

Sec 1.0: MC Ten Principles of Economics

Multiple Choice

1. The English word that comes from the Greek word for "one who manages a household" is
- a. market.
 - b. consumer.
 - c. producer.
 - d. economy.

ANSWER: d

2. The word "economy" comes from the Greek word *oikonomos*, which means
- a. "environment."
 - b. "production."
 - c. "one who manages a household."
 - d. "one who makes decisions."

ANSWER: c

3. Resources are
- a. scarce for households but plentiful for economies.
 - b. plentiful for households but scarce for economies.
 - c. scarce for households and scarce for economies.
 - d. plentiful for households and plentiful for economies.

ANSWER: c

4. In considering how to allocate its scarce resources among its various members, a household considers
- a. each member's abilities.
 - b. each member's efforts.
 - c. each member's desires.
 - d. All of the above are correct.

ANSWER: d

5. Fundamentally, economics deals with
- a. scarcity.
 - b. money.
 - c. poverty.
 - d. banking.

ANSWER: a

6. Which of the following is correct?
- a. The word economy comes from the Greek word for "rational thinker."
 - b. Economists study the management of scarce resources.
 - c. Because economists believe that people pursue their best interests, they are not interested in how people interact.
 - d. All of the above are correct.

ANSWER: b

Sec 1.0: MC Ten Principles of Economics

7. The overriding reason why households and societies face many decisions is that

- a. resources are scarce.
- b. goods and services are not scarce.
- c. incomes fluctuate with business cycles.
- d. people, by nature, tend to disagree.

ANSWER: a

8. A society allocates its *scarce resources* to various uses. These scarce resources include

- a. land.
- b. people.
- c. machines.
- d. All of the above are correct.

ANSWER: d

9. The phenomenon of *scarcity* stems from the fact that

- a. most economies' production methods are not very good.
- b. in most economies, wealthy people consume disproportionate quantities of goods and services.
- c. governments restrict production of too many goods and services.
- d. resources are limited.

ANSWER: d

10. Approximately what percentage of the world's economies experience scarcity?

- a. 10%
- b. 40%
- c. 85%
- d. 100%

ANSWER: d

11. When a society cannot produce all the goods and services people wish to have, the economy is experiencing

- a. scarcity.
- b. surpluses.
- c. inefficiencies.
- d. inequalities.

ANSWER: a

12. Which of the following products would be considered scarce?

- a. bread
- b. baseballs autographed by Babe Ruth
- c. motorcycles
- d. All of the above are correct.

ANSWER: d

13. In the broadest sense, economics is the study of

- a. production methods.

Sec 1.0: MC Ten Principles of Economics

- b. how society manages its scarce resources.
- c. how households decide who performs which tasks.
- d. the interaction of business and government.

ANSWER: b

14. The study of how society manages its scarce resources is most closely associated with which field of study?
- a. environmental studies
 - b. economics
 - c. management
 - d. accounting

ANSWER: b

15. In most societies, resources are allocated by
- a. a single central planner.
 - b. a small number of central planners.
 - c. those firms that use resources to provide goods and services.
 - d. the combined actions of millions of households and firms.

ANSWER: d

16. Coal is considered to be a non-renewable energy source. Which of the following statements is correct?
- a. Coal is an unlimited resource.
 - b. Coal is a scarce resource.
 - c. Coal is a non-scarce resource.
 - d. Coal is not a resource.

ANSWER: b

17. Which of the following is *not* an example of scarcity?
- a. Only some people can afford to buy a BMW automobile.
 - b. Every individual in society cannot attain the highest standard of living to which he or she might aspire.
 - c. Miranda has more oranges in her orchard than she will ever use.
 - d. Each member of a household cannot get everything he or she wants.

ANSWER: c

18. Economics is the study of how society manages its
- a. limited wants and unlimited resources.
 - b. unlimited wants and unlimited resources.
 - c. limited wants and limited resources.
 - d. unlimited wants and limited resources.

ANSWER: d

19. Which of the following is a decision that economists study?
- a. how much people work
 - b. what people buy
 - c. how much money people save

Sec 1.0: MC Ten Principles of Economics

d. All of the above are correct.

ANSWER: d

20. Which of the following is an example of something economists study?

- a. Mitch chooses to work overtime to earn extra income for his family.
- b. Megan sells her physics textbook from last semester to her roommate for half the price of a new textbook.
- c. The unemployment rate in the United States has fallen by two percentage points in the last few years.
- d. All of the above are correct.

ANSWER: d

21. What term refers to the idea that society has limited resources and therefore cannot produce all the goods and services people wish to have?

- a. inefficiency
- b. inequality
- c. scarcity
- d. market failure

ANSWER: c

22. Which of the following is a subject that economists study?

- a. the growth in average income
- b. the fraction of the population that cannot find work
- c. the rate at which prices are rising
- d. All of the above are correct.

ANSWER: d

23. A variety of fuels can be used to generate electricity. Considering only the availability of the fuel and not the cost of converting it into electricity, which of the following fuels is most scarce?

- a. wind power
- b. solar energy
- c. fossil fuel
- d. hydro-power

ANSWER: c

24. Which of the following is not subject to scarcity?

- a. water
- b. steel
- c. diamonds
- d. none of the above

ANSWER: d

Sec 1.1: MC How People Make Decisions

Multiple Choice

1. The adage, "There is no such thing as a free lunch," means
- even people on welfare have to pay for food.
 - the cost of living is always increasing.
 - people face tradeoffs.
 - all costs are included in the price of a product.

ANSWER: c

2. The adage, "There is no such thing as a free lunch," is used to illustrate the principle that
- goods are scarce.
 - people face tradeoffs.
 - income must be earned.
 - households face many decisions.

ANSWER: b

3. The phrase "no such thing as a free lunch" means
- people must face tradeoffs.
 - rational people think at the margin.
 - people respond to incentives.
 - trade can make everyone better off.

ANSWER: a

4. Which of the following statements best represents the principle represented by the adage, "There is no such thing as a free lunch"?
- Michelle can attend the concert only if she takes her sister with her.
 - Michael is hungry and homeless.
 - Andrea must repair the tire on her bike before she can ride it to class.
 - Dani must decide between going to Florida or Brazil for spring break.

ANSWER: d

5. Which of the following examples does *not* illustrate the principle represented by the adage, "There is no such thing as a free lunch"?
- Melissa needs to pay her rent and her electric bill.
 - Kevin must choose between buying a new flat screen television and buying his textbooks for this semester.
 - Robert must decide between studying for his psychology exam and working at his part-time job.
 - Lisa can spend her money on a new smart phone or on a weekend trip.

ANSWER: a

6. The principle that "people face tradeoffs" applies to
- individuals.
 - families.
 - societies.
 - All of the above are correct.

Sec 1.1: MC How People Make Decisions

ANSWER: d

7. Candice is planning her activities for a hot summer day. She would like to go to the local swimming pool and see the latest blockbuster movie, but because she can only get tickets to the movie for the same time that the pool is open she can only choose one activity. This illustrates the basic principle that

- a. people respond to incentives.
- b. rational people think at the margin.
- c. people face tradeoffs.
- d. improvements in efficiency sometimes come at the expense of equality.

ANSWER: c

8. Billie Jean has \$120 to spend and wants to buy either a new amplifier for her guitar or a new mp3 player to listen to music while working out. Both the amplifier and the mp3 player cost \$120, so she can only buy one. This illustrates the basic concept that

- a. trade can make everyone better off.
- b. people face trade-offs.
- c. rational people think at the margin.
- d. decisions made at the margin are not particularly important.

ANSWER: b

9. John is an athlete. He has \$120 to spend and wants to buy either a heart rate monitor or new running shoes. Both the heart rate monitor and running shoes cost \$120, so he can only buy one. This illustrates the principle that

- a. trade can make everyone better off.
- b. people face trade-offs.
- c. rational people think at the margin.
- d. people respond to incentives.

ANSWER: b

10. Lawrence is a photographer. He has \$230 to spend and wants to buy either a flash for his camera or a new tripod. Both the flash and tripod cost \$230, so he can only buy one. This illustrates the principle that

- a. trade can make everyone better off.
- b. people face trade-offs.
- c. rational people think at the margin.
- d. people respond to incentives.

ANSWER: b

11. Guns and butter are used to represent the classic societal tradeoff between spending on

- a. durable and nondurable goods.
- b. imports and exports.
- c. national defense and consumer goods.
- d. law enforcement and agriculture.

ANSWER: c

12. A tradeoff exists between a clean environment and a higher level of income in that

- a. studies show that individuals with higher levels of income pollute less than low-income individuals.

Sec 1.1: MC How People Make Decisions

- b. efforts to reduce pollution typically are not completely successful.
- c. laws that reduce pollution raise costs of production and reduce incomes.
- d. employing individuals to clean up pollution causes increases in employment and income.

ANSWER: c

13. While pollution regulations yield the benefit of a cleaner environment and the improved health that comes with it, the regulations come at the cost of reducing the incomes of the regulated firms' owners, workers, and customers. This statement illustrates the principle that

- a. trade can make everyone better off.
- b. rational people think at the margin.
- c. people face tradeoffs.
- d. people respond to incentives.

ANSWER: c

14. When society requires that firms reduce pollution, there is

- a. a tradeoff because of reduced incomes to the firms' owners and workers.
- b. a tradeoff only if some firms are forced to close.
- c. no tradeoff, since the cost of reducing pollution falls only on the firms affected by the requirements.
- d. no tradeoff, since everyone benefits from reduced pollution.

ANSWER: a

15. Economists use the word *equality* to describe a situation in which

- a. each member of society has the same income.
- b. each member of society has access to abundant quantities of goods and services, regardless of his or her income.
- c. society is getting the maximum benefits from its scarce resources.
- d. society's resources are used efficiently.

ANSWER: a

16. Efficiency means that

- a. society is conserving resources in order to save them for the future.
- b. society's goods and services are distributed equally among society's members.
- c. society's goods and services are distributed fairly, though not necessarily equally, among society's members.
- d. society is getting the maximum benefits from its scarce resources.

ANSWER: d

17. The property of society getting the most it can from its scarce resources is called

- a. efficiency.
- b. equality.
- c. externality.
- d. productivity.

ANSWER: a

18. Efficiency

Sec 1.1: MC How People Make Decisions

- a. and equality both refer to how much a society can produce with its resources.
- b. and equality both refer to how fairly the benefits from using resources are distributed between members of a society.
- c. refers to how much a society can produce with its resources. Equality refers to how evenly the benefits from using resources are distributed among members of society.
- d. refers to how evenly the benefits from using resources are distributed between members of society. Equality refers to how much a society can produce with its resources

ANSWER: c

19. The terms *equality* and *efficiency* are similar in that they both refer to benefits to society. However they are different in that

- a. equality refers to uniform distribution of those benefits and efficiency refers to maximizing benefits from scarce resources.
- b. equality refers to maximizing benefits from scarce resources and efficiency refers to uniform distribution of those benefits.
- c. equality refers to everyone facing identical tradeoffs and efficiency refers to the opportunity cost of the benefits.
- d. equality refers to the opportunity cost of the benefits and efficiency refers to everyone facing identical tradeoffs.

ANSWER: a

20. Which of the following phrases best captures the notion of *efficiency*?

- a. absolute fairness
- b. equal distribution
- c. minimum waste
- d. equitable outcome

ANSWER: c

21. Which of the following words and phrases best captures the notion of *equality*?

- a. minimum waste
- b. maximum benefit
- c. sameness
- d. efficiency

ANSWER: c

22. When society gets the most it can from its scarce resources, then the outcome is called

- a. equitable.
- b. efficient.
- c. normal.
- d. efficacious.

ANSWER: b

23. A typical society strives to get the most it can from its scarce resources. At the same time, the society attempts to distribute the benefits of those resources to the members of the society in a fair manner. In other words, the society faces a tradeoff between

Sec 1.1: MC How People Make Decisions

- a. guns and butter.
- b. efficiency and equality.
- c. inflation and unemployment.
- d. work and leisure.

ANSWER: b

24. When the government redistributes income from the wealthy to the poor,
- a. efficiency is improved, but equality is not.
 - b. equality is improved, but efficiency is not.
 - c. both efficiency and equality are improved.
 - d. neither efficiency nor equality are improved.

ANSWER: b

25. Which of the following is true?
- a. Efficiency refers to the size of the economic pie; equality refers to how the pie is divided.
 - b. Government policies usually improve upon both equality and efficiency.
 - c. As long as the economic pie continually gets larger, no one will have to go hungry.
 - d. Efficiency and equality can both be achieved if the economic pie is cut into equal pieces.

ANSWER: a

26. As a result of a successful attempt by government to cut the economic pie into more equal slices,
- a. the pie gets larger, and there will be more pie overall.
 - b. the pie gets smaller, and there will be less pie overall.
 - c. it increases the reward for working hard, resulting in people producing more goods and services.
 - d. those who earn more income pay less in taxes.

ANSWER: b

27. When the government redistributes income from the wealthy to the poor,
- a. efficiency is improved, but equality is not.
 - b. both wealthy people and poor people benefit directly.
 - c. people work less and produce fewer goods and services.
 - d. the government collects more revenue in total.

ANSWER: c

28. When the government attempts to improve equality in an economy the result is often
- a. an increase in overall output in the economy.
 - b. additional government revenue since overall income will increase.
 - c. a reduction in equality.
 - d. a reduction in efficiency.

