

1 ■ — **Economics** is BEST defined as the study of how:
■ —
■ —

- to classify resources used to produce final goods and services. **Incorrect**
 - resources are apportioned to satisfy human wants. **Incorrect**
 - people make rational decisions. (*True Answer*)**Correct**
 - technology can be used to change scarce resources into free resources. **Incorrect**
-

2 ■ — **The study of economics:**
■ —
■ —

- primarily considers the stock market. **Incorrect**
 - is about people's decisions regarding their use of scarce resources. (*True Answer*)**Correct**
 - doesn't apply to decisions made by businesses. **Incorrect**
 - states efficiency and equity don't conflict. **Incorrect**
-

3 ■ — **Economics** is a:
■ —
■ —

- natural science. **Incorrect**
 - physical science. **Incorrect**
 - life science. **Incorrect**
 - social science. (*True Answer*)**Correct**
-

4 ■ — **Economics** is a social science that involves the study of
■ — **how individuals, firms, and societies:**
■ —

- maximum happiness. **Incorrect**
 - maximize incomes. **Incorrect**
 - choose among alternatives to satisfy their unlimited wants. (*True Answer*)**Correct**
 - develop their tastes and preferences. **Incorrect**
-

5 ■ — **Because of scarcity:**
■ —
■ —

- resources are limitless. **Incorrect**
 - wants are limited. **Incorrect**
 - choices are unlimited. **Incorrect**
 - we face tradeoffs in nearly every choice we make. (*True Answer*)**Correct**
-

6 ■ — **Scarcity** is BEST defined as when:
■ —
■ —

- the quantity demanded exceeds quantity supplied. **Incorrect**
 - the quantity supplied exceeds quantity demanded. **Incorrect**
 - unlimited resources exceed limited wants. **Incorrect**
 - unlimited wants exceed limited resources. (*True Answer*) **Correct**
-

7 ■ ■ ■ Scarcity refers to the fact that:

- some goods are scarce. **Incorrect**
 - something is scarce. **Incorrect**
 - one must make choices given the resource limitations he or she faces. (*True Answer*) **Correct**
 - there is no long-term benefit to studying economics. **Incorrect**
-

8 ■ ■ ■ Why is it important for students to study economics?

- Most students will work as professional economists. **Incorrect**
 - It helps us reduce our personal income taxes. **Incorrect**
 - It helps us make better and wiser decisions, given our limited resources. (*True Answer*) **Correct**
 - There is no long-term benefit to studying economics. **Incorrect**
-

9 ■ ■ ■ Reasons to study economics include all of the following, EXCEPT that you:

- will always live in a world of scarcity and choices. **Incorrect**
 - will understand more about how governments and businesses interact. **Incorrect**
 - may become a better prepared voter. **Incorrect**
 - will learn exactly how to invest your cash short-term for the highest return on investment. (*True Answer*) **Correct**
-

10 ■ ■ ■ Economists tend to look:

- at costs but not at benefits. **Incorrect**
 - at benefits but not at costs. **Incorrect**
 - for rational responses to incentives. (*True Answer*) **Correct**
 - only at macroeconomic topics. **Incorrect**
-

11 ■ ■ ■ — To say that economics is a way of thinking about how
■ ■ ■ — people make rational decisions means that people:

- don't consider the cost of their decisions. Incorrect
 - consider only monetary terms in their decisions. Incorrect
 - respond to incentives. (*True Answer*) Correct
 - are irrational. Incorrect
-

12 ■ ■ ■ — Economists understand that people respond to:
■ ■ ■ —

- laws. Incorrect
 - incentives. (*True Answer*) Correct
 - threats more than rewards. Incorrect
 - positives, but not negatives. Incorrect
-

13 ■ ■ ■ — Paying a salesperson more for increased sales is an
■ ■ ■ — example of:

- an incentive. (*True Answer*) Correct
 - an opportunity cost. Incorrect
 - efficiency. Incorrect
 - equity. Incorrect
-

14 ■ ■ ■ — Which of the following statements about economics is
■ ■ ■ — correct?

- Economists do not believe that criminals behave rationally. Incorrect
 - Economics has little to say about social issues. Incorrect
 - Economists consider how rational people respond to incentives. (*True Answer*) