital.
- E) natural resources.

Answer: D

135) Which of the following is a result of a market economy? 135) \_\_\_\_\_

- A) environmental protection
- B) agreement on equity
- C) voluntary exchange
- D) an equal income distribution
- E) scarcity

Answer: C

- 136) What is the "omitted variable" problem in determining cause and effect? 136) \_\_\_\_\_
- 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 an economic variable that affects other variables is omitted from an analysis and its omission leads to false conclusions about cause and effect.
  - C) It is a problem that arises when an economic variable that affects other variables is purposely omitted from an analysis and its omission leads to correct conclusions about cause and effect.
  - D) It is a problem that arises when a significant variable is not given enough weight in an economic experiment leading to skewed conclusions about cause and effect.
  - E) 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.

Answer: B

- 137) The basic economic problem of \_\_\_\_\_ has always existed and will continue to exist. 137) \_\_\_\_\_
- A) efficiency
  - B) recession
  - C) unemployment
  - D) scarcity
  - E) inflation

Answer: D

- 138) The three fundamental questions that any economy must address are 138) \_\_\_\_\_
- A) What will be the prices of goods and services; how will these goods and services be produced; and who will receive them?
  - B) How much will be saved; what will be produced; and how can these goods and services be fairly distributed?
  - C) How can the economy's output be equally shared; who are the decision makers; and what is the optimum output?
  - D) Who gets jobs; what wages do workers earn; and who owns what property?
  - E) What goods and services to produce; how will these goods and services be produced; and who receives them?

Answer: E

- 139) In economics, the accumulated skills and training that workers have is known as 139) \_\_\_\_\_
- A) innovation.
  - B) natural resources.
  - C) entrepreneurship.
  - D) physical capital.
  - E) human capital.

Answer: E

- 140) Refer to Figure 1.1. Using the information in the figure above, calculate the percentage change in sales of alcoholic beverages between 2013 and 2015. 140) \_\_\_\_\_
- A) 23.1%      B) 23.8%      C) 30%      D) 40%      E) 42.9%

Answer: E

- 141) Suppose when the price of laptops fall, university students buy more laptops. This implies that 141) \_\_\_\_\_
- A) there is a direct relationship between laptop prices and quantities purchased by college students.
  - B) there is a one-to-one relationship between laptop prices and quantities purchased by college students.
  - C) there is a positive relationship between laptop prices and quantities purchased by college students.
  - D) there is a negative relationship between laptop prices and quantities purchased by college students.
  - E) there is no relationship between laptop prices and quantities purchased by college students.

Answer: D

- 142) When production reflects consumer preferences, \_\_\_\_\_ occurs. 142) \_\_\_\_\_
- A) productive efficiency
  - B) efficient central planning
  - C) scarcity
  - D) equity
  - E) allocative efficiency

Answer: E

- 143) Which of the following statements is *true*? 143) \_\_\_\_\_
- A) Producing more of one good means more of another good can be produced.
  - B) Anytime you have to decide which action to take you are experiencing economic equity.
  - C) Trade-offs do not apply when the consumers purchase a product for which there is excess supply, such as a stock clearance sale.
  - D) Economics is a social science that studies the trade-offs we are forced to make because resources are unlimited.
  - E) Every individual, no matter how rich or poor, is faced with making trade-offs.

Answer: E

- 144) Allocative efficiency best explains \_\_\_\_\_, and productive efficiency best explains \_\_\_\_\_. 144) \_\_\_\_\_
- A) when something will be produced; why something will be produced
  - B) what will be produced; when something will be produced
  - C) how something will be produced; when something will be produced
  - D) what will be produced; how something will be produced
  - E) why something will be produced; what will be produced

Answer: D

- 145) Allocative efficiency is achieved when firms produce goods and services 145) \_\_\_\_\_
- A) at the lowest opportunity cost.
  - B) at the lowest possible cost.
  - C) at the highest possible price.
  - D) at a marginal cost of zero.
  - E) that consumers value most.

Answer: E

- 146) DeShawn's Detailing is a service that details cars at the customers' homes or places of work. 146) \_\_\_\_\_  
DeShawn's cost for a basic detailing package is \$40, and he charges \$75 for this service. For a total price of \$90, DeShawn will also detail the car's engine, a service that adds an additional \$20 to the total cost of the package. Should DeShawn continue to offer the engine detailing service?  
A) Yes, he still makes a profit by selling the engine detailing service with the basic detailing package.  
B) Yes, because he will increase sales of the basic detailing package.  
C) No, his marginal benefit is less than his marginal cost.  
D) Yes, but only if he raises the price of the basic detailing package.  
E) More information is needed for DeShawn to make this decision.

Answer: C

### 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."

- 147) Refer to Scenario 1.1. Using marginal analysis terminology, what is another economic term for the 147) \_\_\_\_\_  
incremental revenue received from the sale of the last 3,000 cell phones?  
A) sales revenue  
B) net benefit  
C) marginal revenue  
D) explicit revenue  
E) gross earnings

Answer: C

- 148) The relationship between consumer spending and disposable personal income is 148) \_\_\_\_\_  
A) an inverse relationship.  
B) reverse causality.  
C) a negative relationship.  
D) independent.  
E) a direct relationship.