ANSWER: d

29. When the government implements programs such as progressive income tax rates, which of the following is likely to occur?
- a. equality is increased and efficiency is increased.

Sec 1.1: MC How People Make Decisions

- b. equality is increased and efficiency is decreased.
- c. equality is decreased and efficiency is increased.
- d. equality is decreased and efficiency is decreased.

ANSWER: b

30. A likely effect of government policies that redistribute income and wealth from the wealthy to the poor is that those policies

- a. enhance equality.
- b. reduce efficiency.
- c. reduce the reward for working hard.
- d. All of the above are correct.

ANSWER: d

31. A likely effect of government policies that redistribute income and wealth from the wealthy to the poor is that those policies

- a. enhance equality.
- b. enhance efficiency.
- c. increase the reward for working hard.
- d. All of the above are correct.

ANSWER: a

32. Government policies designed to equalize the distribution of economic well-being include

- (i) the welfare system
 - (ii) unemployment insurance
 - (iii) progressive income tax
- a. (i) only
 - b. (ii) only
 - c. (i) and (ii) only
 - d. (i), (ii), and (iii)

ANSWER: d

33. Government policies resulting in reduced efficiency include

- (i) the welfare system
 - (ii) unemployment insurance
 - (iii) progressive income tax
- a. (i) only
 - b. (ii) only
 - c. (i) and (ii) only
 - d. (i), (ii), and (iii)

ANSWER: d

34. When government policies are enacted,

- a. equality can usually be enhanced without an efficiency loss, but efficiency can never be enhanced without a reduction in equality.
- b. efficiency can usually be enhanced without a reduction in equality, but equality can never be enhanced without

Sec 1.1: MC How People Make Decisions

an efficiency loss.

- c. it is always the case that either efficiency and equality are both enhanced, or efficiency and equality are both diminished.
- d. None of the above are correct.

ANSWER: d

35. Senator Brown wants to increase taxes on people with high incomes and use the money to help the poor. Senator Johnson argues that such a tax will discourage successful people from working and will therefore make society worse off. An economist would say that

- a. we should agree with Senator Brown.
- b. we should agree with Senator Johnson.
- c. a good decision requires that we recognize both viewpoints.
- d. there are no tradeoffs between equity and efficiency.

ANSWER: c

36. A certain state legislature is considering an increase in the state gasoline tax. Representative Campbell argues that an increase in the gasoline tax would harm low-income drivers disproportionately. Representative Richards responds by saying that low-income drivers own smaller cars that use less gasoline, and that low-income drivers therefore would *not* be harmed disproportionately.

- a. Representative Campbell's argument is based primarily on efficiency, while Representative Richards' argument is based primarily on equality.
- b. Representative Campbell's argument is based primarily on equality, while Representative Richards' argument is based primarily on efficiency.
- c. Both representatives' arguments are based primarily on efficiency.
- d. Both representatives' arguments are based primarily on equality.

ANSWER: d

37. Senator Jackson argues that replacing the federal income tax with a national sales tax would increase the level of output. Senator Feldman objects that this policy would benefit the rich at the expense of the poor.

- a. Both senators' arguments are primarily about equality.
- b. Both senators' arguments are primarily about efficiency.
- c. Senator Jackson's argument is primarily about equality, while Senator Feldman's argument is primarily about efficiency.
- d. Senator Jackson's argument is primarily about efficiency, while Senator Feldman's argument is primarily about equality.

ANSWER: d

38. Suppose the government taxes the wealthy at a higher rate than it taxes the poor and then develops programs to redistribute the tax revenue from the wealthy to the poor. This redistribution of wealth

- a. is more efficient and more equal for society.
- b. is more efficient but less equal for society.
- c. is more equal but less efficient for society.
- d. is less equal and less efficient for society.

ANSWER: c

39. The government has just passed a law requiring that all residents earn the same annual income regardless of work

Sec 1.1: MC How People Make Decisions

effort. This law is likely to

- a. increase efficiency and increase equality.
- b. increase efficiency but decrease equality.
- c. decrease efficiency but increase equality.
- d. decrease efficiency and decrease equality.

ANSWER: c

40. The opportunity cost of an item is

- a. the number of hours needed to earn money to buy the item.
- b. what you give up to get that item.
- c. usually less than the dollar value of the item.
- d. the dollar value of the item.

ANSWER: b

41. In economics, the cost of something is

- a. the dollar amount of obtaining it.
- b. always measured in units of time given up to get it.
- c. what you give up to get it.
- d. often impossible to quantify, even in principle.

ANSWER: c

42. What you give up to obtain an item is called your

- a. opportunity cost.
- b. explicit cost.
- c. monetary cost.
- d. direct cost.

ANSWER: a

43. Which of the following is correct concerning opportunity cost?

- a. Except to the extent that you pay more for them, opportunity costs should not include the cost of things you would have purchased anyway.
- b. To compute opportunity costs, you should subtract benefits from costs.
- c. Opportunity costs and the idea of trade-offs are not closely related.
- d. Rational people should compare various options without considering opportunity costs.

ANSWER: a

44. High-school athletes who skip college to become professional athletes

- a. obviously do not understand the value of a college education.
- b. usually do so because they cannot get into college.
- c. understand that the opportunity cost of attending college is very high.
- d. are not making a rational decision since the marginal benefits of college outweigh the marginal costs of college for high-school athletes.

ANSWER: c

Sec 1.1: MC How People Make Decisions

45. Suppose that you have received \$300 as a birthday gift. You can spend it today or you can put the money in a bank account for a year and earn 5 percent interest. The opportunity cost of spending the money today, in terms of what you could have after one year, is

- a. \$0.
- b. \$15.
- c. \$305.
- d. \$315.

ANSWER: d

46. When computing the opportunity cost of attending a basketball game you should include

- a. the price you pay for the ticket and the value of your time.
- b. the price you pay for the ticket, but not the value of your time.
- c. the value of your time, but not the price you pay for the ticket.
- d. neither the price of the ticket nor the value of your time.

ANSWER: a

47. Melody decides to spend three hours working overtime rather than going to the park with her friends. She earns \$20 per hour for overtime work. Her opportunity cost of working is

- a. the \$60 she earns working.
- b. the \$60 minus the enjoyment she would have received from going to the park.
- c. the enjoyment she would have received had she gone to the park.
- d. nothing, since she would have received less than \$60 worth of enjoyment from going to the park.

ANSWER: c

48. Ramona decides to spend two hours taking a nap rather than attending her classes. Her opportunity cost of napping is

- a. the value of the knowledge she would have received had she attended class.
- b. the \$24 she could have earned if she had worked at her job for those two hours.
- c. the value of her nap minus the value of attending class.
- d. nothing, since she valued sleep more than attendance at class.

ANSWER: a

49. Hamid spends an hour studying instead of watching TV with his friends. The opportunity cost to him of studying is

- a. the improvement in his grades from studying for the hour.
- b. the improvement in his grades from studying minus the enjoyment of watching TV.
- c. the enjoyment he would have received if he had watched TV with his friends.
- d. zero. Since Hamid chose to study rather than to watch TV, the value of studying must have been greater to him than the value of watching TV.

ANSWER: c

50. For most students, the largest single cost of a college education is

- a. the wages given up to attend school.
- b. tuition, fees, and books.
- c. room and board.
- d. transportation, parking, and entertainment.

Sec 1.1: MC How People Make Decisions

ANSWER: a

51. For most students, the earnings they give up to attend college are
- a. a minor cost when compared to the costs of tuition, room and board, and the like.
 - b. the single largest cost of their education.
 - c. about equal to the costs of room and board at college.
 - d. not considered true costs by an economist.

ANSWER: b

52. The opportunity cost of going to college is
- a. the total spent on food, clothing, books, transportation, tuition, lodging, and other expenses.
 - b. the value of the best opportunity a student gives up to attend college.
 - c. zero for students who are fortunate enough to have all of their college expenses paid by someone else.
 - d. zero, since a college education will allow a student to earn a larger income after graduation.

ANSWER: b

53. Which of the following is *not* an example of the opportunity cost of going to school?
- a. The money a student could have earned by working if he had not gone to college.
 - b. The nap a student could have enjoyed if he had not attended class.
 - c. The party a student could have enjoyed if he had not stayed in to study for his exam.
 - d. The money a student spends on rent for his apartment while attending school.

ANSWER: d

54. For a college student who wishes to calculate the true costs of going to college, the costs of room and board
- a. should be counted in full, regardless of the costs of eating and sleeping elsewhere.
 - b. should be counted only to the extent that they are more expensive at college than elsewhere.
 - c. usually exceed the opportunity cost of going to college.
 - d. plus the cost of tuition, equals the opportunity cost of going to college.

ANSWER: b

55. When you calculate your true costs of going to college, what portion of your room-and-board expenses should be included?
- a. Your full room-and-board expenses should always be included.
 - b. None of your room-and-board expenses should ever be included.
 - c. You should include only the amount by which your room-and-board expenses exceed the income you earn while attending college.
 - d. You should include only the amount by which your room-and-board expenses exceed the expenses for rent and food if you were not in college.

ANSWER: d

56. Consider Frank's decision to go to college. If he goes to college, he will spend \$21,000 on tuition, \$11,000 on room and board, and \$1,800 on books. If he does not go to college, he will earn \$16,000 working in a store and spend \$7,200 on room and board. Frank's cost of going to college is
- a. \$33,800.
 - b. \$42,600.

Sec 1.1: MC How People Make Decisions

- c. \$49,800.
- d. \$57,000.

ANSWER: b

57. Suppose after graduating from college you get a job working at a bank earning \$30,000 per year. After two years of working at the bank earning the same salary, you have an opportunity to enroll in a one-year graduate program that would require you to quit your job at the bank. Which of the following should *not* be included in a calculation of your opportunity cost?

- a. the cost of tuition and books to attend the graduate program
- b. the \$30,000 salary that you could have earned if you retained your job at the bank
- c. the \$45,000 salary that you will be able to earn after having completed your graduate program
- d. the value of insurance coverage and other employee benefits you would have received if you retained your job at the bank

ANSWER: c

58. For which of the following individuals would the opportunity cost of going to college be highest?

- a. a promising young mathematician who will command a high salary once she earns her college degree
- b. a student with average grades who has never held a job
- c. a famous, highly-paid actor who wants to take time away from show business to finish college and earn a degree
- d. a student who is the best player on his college basketball team, but who lacks the skills necessary to play professional basketball

ANSWER: c

59. Consider Mandy's decision to go to college. If she goes to college, she will spend \$20,000 on tuition, \$10,000 on room and board, and \$2,000 on books. If she does not go to college, she will earn \$18,000 working in a store and spend \$8,000 on room and board. Mandy's cost of going to college is

- a. \$32,000.
- b. \$42,000.
- c. \$50,000.
- d. \$58,000.

ANSWER: b

60. Consider Noah's decision to go to college. If he goes to college, he will spend \$80,000 on tuition, \$15,000 on room and board, and \$4,000 on books. If he does not go to college, he will earn \$22,000 working in a store and he will spend \$13,000 on room and board. Noah's cost of going to college is

- a. \$99,000.
- b. \$103,000.
- c. \$108,000.
- d. \$121,000.

ANSWER: c

61. Consider Paul's decision to go to college. If he goes to college, he will spend \$90,000 on tuition, \$15,000 on room and board, and \$7,000 on books. If he does not go to college, he will earn \$22,000 working at a construction job and he will spend \$11,000 on room and board. Paul's cost of going to college is

- a. \$96,000.

Sec 1.1: MC How People Make Decisions

- b. \$110,000.
- c. \$114,000.
- d. \$123,000.

ANSWER: d

62. If Faith attends college, it will take her four years, during which time she will earn no income. She will pay \$50,000 for tuition, \$12,000 for room and board, and \$5,000 for books. If she spends the four years working rather than attending college, she will pay \$18,000 for room and board, pay no tuition, and buy no books. Based on this information, Faith's economic cost of attending college would be \$67,000 if, over the four years, she could earn

- a. \$12,000 instead of attending college.
- b. \$14,000 instead of attending college.
- c. \$16,000 instead of attending college.
- d. \$18,000 instead of attending college.

ANSWER: d

63. Maureen's college raises the cost of room and board per semester. This increase raises Maureen's opportunity cost of attending college

- a. even if the amount she would have to pay for room and board if she didn't attend college rose by the same amount. An increase in opportunity cost reduces Maureen's incentive to attend college.
- b. even if the amount she would have to pay for room and board if she didn't attend college rose by the same amount. An increase in opportunity cost increases Maureen's incentive to attend college.
- c. only if the amount she would have to pay for room and board if she didn't attend college rose by less than the increase in the amount her college charges. An increase in opportunity cost reduces Maureen's incentive to attend college.
- d. only if the amount she would have to pay for room and board if she didn't attend college rose by less than the increase in the amount her college charges. An increase in opportunity cost increases Maureen's incentive to attend college.

ANSWER: c

64. When calculating the cost of college, which of the following should you probably *not* include?

- a. The cost of tuition
- b. The cost of books required for college classes
- c. The income you would have earned had you not gone to college
- d. The cost of rent for your off-campus apartment.

ANSWER: d

65. When calculating the cost of college, which of the following should you probably include?

- a. The cost of your meal plan for the cafeteria.
- b. The cost of books required for college classes
- c. The income you earn at your part-time job.
- d. The cost of living in the dormitory.

ANSWER: b

66. Suppose your college institutes a new policy requiring you to pay for a permit to park your car in a campus parking lot.

Sec 1.1: MC How People Make Decisions

- a. The cost of the parking permit is not part of the opportunity cost of attending college if you would not have to pay for parking otherwise.
- b. The cost of the parking permit is part of the opportunity cost of attending college if you would not have to pay for parking otherwise.
- c. Only half of the cost of the parking permit is part of the opportunity cost of attending college.
- d. The cost of the parking permit is not part of the opportunity cost of attending college under any circumstances.

ANSWER: b

67. You have driven 800 miles on a vacation and then you notice that you are only 15 miles from an attraction you hadn't known about, but would really like to see. In computing the opportunity cost of visiting this attraction you had not planned to visit, you should include

- a. both the cost of driving the first 800 miles and the next 15 miles.
- b. the cost of driving the first 800 miles, but not the cost of driving the next 15 miles.
- c. the cost of driving the next 15 miles, but not the cost of driving the first 800 miles.
- d. neither the cost of driving the first 800 miles nor the cost of driving the next 15 miles.

ANSWER: c

68. Barb's aunt gave her \$100 for her birthday with the condition that Barb buy herself something. In deciding how to spend the money, Barb narrows her options down to four choices: Option A, Option B, Option C, and Option D. Each option costs \$100. Finally she decides on Option B. The opportunity cost of this decision is

- a. the value to Barb of the option she would have chosen had Option B not been available.
- b. the value to Barb of Options A, C and D combined.
- c. the average of the values to Barb of Options A, C, and D.
- d. \$100.

ANSWER: a

69. College-age athletes who drop out of college to play professional sports

- a. are not rational decision makers.
- b. are well aware that their opportunity cost of attending college is very high.
- c. are concerned more about present circumstances than their future.
- d. underestimate the value of a college education.

ANSWER: b

70. A rational decisionmaker

- a. ignores marginal changes and focuses instead on "the big picture."
- b. ignores the likely effects of government policies when he or she makes choices.
- c. takes an action only if the marginal benefit of that action exceeds the marginal cost of that action.
- d. takes an action only if the combined benefits of that action and previous actions exceed the combined costs of that action and previous actions.

ANSWER: c

71. In the context of decisionmaking, the word "marginal" is most closely associated with the word

- a. "unimportant."
- b. "slow."
- c. "edge."

Sec 1.1: MC How People Make Decisions

d. “irrational.”

ANSWER: c

72. A rational decision maker takes an action only if the
- a. marginal benefit is less than the marginal cost.
 - b. marginal benefit is greater than the marginal cost.
 - c. average benefit is greater than the average cost.
 - d. marginal benefit is greater than both the average cost and the marginal cost.

ANSWER: b

73. A rational decisionmaker takes an action if and only if
- a. the marginal benefit of the action exceeds the marginal cost of the action.
 - b. the marginal cost of the action exceeds the marginal benefit of the action.
 - c. the marginal cost of the action is zero.
 - d. the opportunity cost of the action is zero.

ANSWER: a

74. Rational people make decisions at the margin by
- a. following marginal traditions.
 - b. behaving in a random fashion.
 - c. thinking in black-and-white terms.
 - d. comparing marginal costs and marginal benefits.

ANSWER: d

75. Rational people make decisions “at the margin” by comparing
- a. average costs and benefits.
 - b. total costs and benefits.
 - c. additional costs and benefits.
 - d. opportunity costs and benefits.

ANSWER: c

76. Making rational decisions "at the margin" means that people
- a. make those decisions that do not impose a marginal cost.
 - b. evaluate how easily a decision can be reversed if problems arise.
 - c. compare the marginal costs and marginal benefits of each decision.
 - d. always calculate the dollar costs for each decision.

ANSWER: c

77. A marginal change is a
- a. change that involves little, if anything, that is important.
 - b. large, significant adjustment.
 - c. change for the worse, and so it is usually a short-term change.
 - d. small, incremental adjustment.

ANSWER: d

Sec 1.1: MC How People Make Decisions

78. People are willing to pay more for a diamond than for a bottle of water because

- a. the marginal cost of producing an extra diamond far exceeds the marginal cost of producing an extra bottle of water.
- b. the marginal benefit of an extra diamond far exceeds the marginal benefit of an extra bottle of water.
- c. producers of diamonds have a much greater ability to manipulate diamond prices than producers of water have to manipulate water prices.
- d. water prices are held artificially low by governments, since water is necessary for life.

ANSWER: b

79. It costs a meat-processing company \$50,000 to produce 5,000 pounds of steak. The company's cost will be \$50,009 if it produces an additional pound of steak. If the company produces 5,001 pounds of steak then

- a. its average cost is greater than its marginal cost.
- b. its average cost and its marginal cost are equal.
- c. its average cost is less than its marginal cost.
- d. there is insufficient information to compute average and marginal costs.

ANSWER: a

80. The marginal benefit Kyra gets from eating a second sandwich is

- a. the total benefit Kyra gets from eating two sandwiches minus the total benefit she gets from eating one sandwich.
- b. the same as the total benefit she gets from eating two sandwiches.
- c. less than the marginal cost of eating the second sandwich since she chose to eat the second sandwich.
- d. the total benefit Kyra gets from eating three sandwiches minus the total benefit she gets from eating two sandwiches.

ANSWER: a

81. The marginal benefit Susie gets from purchasing a third pair of gloves is

- a. the same as the total benefit she gets from purchasing three pairs of gloves.
- b. more than the marginal cost of purchasing the third pair of gloves.
- c. the total benefit she gets from purchasing three pairs of gloves minus the total benefit she gets from purchasing two pairs of gloves.
- d. the total benefit she gets from purchasing four pairs of gloves minus the total benefit she gets from purchasing three pairs of gloves.

ANSWER: c

82. A rational decision maker takes an action if and only if

- a. the average benefit of the action exceeds the average cost.
- b. the average cost of the action exceeds the average benefit.
- c. the marginal benefit of the action exceeds the marginal cost.
- d. the marginal cost of the action exceeds the marginal benefit.

ANSWER: c

83. Ashley eats two bananas during a particular day. The marginal benefit she enjoys from eating the second banana

- a. can be thought of as the total benefit Ashley enjoys by eating two bananas minus the total benefit she would

Sec 1.1: MC How People Make Decisions

have enjoyed by eating just the first banana.

- b. determines Ashley's marginal cost of the first and second bananas.
- c. does not depend on how many bananas Ashley has already eaten.
- d. cannot be determined unless we know how much she paid for the bananas.

ANSWER: a

84. After much consideration, you have chosen Cancun over Ft. Lauderdale as your Spring Break destination this year. However, Spring Break is still months away, and you may reverse this decision. Which of the following events would prompt you to reverse this decision?

- a. The marginal benefit of going to Cancun increases.
- b. The marginal cost of going to Cancun decreases.
- c. The marginal benefit of going to Ft. Lauderdale decreases.
- d. The marginal cost of going to Ft. Lauderdale decreases.

ANSWER: d

85. After much consideration, you have chosen Ireland over Spain for your Study Abroad program next year. However, the deadline for your final decision is still months away and you may reverse this decision. Which of the following events would prompt you to reverse this decision?

- a. The marginal benefit of going to Spain increases.
- b. The marginal cost of going to Spain increases.
- c. The marginal benefit of going to Ireland increases.
- d. The marginal cost of going to Ireland decreases.

ANSWER: a

86. A barber currently cuts hair for 50 clients per week and earns a profit. He is considering expanding his operation in order to serve more clients. Should he expand?

- a. Yes, because cutting hair is profitable.
- b. No, because he may not be able to sell more services.
- c. It depends on the marginal cost of serving more clients and the marginal revenue he will earn from serving more clients.
- d. It depends on the average cost of serving more clients and the average revenue he will earn from serving more clients.

ANSWER: c

87. The Get-There-Safe Bus company incurs an average cost of \$45 for each passenger it carries on its trip from Atlanta to Chattanooga. In advance of a particular trip, four seats remain unsold. The bus company could increase its profit only if it

- a. charged any ticket price above \$0 for the four remaining seats.
- b. charged at least \$11.25 for each of the four remaining seats.
- c. charged at least \$45 for each of the four remaining seats.
- d. paid four people to occupy the four remaining seats.

ANSWER: a

88. Suppose the cost of flying a 200-seat plane for an airline is \$100,000 and there are 10 empty seats on a flight. If the marginal cost of flying a passenger is \$200 and a standby passenger is willing to pay \$300, the airline should

Sec 1.1: MC How People Make Decisions

- a. sell the ticket because the marginal benefit exceeds the marginal cost.
- b. sell the ticket because the marginal benefit exceeds the average cost.
- c. not sell the ticket because the marginal benefit is less than the marginal cost.
- d. not sell the ticket because the marginal benefit is less than the average cost.

ANSWER: a

89. Suppose the cost of flying a 100-seat plane for an airline is \$50,000 and there are 10 empty seats on a flight. The average cost per seat is

- a. \$50.
- b. \$500.
- c. \$50,000.
- d. This cannot be determined from the information given.

ANSWER: b

90. Suppose the cost of flying a 100-seat plane for an airline is \$50,000 and there are 10 empty seats on a flight. The marginal cost of flying a passenger is

- a. \$50.
- b. \$500.
- c. \$50,000.
- d. This cannot be determined from the information given.

ANSWER: d

91. Suppose the cost of flying a 200-seat plane for an airline is \$100,000 and there are 10 empty seats on a flight. The airline should sell a ticket to a standby passenger only if the passenger is willing to pay

- a. more than \$200.
- b. more than \$300.
- c. more than \$500.
- d. This cannot be determined from the information given.

ANSWER: d

92. Stephen is restoring a car and has already spent \$4,000 on the restoration. He expects to be able to sell the car for \$5800. Stephen discovers that he needs to do an additional \$2,400 of work to make the car worth \$5,800 to potential buyers. He could also sell the car now, without completing the additional work, for \$3,800. What should he do?

- a. He should sell the car now for \$3,800.
- b. He should keep the car since it wouldn't be rational to spend \$6,400 restoring a car and then sell it for only \$5,800.
- c. He should complete the additional work and sell the car for \$5,800.
- d. It does not matter which action he takes since the outcome will be the same either way.

ANSWER: a

93. Bill is restoring a car and has already spent \$4000 on the restoration. He expects to be able to sell the car for \$6200. Bill discovers that he needs to do an additional \$2400 of work to make the car worth \$6200 to potential buyers. He could also sell the car now, without completing the additional work, for \$3800. What should he do?

- a. He should sell the car now for \$3800.
- b. He should keep the car since it wouldn't be rational to spend \$6400 restoring a car and then sell it for only

Sec 1.1: MC How People Make Decisions

\$6200.

- c. He should complete the additional work and sell the car for \$6200.
- d. It does not matter if Bill sells the car now or completes the work and then sells it at the higher price because the outcome will be the same either way.

ANSWER: d

94. Cole is refinishing an antique china cabinet and has already spent \$180 on the restoration. He expects to be able to sell the cabinet for \$360. Cole discovers that he needs to do an additional \$200 worth of work to make the cabinet worth \$360 to potential buyers. He could also sell the cabinet now, without completing the additional work, for \$100. What should Cole do?

- a. He should sell the cabinet now for \$100.
- b. He should keep the cabinet since it wouldn't be rational to spend \$380 restoring a cabinet and then sell it for only \$360.
- c. He should complete the additional work and sell the cabinet for \$360.
- d. It does not matter which action he takes since the outcome will be the same either way.

ANSWER: c

95. Katie is planning to sell her house, and she is considering making two upgrades to the house before listing it for sale. Replacing the carpeting will cost her \$2,500 and replacing the roof will cost her \$9,000. Katie expects the new carpeting to increase the value of her house by \$3,000 and the new roof to increase the value of her house by \$7,000.

- a. She should make both improvements to her house.
- b. She should replace the carpeting but not replace the roof.
- c. She should replace the roof but not replace the carpeting.
- d. She should not make either improvement to her house.

ANSWER: b

96. Bridget drinks three sodas during a particular day. The marginal benefit she enjoys from drinking the third soda

- a. can be thought of as the total benefit Bridget enjoys by drinking three sodas minus the total benefit she would have enjoyed by drinking just two sodas.
- b. determines Bridget's willingness to pay for the third soda.
- c. is likely different from the marginal benefit provided to Bridget by the second soda.
- d. All of the above are correct.

ANSWER: d

97. A construction company has built 30 houses so far this year at a total cost to the company of \$7.5 million. If the company builds a 31st house, its total cost will increase to \$7.76 million. Which of the following statements is correct?

- a. For the first 30 houses, the average cost per house was \$250,000.
- b. The marginal cost of the 31st house, if it is built, will be \$260,000.
- c. If the company can experience a marginal benefit of \$275,000 by building the 31st house, then the company should build it.
- d. All of the above are correct.

ANSWER: d

98. Acme Home Builders, Inc., has built 24 houses so far this year at a total cost to the company of \$4.80 million. If the company builds a 25th house, its total cost will increase to \$5.05 million. Which of the following statements is correct?

Sec 1.1: MC How People Make Decisions

- a. For the first 24 houses, the average cost per house was \$205,000.
- b. The marginal cost of the 25th house, if it is built, will equal \$250,000.
- c. If the company can sell the 25th house for at least \$202,000, then it should build it.
- d. All of the above are correct.

ANSWER: b

99. It costs a furniture company \$8,750 to produce 25 tables. The company's total cost will be \$9,125 if it produces a 26th table. If the company produces 26 tables, then

- a. its average cost is greater than its marginal cost.
- b. its average cost and its marginal cost are equal.
- c. its average cost is less than its marginal cost.
- d. This cannot be determined from the information given.