Answer: E

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

- 149) The decisions Apple makes in determining production levels for its iPhone is an example of a 149) \_\_\_\_\_  
microeconomics topic.

Answer:  True  False



## Answer Key

Testname: CH01

- 1) A
- 2) D
- 3) C
- 4) A
- 5) B
- 6) C
- 7) A
- 8) 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).
- 9) A
- 10) E
- 11) C
- 12) A
- 13) E
- 14) C
- 15) C
- 16) D
- 17) C
- 18) E
- 19) C
- 20) C
- 21) C
- 22) FALSE
- 23) B
- 24) A
- 25) C
- 26) C
- 27) B
- 28) A
- 29) D
- 30) TRUE
- 31) B
- 32) FALSE
- 33) C
- 34) 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.
- 35) D
- 36) A
- 37) b, c, and f are primarily macroeconomic topics.  
a, d, and e are primarily microeconomic topics.
- 38) B
- 39) E
- 40) C
- 41) E
- 42) C
- 43) 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.)
- 44) FALSE
- 45) C

## Answer Key

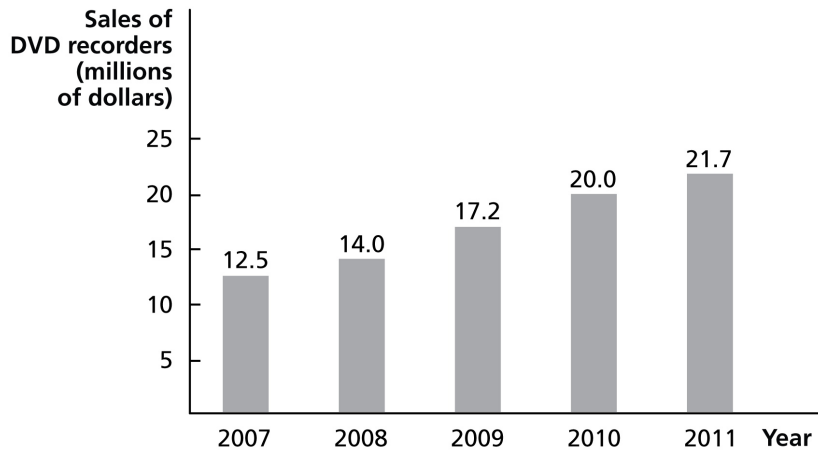
Testname: CH01

- 46) B
- 47) E
- 48) C
- 49) FALSE
- 50) A
- 51) C
- 52) E
- 53) C
- 54) A
- 55) D
- 56) 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).
- 57) The bursary would have to be at least \$200 for a rational person to choose to study instead of watching the next episode — assuming there are no other benefits to studying.
- 58) C
- 59) TRUE
- 60) E
- 61) A
- 62) E
- 63) A
- 64) B
- 65) B
- 66) A
- 67) A
- 68) C
- 69) E
- 70) C
- 71) D
- 72) TRUE
- 73) TRUE
- 74) E
- 75) D
- 76) A
- 77) A
- 78) E

Answer Key

Testname: CH01

79)



80) B

81) 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 say, \$200, but this does not necessarily mean that consumers are willing to pay \$200 for a typewriter.

82) C

83) FALSE

84) "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.

85) D

86) A

87) E

88) A

89) 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.

90) E

91) TRUE

92) TRUE

93) FALSE

94) D

95) C

96) A

97) The five main factors of production are labour, capital, human capital, natural resources, and entrepreneurial ability.

98) B

99) A

100) D

101) TRUE

102) C

103) Human beings act from a variety of motives, including religious belief, envy, and compassion. "People respond to incentives" means that people will act if they feel it is in their best economic interest to do so.

104) C

105) C

## Answer Key

Testname: CH01

- 106) D
- 107) A
- 108) TRUE
- 109) B
- 110) TRUE
- 111) A
- 112) E
- 113) B
- 114) C
- 115) E
- 116) D
- 117) The reasons include bad weather in Colombia, wages, and the actions of individual firms.
- 118) D
- 119) B
- 120) Economics is a social science because it studies the actions of individuals. As a social science, economics considers human behaviour, particularly decision-making behaviour, in every context.
- 121) A
- 122) D
- 123) A centrally planned economy is an economy in which the government decides how economic resources will be allocated.
- 124) FALSE
- 125) E
- 126) B
- 127) A
- 128) A
- 129) E
- 130) B
- 131) 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.
- 132) B
- 133) TRUE
- 134) D
- 135) C
- 136) B
- 137) D
- 138) E
- 139) E
- 140) E
- 141) D
- 142) E
- 143) E
- 144) D
- 145) E
- 146) C
- 147) C
- 148) E
- 149) TRUE