ANSWER: c

100. Suppose the cost of operating a 100 room hotel for a night is \$10,000 and there are 5 empty rooms for tonight. If the marginal cost of operating one room for one night is \$30 and a customer is willing to pay \$60 for the night, the hotel manager should

- a. rent the room because the marginal benefit exceeds the marginal cost.
- b. rent the room because the marginal benefit exceeds the average cost.
- c. not rent the room because the marginal benefit is less than the marginal cost.
- d. not rent the room because the marginal benefit is less than the average cost.

ANSWER: a

101. Suppose the cost of operating a 75 room hotel for a night is \$6,000 and there are 5 empty rooms for tonight. The marginal cost per room per night

- a. is \$40.
- b. is \$80.
- c. is \$120.
- d. cannot be determined from the information given.

ANSWER: d

102. Suppose the cost of operating a 75 room hotel for a night is \$6,000 and there are 5 empty rooms for tonight. If the marginal cost of operating one room for one night is \$40, the hotel manager should rent one of the empty rooms only if a customer is willing to pay

- a. more than \$40, as the average benefit will exceed the marginal cost.
- b. more than \$40, as the marginal benefit will exceed the marginal cost.
- c. more than \$80, as the average benefit will exceed the marginal cost.
- d. more than \$80, as the marginal benefit will exceed the marginal cost.

ANSWER: b

103. It costs a company \$35,000 to produce 500 graphing calculators. The company's cost will be \$35,080 if it produces an additional graphing calculator. If the company produces 501 graphing calculators then

- a. its average cost is greater than its marginal cost.
- b. its average cost and its marginal cost are equal.

Sec 1.1: MC How People Make Decisions

- c. its average cost is less than its marginal cost.
- d. This cannot be determined from the information given.

ANSWER: c

104. DeShawn has spent \$600 purchasing and repairing an old fishing boat, which he expects to sell for \$900 once the repairs are complete. DeShawn discovers that, in addition to the \$600 he has already spent, he needs to make an additional repair, which will cost another \$400, in order to make the boat worth \$900 to potential buyers. He can sell the boat as it is now for \$400. What should he do?

- a. He should sell the boat as it is now for \$400.
- b. He should keep the boat since it would not be rational to spend \$1,000 on repairs and then sell the boat for \$900.
- c. He should complete the repairs and sell the boat for \$900.
- d. It does not matter which action he takes; the outcome is the same either way.

ANSWER: c

105. Betty's Bakery bakes fresh bread every morning. Any bread not sold by the end of the day is thrown away. A loaf of bread costs Betty \$2.00 to produce, and she prices loaves of bread at \$3.50 per loaf. Suppose near the end of one day Betty still has 12 loaves of bread on hand. Which of the following is correct?

- a. Betty should only sell the remaining bread for \$3.50 per loaf since that is the regular price.
- b. Betty should only sell the remaining bread for \$2.00 per loaf or more since that is what the bread costs to make.
- c. Betty should be willing to sell the remaining bread for any price above \$0 per loaf since she will have to throw it away if she does not sell it for something.
- d. Betty should just throw the bread away and change the price of her bread starting tomorrow to make sure she sells all of her bread each day.

ANSWER: c

106. A bagel shop sells fresh baked bagels from 5 a.m. until 7 p.m. every day. The shop does not sell day-old bagels, so all unsold bagels are thrown away at 7 p.m. each day. The cost of making and selling a dozen bagels is \$1.00; there are no costs associated with throwing bagels away. If the manager has 8 dozen bagels left at 6:30 p.m. on a particular day, which of the following alternatives is most attractive?

- a. Lower the price of the remaining bagels, even if the price falls below \$1.00 per dozen.
- b. Lower the price of the remaining bagels, but under no circumstances should the price fall below \$1.00 per dozen.
- c. Throw the bagels away and produce 8 fewer dozen bagels tomorrow.
- d. Starting tomorrow, lower the price on all bagels so they will all be sold earlier in the day.

ANSWER: a

107. Rick buys a 1966 Mustang for \$3,000, planning to restore and sell the car. He goes on to spend \$9,000 restoring the car. At this point he can sell the car for \$10,000. As an alternative, he can spend an additional \$3,000 replacing the engine. With a new engine the car would sell for \$13,000. Rick should

- a. complete the repairs and sell the car for \$13,000.
- b. sell the car now for \$10,000.
- c. never try such an expensive project again.
- d. be indifferent between (i) selling the car now and (ii) replacing the engine and then selling it.

ANSWER: d

Sec 1.1: MC How People Make Decisions

108. Yvette buys and sells real estate. Two weeks ago, she paid \$300,000 for a house on Pine Street, intending to spend \$50,000 on repairs and then sell the house for \$400,000. Last week, the city government announced a plan to build a new landfill on Pine Street just down the street from the house Yvette purchased. As a result of the city's announced plan, Yvette is weighing two alternatives: She can go ahead with the \$50,000 in repairs and then sell the house for \$290,000, or she can forgo the repairs and sell the house as it is for \$250,000. She should

- a. keep the house and live in it.
- b. go ahead with the \$50,000 in repairs and sell the house for \$290,000.
- c. forgo the repairs and sell the house as it is for \$250,000.
- d. move the house from Pine Street to a more desirable location, regardless of the cost of doing so.

ANSWER: c

109. You are considering staying in college another semester so that you can complete a major in economics. In deciding whether or not to stay you should

- a. compare the total cost of your education to the total benefits of your education.
- b. compare the total cost of your education to the benefits of staying one more semester.
- c. compare the cost of staying one more semester to the benefits of staying one more semester.
- d. compare the total benefits of your education to the cost of staying one more semester.

ANSWER: c

110. Kyle is planning to take a roadtrip. After he makes his plans, he has to make some unexpected auto repairs. Also, he sees the price of gas has gone up. Which of these two events should Kyle consider in deciding if it is still worthwhile to go on the trip?

- a. the unexpected repairs and the increase in the price of gas
- b. the unexpected increase for repairs, but not the increase in the price of gas
- c. the increase in the price of gas, but not the unexpected repairs
- d. neither the unexpected increase in the price of gas nor the unexpected repairs

ANSWER: c

111. You have eaten two bowls of ice cream at Sundae School Ice Cream store. You consider eating a third. As a rational consumer you should make your choice by comparing

- a. the benefits from eating all three bowls of ice cream to how much three bowls of ice cream costs.
- b. the benefits from eating all three bowls of ice cream to how much one more bowl of ice cream costs.
- c. the benefits from eating one more bowl of ice cream to how much three bowls of ice cream costs.
- d. the benefits from eating one more bowl of ice cream to how much one more bowl of ice cream costs.

ANSWER: d

112. Olivia was accepted by Northwestern and by another university. She is trying to decide where to go. Which of the following should influence her decision?

- a. how much she spent applying to Northwestern, and the difference between living expenses at Northwestern and the other university
- b. how much she spent applying to Northwestern, but not the difference between living expenses at Northwestern and the other university
- c. the difference between living expenses at Northwestern and her second choice, but not how much she spent applying to Northwestern
- d. neither how much she spent applying to Northwestern nor the difference between living expenses at

Sec 1.1: MC How People Make Decisions

Northwestern and her second choice

ANSWER: c

113. You go to the movieplex where movies ordinarily cost \$9. You are intending to see a movie for which you have a \$3 off coupon good for only that movie at that time. However, when you get there you see a friend who asks if you would rather see a new release. Both movies start and end at the same time. If you decide to see the new release with your friend, what is your opportunity cost?

- a. the amount you value the first movie + \$3
- b. the amount you value the first movie + \$9
- c. \$3
- d. \$9

ANSWER: a

114. Max and Maddy charge people to park on their lawn while attending a nearby craft fair. At the current price of \$10, seven people park on their lawn. If they raise the price to \$15, they know that only five people will want to park on their lawn. Whether they have seven or five cars parked on their lawn does not affect their costs. From this information it follows that

- a. they should leave the price at \$10.
- b. it does not matter if they charge \$10 or \$15.
- c. they would do better charging \$15 than \$10.
- d. they should raise the price even more.

ANSWER: c

115. Your professor loves her work, teaching economics. She has been offered other positions in the corporate world that would increase her income by 25 percent, but she has decided to continue working as a professor. Her decision would not change unless the marginal

- a. cost of teaching increased.
- b. benefit of teaching increased.
- c. cost of a corporate job increased.
- d. benefit of a corporate job decreased.

ANSWER: a

116. Suppose your management professor has been offered a corporate job with a 30 percent pay increase. He has decided to take the job. For him, the marginal

- a. cost of leaving was greater than the marginal benefit.
- b. benefit of leaving was greater than the marginal cost.
- c. benefit of teaching was greater than the marginal cost.
- d. All of the above are correct.

ANSWER: b

117. Something that induces a person to act is called

- a. a trade-off.
- b. a policy.
- c. an incentive.
- d. an opportunity cost.

Sec 1.1: MC How People Make Decisions

ANSWER: c

118. Economists are particularly adept at understanding that people respond to

- a. laws.
- b. incentives.
- c. punishments more than rewards.
- d. rewards more than punishments.

ANSWER: b

119. A tax on gasoline encourages people to drive smaller, more fuel-efficient cars. Which principle of economics does this illustrate?

- a. People face tradeoffs.
- b. The cost of something is what you give up to get it.
- c. Rational people think at the margin.
- d. People respond to incentives.

ANSWER: d

120. People are likely to respond to a policy change

- a. only if they think the policy is a good one.
- b. only if the policy change changes the costs of their behavior.
- c. only if the policy change changes the benefits of their behavior.
- d. if the policy changes either the costs or benefits of their behavior.

ANSWER: d

121. Suppose the state of Wyoming passes a law that increases the tax on cigarettes. As a result, smokers who live in Wyoming start purchasing their cigarettes in surrounding states. Which of the following principles does this best illustrate?

- a. People respond to incentives.
- b. Rational people think at the margin.
- c. Trade can make everyone better off.
- d. Markets are usually a good way to organize economic activity.

ANSWER: a

122. Government policies can change the costs and benefits that people face. Those policies have the potential to

- a. alter people's behavior.
- b. alter people's decisions at the margin.
- c. produce results that policymakers did not intend.
- d. All of the above are correct.

ANSWER: d

123. Ralph Nader's book *Unsafe at Any Speed* caused Congress to require

- a. safety glass in all new cars.
- b. seat belts in all new cars.
- c. air bags in all new cars.

Sec 1.1: MC How People Make Decisions

d. stricter drunk driving laws in all states.

ANSWER: b

124. Following the implementation of laws requiring automobiles to have seat belts, which of the following occurred?

- a. An individual's probability of surviving an auto accident rose.
- b. There was an increase in pedestrian deaths.
- c. There was an increase in automobile accidents.
- d. All of the above are correct.

ANSWER: d

125. U.S. laws requiring that drivers wear seat belts have resulted in

- a. a reduction in both driver deaths and pedestrian deaths.
- b. fewer accidents and fewer deaths per accident.
- c. fewer driver deaths, fewer accidents and fewer pedestrian deaths.
- d. little change in the number of driver deaths, but more accidents and more pedestrian deaths.

ANSWER: d

126. Evidence indicates that seat belt laws have led to

- a. fewer pedestrian deaths.
- b. fewer automobile accidents.
- c. fewer deaths per automobile accident.
- d. All of the above are correct.

ANSWER: c

127. One effect of the government-imposed seat belt law in the U.S. has been

- a. a dramatic decrease in the number of pedestrian deaths.
- b. safer driving.
- c. an increase in the number of accidents.
- d. a dramatic decrease in the number of driver deaths.

ANSWER: c

128. Based on the available evidence, which of the following groups benefits most from mandatory seat belt laws?

- a. automakers
- b. pedestrians
- c. drivers
- d. owners of collision-repair shops

ANSWER: d

129. Which of the following can policy do?

- a. alter incentives
- b. alter trade-offs
- c. change opportunity costs
- d. All of the above are correct.

ANSWER: d

Sec 1.1: MC How People Make Decisions

130. Suppose the state of Illinois passes a law that bans smoking in restaurants. As a result, residents of Wisconsin who do not like breathing second-hand smoke begin driving across the border to Illinois to eat at restaurants there. Which of the following principles does this best illustrate?

- a. People respond to incentives
- b. Rational people think at the margin
- c. Trade can make everyone better off
- d. Markets are usually a good way to organize economic activity

ANSWER: a

131. In the former Soviet Union, producers were paid for meeting output targets, not for selling products. Under those circumstances, what were the economic incentives for producers?

- a. to produce good quality products so that society would benefit from the resources used
- b. to conserve on costs, so as to maintain efficiency in the economy
- c. to produce enough to meet the output target, without regard for quality or cost
- d. to produce those products that society desires most

ANSWER: c

132. Which of the following is *not* one of the four principles of *individual* decision making?

- a. People face trade-offs.
- b. Trade can make everyone better off.
- c. People respond to incentives.
- d. Rational people think at the margin.

ANSWER: b

133. Which of the following statements exemplifies a principle of individual decisionmaking?

- a. Trade can make everyone better off.
- b. Governments can sometimes improve market outcomes.
- c. The cost of something is what you give up to get it.
- d. All of the above are correct.

ANSWER: c

134. Which of the following is *not* an example of a group responding to an incentive?

- a. Students attend class because of an attendance policy that reduces their grade for absences.
- b. Consumers buy more of a product when it is on sale at a reduced price.
- c. Universities offer fewer online classes when they generate more revenue than traditional classes.
- d. Employees work harder to earn higher commissions.

ANSWER: c

135. Michael is a college student. He can either buy a textbook for \$100 or save up for a road trip he wants to take during the summer. This illustrates the principle that

- a. trade can make everyone better off.
- b. people face trade-offs.
- c. rational people think at the margin.
- d. people respond to incentives.

Sec 1.1: MC How People Make Decisions

ANSWER: b

136. The balance between maximizing a society's income and an equal distribution of that income is an illustration of
- a. scarcity.
 - b. trade-offs.
 - c. the forces of supply and demand.
 - d. none of the above.

ANSWER: b

137. The balance between efficiency and equality is an illustration of
- a. scarcity.
 - b. trade-offs.
 - c. the forces of supply and demand.
 - d. none of the above.

ANSWER: b

138. Tim decides to spend four hours playing video games rather than attending his classes. His opportunity cost of playing games is
- a. the value of the knowledge he would have received had he attended his classes.
 - b. the \$50 he could have earned if he had worked at his job for those four hours.
 - c. the value of his time playing video games minus the value of attending classes.
 - d. nothing, since he valued playing video games more than attending classes.

ANSWER: a

139. Jane decides to spend four hours working overtime rather than going to a family gathering. She earns \$12.50 per hour for overtime work. Her opportunity cost of working is
- a. the \$50 she earns working.
 - b. the \$50 minus the enjoyment she would have received from going to the family gathering.
 - c. the enjoyment she would have received had she gone to the family gathering
 - d. nothing, since she wanted to work more than she wanted to attend the family gathering

ANSWER: c

140. Consider Larry's decision to go to college. If he goes to college, he will spend a total of \$120,000 on tuition, \$30,000 on room and board, and \$3,500 on books over four years. If he does not go to college, he will earn \$30,000 annually working in a store and spend \$7,000 on room and board each year. Larry's cost of going to college is
- a. \$123,500.
 - b. \$153,500.
 - c. \$190,500
 - d. \$245,500

ANSWER: d

141. If Jane attends graduate school, it will take her two years, during which time she will earn no income. She will pay a total of \$100,000 for tuition, \$20,000 for room and board, and \$2,000 for books. If she spends the two years working rather than attending college, she will pay a total of \$18,000 for room and board, pay no tuition, and buy no books. Based on this information, Jane's economic cost of attending graduate school would be \$175,000 if, over the two years,

Name: _____ Class: _____ Date: _____

Sec 1.1: MC How People Make Decisions

she could earn a total of

- a. \$53,000 instead of attending graduate school.
- b. \$55,000 instead of attending graduate school.
- c. \$71,000 instead of attending graduate school.
- d. \$73,000 instead of attending graduate school.

ANSWER: c

142. Which of the following industries has a marginal cost that is close to zero?

- a. automobile
- b. aircraft
- c. software
- d. furniture

ANSWER: c

Sec 1.2: MC How People Interact

Multiple Choice

1. Which of the following is a principle concerning how people interact?

- a. Markets are usually a good way to organize economic activity.
- b. Rational people think at the margin.
- c. People respond to incentives.
- d. All of the above are correct.

ANSWER: a

2. Which is the most accurate statement about trade?

- a. Trade can make every nation better off.
- b. Trade makes some nations better off and others worse off.
- c. Trading for a good can make a nation better off only if the nation cannot produce that good itself.
- d. Trade helps rich nations and hurts poor nations.

ANSWER: a

3. The principle that "trade can make everyone better off" applies to interactions and trade between

- a. families.
- b. states within the United States.
- c. nations.
- d. All of the above are correct.

ANSWER: d

4. The principle that trade can make everyone better off applies to

- a. individuals.
- b. families.
- c. countries.
- d. All of the above

ANSWER: d

5. Which of the following statements about trade is false?

- a. Trade increases competition.
- b. With trade, one country wins and one country loses.
- c. Bulgaria can benefit, potentially, from trade with any other country.
- d. Trade allows people to buy a greater variety of goods and services at lower cost.

ANSWER: b

6. Trade between the United States and Guatemala

- a. benefits both the United States and Guatemala.
- b. is a losing proposition for the United States because Guatemalan labor is less expensive than U.S. labor.
- c. is a losing proposition for Guatemala because capital is much more abundant in the U.S. than in Guatemala.
- d. is a losing proposition for Guatemala because U.S. workers are more productive than Guatemalan workers.

ANSWER: a

Sec 1.2: MC How People Interact

7. England can benefit from trade
- a. only with nations that can produce goods England cannot produce.
 - b. only with less developed nations.
 - c. only with nations outside of Europe.
 - d. with any nation.

ANSWER: d

8. If Switzerland chooses to engage in trade, it
- a. will only benefit if it trades with countries that produce goods Switzerland cannot produce.
 - b. cannot benefit if it trades with less developed countries.
 - c. should first attempt to produce the good itself.
 - d. can benefit by trading with any other country.

ANSWER: d

9. If the United States decides to trade with Yemen, we know that
- a. Yemen will benefit, but trade with a less developed country could not benefit the United States.
 - b. it will not benefit Yemen because workers in the United States are more productive.
 - c. Yemen and the United States can both benefit.
 - d. it will not benefit either country because their cultural differences are too vast.

ANSWER: c

10. Dee is an accomplished actress and a homeowner who pays a landscaper to maintain her lawn rather than do it herself. Dee has determined that she can earn more in the hour it would take her to work on her lawn than she must pay her landscaper. This scenario is an example of which principle of economics?
- a. Trade can make everyone better off.
 - b. Markets are usually a good way to organize economic activity.
 - c. Governments can sometimes improve market outcomes.
 - d. Prices rise when the government prints too much money.

ANSWER: a

11. Annie is an excellent baker and Sam has a plentiful farm. If Sam trades eggs and butter to Annie for some of Annie's bread and pastries,
- a. only Sam is made better off by trade.
 - b. only Annie is made better off by trade.
 - c. both Sam and Annie are made better off by trade.
 - d. neither Sam nor Annie are made better off by trade.

ANSWER: c

12. Dale is a guitar teacher and Terrence is a tile layer. If Dale teaches Terrence's daughter to play the guitar in exchange for Terrence tiling Dale's kitchen floor,
- a. only Dale is made better off by trade.
 - b. only Terrence is made better off by trade.
 - c. both Dale and Terrence are made better off by trade.
 - d. neither Dale nor Terrence are made better off by trade.

Sec 1.2: MC How People Interact

ANSWER: c

13. Senator Bright, who understands economic principles, is trying to convince workers in her district that trade with other countries is beneficial. Senator Bright should argue that trade can be beneficial

- a. only if it allows us to obtain things that we couldn't make for ourselves.
- b. because it allows specialization, which increases total output.
- c. to us if we can gain and the others involved in the trade lose.
- d. in only a limited number of circumstances because others are typically self-interested.

ANSWER: b

14. Suppose that a country that has a high level of output per person agrees to trade with a country that has a low level of output per person. Which country can benefit?

- a. only the one with a low level of output per person.
- b. only the one with a high level of output per person.
- c. both
- d. neither

ANSWER: c

15. Suppose that a country that has a high average wage level agrees to trade with a country that has a low average wage level. Which country can benefit?

- a. only the one with a low level of output per person.
- b. only the one with a high level of output per person.
- c. both
- d. neither

ANSWER: c

16. Suppose Country A has a high average wage level and a high level of output per person, while Country B has a low average wage level and a low level of output per person. Which country can benefit from trade?

- a. Only Country A can benefit.
- b. Only Country B can benefit.
- c. Both Country A and Country B can benefit.
- d. Neither Country A nor Country B can benefit.

ANSWER: c

17. Trade between countries tends to

- a. reduce both competition and specialization.
- b. reduce competition and increase specialization.
- c. increase competition and reduce specialization.
- d. increase both competition and specialization.

ANSWER: d

18. Trade

- a. allows specialization, which increases costs.
- b. allows specialization, which reduces costs.
- c. reduces specialization, which increases costs.

Sec 1.2: MC How People Interact

d. reduces specialization, which reduces costs.

ANSWER: b

19. Trade makes costs

- a. higher and reduces the variety of goods and services available.
- b. higher but raises the variety of goods and services available.
- c. lower but reduces the variety of goods and services available.
- d. lower and raises the variety of goods and services available.

ANSWER: d

20. When the United States trades with China,

- a. both countries will likely benefit.
- b. only United States will benefit.
- c. only China will benefit.
- d. neither country will benefit.

ANSWER: a

21. When Ukraine trades with Italy,

- a. both countries are likely made better off.
- b. only Italy benefits since Ukraine can produce all goods at a higher level of quality than Italy.
- c. only Ukraine benefits since Italy's low wages guarantee that Italian firms will be profitable regardless of trade.
- d. neither country will benefit since Ukraine is more efficient than Italy in the production of all goods.

ANSWER: a

22. Benefits from trade would *not* include

- a. the ability of people and nations to specialize.
- b. a greater variety of goods and services becoming available.
- c. less competition.
- d. lower prices.

ANSWER: c

23. Central planning refers to

- a. markets guiding economic activity. Today many countries that had this system have abandoned it.
- b. markets guiding economic activity. Today many countries that did not have this system have implemented it.
- c. government guiding economic activity. Today many countries that had this system have abandoned it.
- d. government guiding economic activity. Today many countries that did not have this system have implemented it.

ANSWER: c

24. In communism, central planners decide which of the following?

- a. what goods and services will be produced
- b. how much will be produced
- c. who will produce and consume the goods and services
- d. All of the above are correct.

Sec 1.2: MC How People Interact

ANSWER: d

25. One advantage market economies have over centrally-planned economies is that market economies
- provide an equal distribution of goods and services to households.
 - establish a significant role for government in the allocation of resources.
 - solve the problem of scarcity.
 - are more efficient.

ANSWER: d

26. The basic principles of economics suggest that
- markets are seldom, if ever, a good way to organize economic activity.
 - government should become involved in markets when trade between countries is involved.
 - government should become involved in markets when those markets fail to produce efficient or fair outcomes.
 - All of the above are correct.

ANSWER: c

27. Which of the following statements best characterizes a basic difference between market economies and centrally planned economies?
- Society relies more upon prices to allocate resources when the economy is centrally-planned than when it is market-based.
 - The self-interest of households is reflected more fully in the outcome of a centrally-planned economy than in the outcome of a market economy.
 - Government plays a larger role in the economic affairs of a market economy than in the economic affairs of a centrally planned economy.
 - None of the above are correct.

ANSWER: d

28. Market economies are distinguished from other types of economies largely on the basis of
- the political affiliations of government officials.
 - the process by which government officials are elected or appointed.
 - the ways in which scarce resources are allocated.
 - the number of retail outlets available to consumers.

ANSWER: c

29. The collapse of communism in the Soviet Union and Eastern Europe took place mainly in the
- 1960s.
 - 1970s.
 - 1980s.
 - 1990s.

ANSWER: c

30. The economy of the former Soviet Union is best described as a
- primitive economy.
 - market economy.
 - hybrid economy.

Sec 1.2: MC How People Interact

d. centrally-planned economy.

ANSWER: d

31. Communist countries worked under the premise that

- a. people, when left on their own without government intervention, will find the best use of available resources
- b. central planners were in the best position to determine the allocation of scarce resources in the economy.
- c. households and firms, guided by an “invisible hand,” could achieve the most efficient allocation of scarce resources.
- d. allowing the market forces of supply and demand to operate with no government intervention would achieve the most efficient allocation of scarce resources.

ANSWER: b

32. Prior to the collapse of communism, communist countries worked on the premise that economic well-being could be best attained by

- a. a market economy.
- b. a strong reliance on prices and individuals’ self-interests.
- c. a system of large privately-owned firms.
- d. the actions of government central planners.

ANSWER: d

33. The failure of communism in a large number of countries is at least partly explained by

- a. the fact that those countries relied absolutely on the invisible hand.
- b. the fact that those countries did little or nothing to restrict trade with other countries.
- c. the lack of information, on the part of central planners in those countries, about tastes and preferences in their economies.
- d. the lack of information, on the part of central planners in those countries, about how much authority the government had in affecting economic outcomes.

ANSWER: c

34. The idea that only the government can organize economic activity in a way that promotes economic well-being for a country as a whole

- a. is a basic principle regarding individual decisionmaking.
- b. amounts to a denial of one of the basic principles regarding interactions among people.
- c. supports the idea that the "invisible hand" should guide economic activity.
- d. was promoted by the economist Adam Smith in a well-known 1776 book.

ANSWER: b

35. Which of the following statements about markets is most accurate?

- a. Markets are usually a good way to organize economic activity.
- b. Markets are usually inferior to central planning as a way to organize economic activity.
- c. Markets fail and are therefore not an acceptable way to organize economic activity.
- d. Markets are a good way to organize economic activity in developed nations, but not in less developed nations.

ANSWER: a

36. Which of the following observations was made famous by Adam Smith in his book *The Wealth of Nations*?

Sec 1.2: MC How People Interact

- a. There is no such thing as a free lunch.
- b. People buy more when prices are low than when prices are high.
- c. No matter how much people earn, they tend to spend more than they earn.
- d. Households and firms interacting in markets are guided by an "invisible hand" that leads them to desirable market outcomes.

ANSWER: d

37. The term "invisible hand" was coined by

- a. Adam Smith.
- b. David Ricardo.
- c. Karl Marx.
- d. Benjamin Franklin.

ANSWER: a

38. The "invisible hand" refers to

- a. the government.
- b. the free market.
- c. central planners.
- d. large businesses.

ANSWER: b

39. The famous observation that households and firms interacting in markets act as if they are guided by an "invisible hand" that leads them to desirable market outcomes comes from whose 1776 book?

- a. David Ricardo
- b. Thorstein Veblen
- c. John Maynard Keynes
- d. Adam Smith

ANSWER: d

40. Adam Smith's book *The Wealth of Nations* was published in

- a. 1692.
- b. 1776.
- c. 1816.
- d. 1936.

ANSWER: b

41. Both *The Wealth of Nations* and the Declaration of Independence share the point of view that

- a. every person is entitled to life, liberty, and the pursuit of happiness.
- b. individuals are best left to their own devices without the government guiding their actions.
- c. the government plays a central role in organizing a market economy.
- d. because of human nature a strong legal system is necessary for a market system to survive.

ANSWER: b

42. The "invisible hand" directs economic activity through

Sec 1.2: MC How People Interact

- a. advertising.
- b. prices.
- c. central planning.
- d. government regulations.

ANSWER: b

43. The “invisible hand” refers to
- a. how central planners made economic decisions.
 - b. how the decisions of households and firms lead to desirable market outcomes.
 - c. the control that large firms have over the economy.
 - d. government regulations without which the economy would be less efficient.

ANSWER: b

44. The invisible hand's ability to coordinate the decisions of the firms and households in the economy can be hindered by
- a. government actions that distort prices.
 - b. increased competition in markets.
 - c. enforcement of property rights.
 - d. too much attention paid to efficiency.

ANSWER: a

45. When the "invisible hand" guides economic activity, prices of products reflect
- a. only the values that society places on those products.
 - b. only the costs to society of producing those products.
 - c. both the values that society places on those products and the costs to society of producing those products.
 - d. none of the above; when the "invisible hand" guides economic activity, prices of products are set by the government in a manner that is thought to be "fair."

ANSWER: c

46. The “invisible hand” works to promote general well-being in the economy primarily through
- a. government intervention.
 - b. the political process.
 - c. people’s pursuit of self-interest.
 - d. altruism.

ANSWER: c

47. According to Adam Smith, the success of decentralized market economies is primarily due to
- a. the basic benevolence of society.
 - b. society's legal system.
 - c. individuals' pursuit of self-interest.
 - d. partnerships that are forged between business and government.

ANSWER: c

48. The self-interest of the participants in an economy is guided into promoting general economic self-interest by
- a. the invisible hand.

Sec 1.2: MC How People Interact

- b. market power.
- c. government intervention.
- d. *oikonomos*.

ANSWER: a

49. In an economy in which decisions are guided by prices and individual self-interest, there is
- a. the potential to achieve efficiency in production.
 - b. a strong need for government intervention in the market.
 - c. less efficiency than would be observed in a centrally-planned economy.
 - d. more need for a strong legal system to control individual greed than would be needed in a centrally-planned economy.

ANSWER: a

50. In a market economy, who makes the decisions that guide most economic activity?
- a. firms only
 - b. households only
 - c. firms and households
 - d. government

ANSWER: c

51. In a market economy, economic activity is guided by
- a. the government.
 - b. public-interest groups.
 - c. central planners.
 - d. self-interest and prices.

ANSWER: d

52. In a market economy,
- a. households decide which firms to work for and what to buy with their incomes.
 - b. firms decide whom to hire and what to make.
 - c. a central planner makes decisions about production and consumption.
 - d. Both a and b are correct.

ANSWER: d

53. Which of the following statements does *not* apply to a market economy?
- a. Firms decide whom to hire and what to produce.
 - b. The “invisible hand” usually maximizes the income of society as a whole.
 - c. Households decide which firms to work for and what to buy with their incomes.
 - d. Government policies are the primary forces that guide the decisions of firms and households.

ANSWER: d

54. In a market economy, economic activity is guided by
- a. the government.
 - b. central planners.

Sec 1.2: MC How People Interact

- c. large businesses.
- d. prices and self-interest.

ANSWER: d

55. Which of the following statements about market economies is correct?
- a. In a market economy, no one is looking out for the economic well-being of society as a whole.
 - b. Market economies are characterized by decentralized decision making and self-interested decision makers.
 - c. Market economies have proven remarkably successful in promoting overall economic well-being.
 - d. All of the above are correct.

ANSWER: d

56. The decisions of firms and households are guided by prices and self-interest in a
- a. command economy.
 - b. centrally-planned economy.
 - c. market economy.
 - d. All of the above are correct.

ANSWER: c

57. For markets to work well, there must be
- a. market power.
 - b. a central planner.
 - c. property rights.
 - d. abundant, not scarce, resources.

ANSWER: c

58. Prices usually reflect
- a. only the value of a good to society.
 - b. only the cost to society of making a good.
 - c. both the value of a good to society and the cost to society of making the good.
 - d. neither the value of a good to society nor the cost to society of making the good.

ANSWER: c

59. Prices direct economic activity in a market economy by
- a. influencing the actions of buyers and sellers.
 - b. reducing scarcity of the goods and services produced.
 - c. reducing opportunity cost of goods and services produced.
 - d. allocating goods and services in the most equitable way.

ANSWER: a

60. A friend of yours asks you why market prices are better than government-determined prices. Because you understand economic principles, you say that market-determined prices are better because they generally reflect
- a. the value of a good to society, but not the cost of making it.
 - b. the cost of making a good to society, but not its value.
 - c. both the value of a good to society and the cost of making it.

Sec 1.2: MC How People Interact

d. neither the value of a good to society nor the cost of making it.

ANSWER: c

61. If the government were to intervene in a market economy and fix the price of visiting a health care provider below the market price, then we would expect, relative to the market outcome,

- a. an increase in the number of visits people want to make and an increase in the number of visits health care providers want to provide.
- b. an increase in the number of visits people want to make and a decrease in the number of visits health care providers want to provide.
- c. a decrease in the number of visits people want to make and an increase in the number of visits health care providers want to provide.
- d. a decrease in the number of visits people want to make and a decrease in the number of visits health care providers want to provide.

ANSWER: b

62. If the government were to intervene and set the rent for apartments in New York City below the market rent, then we would expect, relative to the market outcome,

- a. an increase in the number of people wanting to live in apartments in New York City.
- b. a decrease in the number of people wanting to live in apartments in New York City.
- c. an increase in the number of apartments available for rent in New York City.
- d. None of the above is correct.

ANSWER: a

63. If the government were to intervene and set the price of a dozen eggs above the market price, then we would expect, relative to the market outcome,

- a. an increase in the number of eggs people want to buy and an increase in the number of eggs farmers want to sell.
- b. an increase in the number of eggs people want to buy and a decrease in the number of eggs farmers want to sell.
- c. a decrease in the number of eggs people want to buy and an increase in the number of eggs farmers want to sell.
- d. a decrease in the number of eggs people want to buy and a decrease in the number of eggs farmers want to sell.

ANSWER: c

64. If the government were to intervene and set a wage for unskilled labor above the market wage, then we would expect, relative to the market outcome,

- a. an increase in the number of unskilled jobs available.
- b. a decrease in the number of unskilled jobs available.
- c. a decrease in the number of workers wanting unskilled jobs.
- d. None of the above is correct.

ANSWER: b

65. When the government prevents prices from adjusting naturally to supply and demand,

- a. it equates the amount buyers want to buy with the amount sellers want to sell.
- b. it adversely affects the allocation of resources.

Sec 1.2: MC How People Interact

- c. it improves equality and efficiency.
- d. it improves efficiency but reduces equality.

ANSWER: b

66. One reason we need government, even in a market economy, is that
- a. there is insufficient market power in the absence of government.
 - b. property rights are too strong in the absence of government.
 - c. the invisible hand is not perfect.
 - d. Both a and b are correct.

ANSWER: c

67. The ability of an individual to own and exercise control over scarce resources is called
- a. market failure.
 - b. property rights.
 - c. externality.
 - d. market power.

ANSWER: b

68. The government enforces property rights by
- a. requiring property owners to pay property taxes.
 - b. providing police and courts.
 - c. forcing people to own property.
 - d. providing public parks and recreation facilities.

ANSWER: b

69. A company that formerly produced music CDs went out of business because too many potential customers bought illegally-produced copies of the CDs instead of buying the product directly from the company. This instance serves as an example of
- a. market power.
 - b. inefficient trade.
 - c. inadequate enforcement of property rights.
 - d. the invisible hand at work.

ANSWER: c

70. For which of the following problems can well-designed public policy enhance economic efficiency?
- a. both externalities and market power
 - b. externalities, but not market power
 - c. market power, but not externalities
 - d. neither externalities nor market power

ANSWER: a

71. Public policies
- a. may be able to improve either economic efficiency or equality.
 - b. may be able to improve economic efficiency but cannot improve equality.

Sec 1.2: MC How People Interact

- c. may be able to improve equality but cannot improve economic efficiency.
- d. cannot improve either equality or economic efficiency.

ANSWER: a

72. To say that government intervenes in the economy to promote efficiency is to say that government is attempting to
- a. create a more fair distribution of income.
 - b. change the way in which the economic pie is divided.
 - c. enlarge the economic pie.
 - d. All of the above are correct.

ANSWER: c

73. To say that government intervenes in the economy to promote equality is to say that government is aiming to
- a. create a more fair distribution of income.
 - b. change the ingredients that are used to “bake” the economic pie.
 - c. enlarge the economic pie.
 - d. All of the above are correct.

ANSWER: a

74. Which of the following could reduce economic efficiency?
- a. laws that encourage lawsuits
 - b. policies that redistribute income
 - c. policies that impose significant restrictions on international trade
 - d. All of the above are correct

ANSWER: d

75. A rationale for government involvement in a market economy is
- a. markets sometimes fail to produce a fair distribution of economic well-being.
 - b. markets sometimes fail to produce an efficient allocation of resources.
 - c. property rights have to be enforced.
 - d. All of the above are correct.

ANSWER: d

76. The term used to describe a situation in which markets do not allocate resources efficiently is
- a. economic meltdown.
 - b. market failure.
 - c. equilibrium.
 - d. the effect of the invisible hand.

ANSWER: b

77. The term *market failure* refers to
- a. a situation in which the market on its own fails to allocate resources efficiently.
 - b. an unsuccessful advertising campaign which reduces demand for a product.
 - c. a situation in which competition among firms becomes ruthless.
 - d. a firm that is forced out of business because of losses.

Sec 1.2: MC How People Interact

ANSWER: a

78. Which of the following do economists *not* generally regard as a legitimate reason for the government to intervene in a market?

- a. to promote efficiency
- b. to promote equality
- c. to enforce property rights
- d. to protect an industry from foreign competition

ANSWER: d

79. Which of the following can lead to market failure?

- a. externalities and market power
- b. externalities but not market power
- c. market power but not externalities
- d. neither externalities nor market power

ANSWER: a

80. Causes of market failure include

- a. externalities and market power.
- b. market power and incorrect forecasts of consumer demand.
- c. externalities and foreign competition.
- d. incorrect forecasts of consumer demand and foreign competition.

ANSWER: a

81. Market failure can be caused by

- a. low consumer demand.
- b. equilibrium prices.
- c. externalities and market power.
- d. high prices and foreign competition.

ANSWER: c

82. Thousands of people develop lung cancer from second-hand exposure to cigarette smoke. This is an example of

- a. a market failure caused by an externality.
- b. a market failure caused by market power.
- c. a market failure caused by equality.
- d. There is no market failure in this case.

ANSWER: a

83. A species of snakes became extinct due to pollution in a river where the snakes once lived. This is an example of

- a. a market failure caused by an externality.
- b. a market failure caused by market power.
- c. a market failure caused by equality.
- d. There is no market failure in this case.

ANSWER: a

Sec 1.2: MC How People Interact

84. The term "market failure"

- a. means the same thing as "market power."
- b. refers to the dissolution of a market when firms decide to quit producing a certain product.
- c. refers to the failure of a market to produce an efficient allocation of resources.
- d. refers to government's failure to enforce the property rights of households or firms that participate in a certain market.

ANSWER: c

85. If an externality is present in a market, economic efficiency may be enhanced by

- a. government intervention.
- b. a decrease in foreign competition.
- c. fewer market participants.
- d. weaker property rights.

ANSWER: a

86. An example of an externality is the impact of

- a. bad weather on the income of farmers.
- b. the personal income tax on a person's ability to purchase goods and services.
- c. pollution from a factory on the health of people in the vicinity of the factory.
- d. increases in health care costs on the health of individuals in society.

ANSWER: c

87. Which of the following is an example of an externality?

- a. Annie purchases a new dress.
- b. Antonio's dog barks loudly during the night, waking his neighbors.
- c. Harold sells a book to Cathy, who reads the book and then gives it to James as a gift.
- d. Gloria watches a scary movie.

ANSWER: b

88. The willingness of citizens to pay for vaccinations does not include the benefit society receives from having vaccinated citizens who cannot transmit an illness to others. This extra benefit society gets from vaccinating its citizens is known as

- a. productivity.
- b. an externality.
- c. market power.
- d. property rights.

ANSWER: b

89. If an electric power plant does *not* bear the entire cost of the pollution it emits, it will

- a. not emit any pollution so as to avoid the entire cost of the pollution.
- b. emit lower levels of pollution.
- c. emit an acceptable level of pollution.
- d. emit too much pollution.

Sec 1.2: MC How People Interact

ANSWER: d

90. Laws that restrict the smoking of cigarettes in public places are examples of government intervention that is intended to reduce

- a. efficiency.
- b. equality.
- c. externalities.
- d. productivity.

ANSWER: c

91. Which of the following is an example of an externality?

- a. A paper mill dumps waste into the river.
- b. A neighbor's loud music disrupts sleep.
- c. A drunk driver causes an accident that injures another person.
- d. All of the above are correct.

ANSWER: d

92. Which of these activities will most likely impose an external cost?

- a. An athlete works out at a gym.
- b. A secretary smokes a cigarette in a crowded break room.
- c. A young mother pushes her baby in a stroller.
- d. A construction worker eats a hotdog during his lunch break.

ANSWER: b

93. Which of these activities will most likely impose an external cost?

- a. Betty plants flowers in her garden.
- b. Bonnie gets a flu vaccine.
- c. Bridget drives her car after having too much alcohol to drink.
- d. Becky buys a new flat screen television.

ANSWER: c

94. Which of these activities will most likely result in an external benefit?

- a. A college student buys a deck of cards to play solitaire in her dorm room.
- b. An elderly woman plants a flower garden on the vacant lot next to her house.
- c. An executive purchases a book to read on a business trip.
- d. A ten-year-old uses his allowance to buy new Nike shoes.

ANSWER: b

95. Which of these activities will most likely result in an external benefit?

- a. Ted purchases a dilapidated house and cleans up the yard and exterior of the house.
- b. Tim purchases an iPhone and downloads new apps.
- c. Terri purchases a new SUV and drives it to work every day.
- d. Thomas purchases a suit and wears it on his interviews.

ANSWER: a

Sec 1.2: MC How People Interact

96. When a single person (or small group) has the ability to influence market prices, there is
- competition.
 - market power.
 - an externality.
 - a lack of property rights.

ANSWER: b

97. Market power refers to the
- power of a single person or small group to influence market prices.
 - ability of a person or small group to successfully market new products.
 - power of the government to regulate a market.
 - importance of a certain market in relation to the overall economy.

ANSWER: a

98. Which of the following firms is likely to have the greatest market power?
- an electric company
 - a farmer
 - a grocery store
 - a local electronics retailer

ANSWER: a

99. Which of the following firms is most likely to have market power?
- a grocery store in a metropolitan area
 - a convenience store in a suburb
 - a pub in a college town
 - the only gasoline station in a rural area

ANSWER: d

100. An example of a firm with market power is a
- delicatessen in New York.
 - cable TV provider in Tulsa.
 - clothing store in Chicago.
 - family farm in Kansas.

ANSWER: b

101. The price of diamonds is high, in part because the majority of the world's diamonds are controlled by a single firm. This is an example of
- a market failure caused by an externality.
 - a market failure caused by market power.
 - a market failure caused by equality.
 - There is no market failure in this case.

ANSWER: b

Sec 1.2: MC How People Interact

102. Air pollution from burning fossil fuels causes damages to crops and public health. This is an example of
- a market failure caused by an externality.
 - a market failure caused by market power.
 - a market failure caused by equality.
 - There is no market failure in this case.

ANSWER: a

103. Water pollution from pulp and paper mills harms plants, animals, and humans. This is an example of
- a market failure caused by an externality.
 - a market failure caused by market power.
 - a market failure caused by equality.
 - There is no market failure in this case.

ANSWER: a

104. Mary and Martha both can make cookies and cakes of the same quality, though Mary can make more of both cookies and cakes per hour than Martha. With the bake-sale quickly approaching, they want to make as many cookies and cakes as possible. In which of the following situations will the most cookies and cakes be made?
- Mary makes as many cookies and cakes as she can, while Martha does nothing.
 - Martha makes as many cookies and cakes as she can, while Mary does nothing.
 - Mary and Martha both specialize in what they are better at making.
 - There is not enough information.

ANSWER: c

105. Adam Smith's insight was that prices adjust to guide individual buyers and sellers to reach outcomes where, in many cases,
- opportunity cost is minimized for buyers.
 - scarcity is reduced for society.
 - well-being of society is maximized.
 - opportunity cost of production is maximized.

ANSWER: c

106. Which of the following is true about how the "invisible hand" influences economic activity through prices when a product has lower demand than supply?
- The price must decrease, causing more buyers to buy and less sellers to sell.
 - The price must decrease, causing more buyers to buy and more sellers to sell.
 - The price must increase, causing less buyers to buy and more sellers to sell.
 - The price must increase, causing less buyers to buy and less sellers to sell.

ANSWER: a

Sec 1.3: MC How the Economy as a Whole Works

Multiple Choice

1. In 2011, the average American earned about \$48,000 while the average Nigerian earned about \$1,200. Which of the following statements is likely?

- a. The average American purchases more televisions than the average Nigerian.
- b. The average American has better nutrition and healthcare than the average Nigerian.
- c. The average American has a longer life expectancy than the average Nigerian.
- d. All of the above are correct.

ANSWER: d

2. In the United States, incomes historically have grown about 2 percent per year. At this rate, average income doubles every

- a. 15 years.
- b. 25 years.
- c. 35 years.
- d. 45 years.

ANSWER: c

3. In the United States, incomes have historically grown

- a. about 0.5 percent per year.
- b. about 2 percent per year.
- c. about 4 percent per year.
- d. about 6 percent per year.

ANSWER: b

4. Over the past century, the average income in the United States has risen about

- a. twofold.
- b. fivefold.
- c. eightfold.
- d. tenfold.

ANSWER: c

5. The term "productivity"

- a. means the same thing as "efficiency."
- b. is seldom used by economists, as its meaning is not precise.
- c. refers to the quantity of goods and services produced from each unit of labor input.
- d. refers to the variety of goods and services from which households can choose when they shop.

ANSWER: c

6. Productivity is defined as the

- a. amount of goods and services produced from each unit of labor input.
- b. number of workers required to produce a given amount of goods and services.
- c. amount of labor that can be saved by replacing workers with machines.
- d. actual amount of effort workers put into an hour of working time.

Sec 1.3: MC How the Economy as a Whole Works

ANSWER: a

7. The amount of goods and services produced from each unit of labor input is called

- a. opportunity cost.
- b. productivity.
- c. externality.
- d. marginal benefit.

ANSWER: b

8. What is the most important factor that explains differences in living standards across countries?

- a. the quantity of money
- b. the level of unemployment
- c. productivity
- d. equality

ANSWER: c

9. Almost all variation in living standards is attributable to differences in countries'

- a. population growth rates.
- b. productivity.
- c. systems of public education.
- d. taxes.

ANSWER: b

10. The income of a typical worker in a country is most closely linked to which of the following?

- a. population
- b. productivity
- c. market power
- d. government policies

ANSWER: b

11. A direct or positive relationship exists between a country's

- a. productivity and its standard of living.
- b. amount of government spending and its productivity.
- c. total population and its average citizen's income.
- d. rate of population growth and the extent of its trade with other countries.

ANSWER: a

12. The primary determinant of a country's standard of living is

- a. the country's ability to prevail over foreign competition.
- b. the country's ability to produce goods and services.
- c. the total supply of money in the economy.
- d. the average age of the country's labor force.

ANSWER: b

Sec 1.3: MC How the Economy as a Whole Works

13. The historical rise in living standards of American workers is primarily a result of
- the influence of labor unions in America.
 - tariff protection imposed by the American government.
 - the enactment of minimum-wage laws in America.
 - the rise in American productivity.

ANSWER: d

14. The fact that different countries experience different standards of living is largely explained by differences in those countries'
- populations.
 - productivity levels.
 - locations.
 - None of the above is correct. Economists are puzzled by differences in standards of living around the world.

ANSWER: b

15. Suppose the average income of a citizen of Poland is higher than the average income of a citizen of Romania. You might conclude that
- Polish firms are faced with stricter government regulations than Romanian firms.
 - total income is divided among fewer workers in Poland since it has a smaller labor force than Romania.
 - Romania's climate allows for longer growing seasons and therefore Romania can produce large quantities of grain and other crops.
 - productivity in Poland is higher than in Romania.

ANSWER: d

16. The slow growth of U.S. incomes during the 1970s and 1980s can best be explained by
- unstable economic conditions in Eastern Europe.
 - increased competition from abroad.
 - a decline in the rate of increase in U.S. productivity.
 - a strong U.S. dollar abroad, hurting U.S. exports.

ANSWER: c

17. Slow growth in US incomes during the 1970s and 1980s was primarily due to
- slow productivity growth in the US.
 - increased competition from Japan.
 - increased competition from European countries.
 - a rapid decrease in the quantity of money in the economy.

ANSWER: a

18. Suppose a typical worker in India can produce 32 units of product in an eight-hour day, while a typical worker in Bangladesh can produce 30 units of product in a 10-hour day. We can conclude that
- worker productivity in Bangladesh is higher than in India.
 - the standard of living will likely be higher in India than in Bangladesh.
 - productivity is 4 units per hour for the worker in Bangladesh and 3 units per hour for the worker in India.
 - there will be no difference between the standard of living in India and Bangladesh.

Sec 1.3: MC How the Economy as a Whole Works

ANSWER: b

19. Suppose that in Brazil total annual output is worth \$600 million and people work 30 million hours. In Peru total annual output is worth \$800 million and people work 50 million hours. Productivity is higher

- a. in Brazil. Most variation in the standard of living across countries is due to differences in productivity.
- b. in Brazil. Differences in productivity explain very little of the variation in the standard of living across countries.
- c. in Peru. Most variation in the standard of living across countries is due to differences in productivity.
- d. in Peru. Differences in productivity explain very little of the variation in the standard of living across countries.

ANSWER: a

20. US citizens have better nutrition, better healthcare, and a longer life expectancy than citizens of Ghana. Which of the following conclusions can be drawn from this statement?

- a. Average income in the US is higher than the average income in Ghana.
- b. The US has a higher standard of living than Ghana.
- c. Productivity in the US is higher than productivity in Ghana.
- d. All of the above are correct.

ANSWER: d

21. In a particular country in 1998, the average worker needed to work 25 hours to produce 40 units of output. In that same country in 2008, the average worker needed to work 40 hours to produce 68 units of output. In that country, the productivity of the average worker

- a. decreased by 1.7 percent between 1998 and 2008.
- b. remained unchanged between 1998 and 2008.
- c. increased by 4.75 percent between 1998 and 2008.
- d. increased by 6.25 percent between 1998 and 2008.

ANSWER: d

22. In a particular country in 2000, the average worker needed to work 40 hours to produce 55 units of output. In that same country in 2008, the average worker needed to work 30 hours to produce 45 units of output. In that country, the productivity of the average worker

- a. decreased by about 6 percent between 2000 and 2008.
- b. remained unchanged between 2000 and 2008.
- c. increased by about 9 percent between 2000 and 2008.
- d. increased by about 18 percent between 2000 and 2008.

ANSWER: c

23. In a particular country in 1998, the average worker needed to work 40 hours to produce 100 units of output. In that same country in 2008, the average worker needed to work 36 hours to produce 72 units of output. In that country, the productivity of the average worker

- a. decreased between 1998 and 2008, so we would expect the standard of living to have decreased accordingly.
- b. increased between 1998 and 2008, so we would expect the standard of living to have increased accordingly.
- c. decreased between 1998 and 2008, so we would expect inflation to have decreased accordingly.
- d. increased between 1998 and 2008, so we would expect inflation to have increased accordingly.

Sec 1.3: MC How the Economy as a Whole Works

ANSWER: a

24. In a particular country in 1999, the average worker had to work 20 hours to produce 55 units of output. In that same country in 2009, the average worker needed to work 28 hours to produce 77 units of output. In that country, the productivity of the average worker

- a. increased by 2 percent between 1999 and 2009.
- b. increased by 5 percent between 1999 and 2009.
- c. remained unchanged between 1999 and 2009.
- d. decreased by 3 percent between 1999 and 2009.

ANSWER: c

25. A worker in Vietnam can earn \$6 per day making cotton cloth on a hand loom. A worker in the United States can earn \$85 per day making cotton cloth with a mechanical loom. What is the likely explanation for the difference in wages?

- a. U.S. textile workers belong to a union, whereas Vietnamese textile workers do not belong to a union.
- b. There is little demand for cotton cloth in Vietnam and great demand in the U.S.
- c. Labor is more productive making cotton cloth with a mechanical loom than with a hand loom.
- d. Vietnam has a low-wage policy to make its textile industry more competitive in world markets.

ANSWER: c

26. To promote good economic outcomes, policymakers should strive to enact policies that

- a. enhance productivity.
- b. enhance individuals' market power.
- c. result in a rapidly-growing quantity of money.
- d. All of the above are correct.

ANSWER: a

27. To raise productivity, policymakers could

- a. increase spending on education.
- b. provide tax credits to firms for capital improvements.
- c. fund research and development.
- d. All of the above are correct.

ANSWER: d

28. What is the most important factor that explains differences in living standards among countries?

- a. labor unions
- b. minimum wage laws
- c. productivity
- d. efficiency

ANSWER: c

29. To increase living standards, public policy should

- a. ensure that workers are well educated and have the necessary tools and technology.
- b. make unemployment benefits more generous.
- c. move workers into jobs directly from high school.

Sec 1.3: MC How the Economy as a Whole Works

d. ensure a greater degree of equality, taking all income-earners into account.

ANSWER: a

30. The increase in living standards of American workers over the past century is primarily due to

- a. the success of labor unions.
- b. minimum-wage laws.
- c. improvements in productivity.
- d. None of the above are correct.

ANSWER: c

31. To improve living standards, policymakers should

- a. impose restrictions on foreign competition.
- b. formulate policies designed to increase productivity.
- c. impose tougher immigration policies.
- d. provide tax breaks for the middle class.

ANSWER: b

32. Incomes of U.S. households in the 1970s and 1980s

- a. grew rapidly, due to the widespread success of labor unions in pushing up wages during those decades.
- b. grew rapidly, due to several increases in the minimum wage during those decades.
- c. grew rapidly, due to government policies that discouraged the importation of foreign products during those decades.
- d. grew slowly, due to slow growth of the output of goods and services per hour of U.S. workers' time during those decades.

ANSWER: d

33. An increase in the overall level of prices in an economy is referred to as

- a. the income effect.
- b. inflation.
- c. deflation.
- d. the substitution effect.

ANSWER: b

34. Inflation is defined as

- a. a period of rising productivity in the economy.
- b. a period of rising income in the economy.
- c. an increase in the overall level of output in the economy.
- d. an increase in the overall level of prices in the economy.

ANSWER: d

35. In the early 1920s,

- a. Germany experienced a very high rate of inflation.
- b. the quantity of German money was declining rapidly.
- c. the value of German money remained almost constant.

Sec 1.3: MC How the Economy as a Whole Works

d. All of the above are correct.

ANSWER: a

36. During the early 1920s in Germany, prices

- a. doubled annually.
- b. doubled monthly.
- c. tripled monthly.
- d. tripled annually.

ANSWER: c

37. In less than two years in the early 1920s, the cost of a German newspaper rose from 0.30 marks to 70,000,000 marks. This is a spectacular example of

- a. market power caused by a change in the country's standard of living.
- b. market power caused by a single firm controlling the newspaper production.
- c. inflation caused by increased productivity in the economy.
- d. inflation caused by an increase in the quantity of money in the economy.

ANSWER: d

38. One of the 20th century's worst episodes of inflation occurred in

- a. the United States in the 1960s.
- b. Italy in the 1950s.
- c. Russia in the 1930s.
- d. Germany in the 1920s.

ANSWER: d

39. In the United States, the overall level of prices more than doubled during the

- a. 1950s.
- b. 1960s.
- c. 1970s.
- d. 1980s.

ANSWER: c

40. President Gerald Ford referred to inflation as

- a. a blight on our nation's economy.
- b. a necessary evil to combat high unemployment.
- c. public enemy number one.
- d. a fly in the ointment.

ANSWER: c

41. The U.S. president who referred to inflation as "public enemy number one" was

- a. Richard Nixon.
- b. Gerald Ford.
- c. Jimmy Carter.
- d. Ronald Reagan.

Sec 1.3: MC How the Economy as a Whole Works

ANSWER: b

42. In which of the following decades was there both high inflation and rapid money supply growth in the US?
- a. the 1970's and the 1990's
 - b. the 1970's but not the 1990's
 - c. the 1990's but not the 1970's
 - d. neither the 1970's nor the 1990's

ANSWER: b

43. In the 1990s, inflation in the United States was
- a. very close to zero.
 - b. about 3 percent per year.
 - c. about 6 percent per year.
 - d. commonly referred to as "public enemy number one."

ANSWER: b

44. Large or persistent inflation is almost always caused by
- a. excessive government spending.
 - b. excessive growth in the quantity of money.
 - c. foreign competition.
 - d. higher-than-normal levels of productivity.

ANSWER: b

45. Which of the following would a permanent increase in the growth rate of the money supply change permanently?
- a. inflation
 - b. unemployment
 - c. both inflation and unemployment
 - d. neither inflation nor unemployment

ANSWER: a

46. Most economists believe that an increase in the quantity of money results in
- a. an increase in the demand for goods and services.
 - b. lower unemployment in the short run.
 - c. higher inflation in the long run.
 - d. All of the above are correct.

ANSWER: d

47. In the short run, which of the following rates of growth in the money supply is likely to lead to the lowest level of unemployment in the economy?
- a. 3 percent per year
 - b. 5 percent per year
 - c. 7 percent per year
 - d. 9 percent per year

ANSWER: d

Sec 1.3: MC How the Economy as a Whole Works

48. In the short run, which of the following rates of growth in the money supply is likely to lead to the highest level of unemployment in the economy?

- a. 1 percent per year
- b. 2 percent per year
- c. 3 percent per year
- d. 4 percent per year

ANSWER: a

49. In the short run, an increase in the money supply is likely to lead to

- a. lower unemployment and lower inflation.
- b. lower unemployment and higher inflation.
- c. higher unemployment and lower inflation.
- d. higher unemployment and higher inflation.

ANSWER: b

50. Suppose the Federal Reserve announces that it will be making a change to a key interest rate to increase the money supply. This is likely because

- a. the Federal Reserve is worried about inflation.
- b. the Federal Reserve is worried about unemployment.
- c. the Federal Reserve is hoping to reduce the demand for goods and services.
- d. the Federal Reserve is worried that the economy is growing too quickly.

ANSWER: b

51. Suppose the Federal Reserve announces that it will be making a change to a key interest rate to decrease the money supply. This is likely because the Federal Reserve is

- a. worried about inflation.
- b. worried about unemployment.
- c. hoping to increase the demand for goods and services.
- d. worried that the economy is growing too slowly.

ANSWER: a

52. Low rates of inflation are generally associated with

- a. low rates of government spending.
- b. small or nonexistent government budget deficits.
- c. low rates of productivity growth.
- d. low rates of growth of the quantity of money.

ANSWER: d

53. Which of the following is the primary cause of inflation?

- a. an increase in the quantity of money
- b. an increase in government spending
- c. an increase in unemployment
- d. an increase in productivity

Sec 1.3: MC How the Economy as a Whole Works

ANSWER: a

54. Which of the following is the most correct statement about the relationship between inflation and unemployment?
- a. In the short run, falling inflation is associated with falling unemployment.
 - b. In the short run, falling inflation is associated with rising unemployment.
 - c. In the long run, falling inflation is associated with falling unemployment.
 - d. In the long run, falling inflation is associated with rising unemployment.

ANSWER: b

55. Which of the following is an important cause of inflation in an economy?
- a. increases in productivity in the economy
 - b. the influence of positive externalities on the economy
 - c. lack of property rights in the economy
 - d. growth in the quantity of money in the economy

ANSWER: d

56. The mainstream view among economists is that
- a. society faces a tradeoff between unemployment and inflation, but only in the short run.
 - b. society faces a tradeoff between unemployment and inflation, but only in the long run.
 - c. society faces a tradeoff between unemployment and inflation, both in the short run and in the long run.
 - d. no tradeoff exists between unemployment and inflation, either in the short run or in the long run.

ANSWER: a

57. Which of the following claims is consistent with the views of mainstream economists?
- a. If we increase the rate of inflation from 3 percent to 6 percent, then the rate of unemployment will temporarily fall.
 - b. If we increase the rate of inflation from 3 percent to 6 percent, then the rate of unemployment will temporarily rise.
 - c. If we increase the rate of inflation from 3 percent to 6 percent, then the rate of unemployment will permanently fall.
 - d. If we increase the rate of inflation from 3 percent to 6 percent, then the rate of unemployment will permanently rise.

ANSWER: a

58. For a very long time the country of Zeeland has had an inflation rate of 9%. Suddenly its inflation rate drops to 3%. The drop in the inflation rate
- a. could be due to slower money supply growth. We would expect unemployment to be higher.
 - b. could be due to slower money supply growth. We would expect unemployment to be lower.
 - c. could be due to higher money supply growth. We would expect unemployment to be higher.
 - d. could be due to higher money supply growth. We would expect unemployment to be lower.

ANSWER: a

59. For a number of years country A had inflation of 3% but for the last five years has had inflation of 6%. Country B had inflation of 4% for many years, but very recently inflation unexpectedly rose to 9%. Other things the same, in which of the countries would the higher inflation rate be more likely to reduce unemployment?

Sec 1.3: MC How the Economy as a Whole Works

- a. both country A and country B
- b. neither country A nor country B
- c. country A but not country B
- d. country B but not country A

ANSWER: d

60. In the early 1980s, U.S. economic policy was directed toward reducing inflation. What would you have expected to observe during this short period of time?

- a. Inflation fell and unemployment fell.
- b. Inflation and unemployment were both unaffected.
- c. Inflation fell and unemployment increased.
- d. Inflation fell and unemployment was unchanged.

ANSWER: c

61. The relatively low inflation experienced in the United States in the 1990s is attributable to

- a. slow growth of U.S. productivity during the 1990s.
- b. slow growth of the quantity of money in the U.S. in the 1990s.
- c. low levels of government spending in the U.S. in the 1980s and 1990s.
- d. the eight-year presidency of William Jefferson Clinton during the 1990s.

ANSWER: b

62. During the 1990s, the United Kingdom experienced low levels of inflation while Turkey experienced high levels of inflation. A likely explanation of these facts is that

- a. the United Kingdom has a better education system than Turkey.
- b. the rate of growth of the quantity of money was slower in the United Kingdom than in Turkey.
- c. workers in Turkey are more productive than workers in the United Kingdom.
- d. there are more instances of market power in Turkey than in the United Kingdom.

ANSWER: b

63. The tradeoff between inflation and unemployment

- a. implies that policies designed to reduce unemployment also reduce inflation.
- b. was eliminated by improved economic policies in the 1900s.
- c. is a long-run tradeoff, persisting for decades, according to most economists.
- d. None of the above are correct.

ANSWER: d

64. Germany could have avoided the high inflation that it experienced in the 1920s by

- a. not directing so many of its resources toward preparation for World War II.
- b. not increasing taxes so much on the German middle class.
- c. not allowing the quantity of money to increase so rapidly.
- d. using government policies to stimulate the economy more so than what was done.

ANSWER: c

65. In the short run, which of the following is *not* correct?

Sec 1.3: MC How the Economy as a Whole Works

- a. Increasing the money supply increases the demand for goods and services.
- b. Increasing the money supply encourages firms to hire more workers.
- c. Lowering the money supply leads to a higher level of unemployment.
- d. Policies that encourage higher employment will also induce a lower rate of inflation.

ANSWER: d

66. In response to the deep economic downturn in the US in 2008 and 2009, the US
- a. reduced taxes.
 - b. increased government spending.
 - c. increased the supply of money.
 - d. All of the above are correct.

ANSWER: d

67. The combination of President Obama's strategies and the Federal Reserve's reaction to the deep economic downturn in the US in 2008 and 2009
- a. was intended to reduce unemployment.
 - b. may lead to excessive inflation over time.
 - c. resulted in higher taxes and an increased supply of money.
 - d. Both a and b are correct.

ANSWER: d

68. The short-run tradeoff between inflation and unemployment implies that, in the short run,
- a. a decrease in the growth rate of the quantity of money will be accompanied by an increase in the unemployment rate.
 - b. an increase in the growth rate of the quantity of money will be accompanied by an increase in the unemployment rate.
 - c. policymakers are able to reduce the inflation rate and, at the same time, reduce the unemployment rate.
 - d. policymakers can influence the inflation rate, but not the unemployment rate.

ANSWER: a

69. The irregular and largely unpredictable fluctuations in economic activity are called
- a. market failure.
 - b. business cycle.
 - c. inflation.
 - d. unemployment.

ANSWER: b

70. The business cycle is the
- a. relationship between unemployment and inflation.
 - b. irregular fluctuations in economic activity.
 - c. positive relationship between the quantity of money in an economy and inflation.
 - d. predictable changes in economic activity due to changes in government spending and taxes.

ANSWER: b

Sec 1.3: MC How the Economy as a Whole Works

71. The business cycle is measured by the

- a. production of goods and services.
- b. number of people employed.
- c. the interest rate.
- d. Both a and b are correct.

ANSWER: d

72. Both the production of goods and services and the unemployment rate are used to measure

- a. the business cycle.
- b. productivity.
- c. the interest rate.
- d. inflation.

ANSWER: a

73. It once took 90 percent of our population to grow our food. It now takes only 3 percent of the population to grow our food. Which of the following statements is true?

- a. This loss of jobs has been detrimental to our economy.
- b. The government should provide subsidies to encourage more people to become farmers.
- c. The reduction in the number of farmers explains the increase in the price of food.
- d. This is progress because freed-up labor is used to produce other goods.

ANSWER: d

74. In a particular country in 2008, the average worker had to work 40 hours to produce 100 units of output. In that same country in 2018, the average worker needed to work 35 hours to produce 94.5 units of output. In that country, the productivity of the average worker

- a. increased by 2 percent between 2008 and 2018.
- b. increased by 8 percent between 2008 and 2018.
- c. remained unchanged between 2008 and 2018.
- d. decreased by 2 percent between 2008 and 2018.

ANSWER: b

75. Which of the following rates of growth in the money supply is likely to lead to the lowest level of inflation in the economy?

- a. 1 percent per year
- b. 3 percent per year
- c. 5 percent per year
- d. 7 percent per year

ANSWER: a

76. Which of the following rates of growth in the money supply is likely to lead to the highest level of inflation in the economy?

- a. 1 percent per year
- b. 2 percent per year
- c. 3 percent per year
- d. 4 percent per year

Name: _____ Class: _____ Date: _____

Sec 1.3: MC How the Economy as a Whole Works

ANSWER: d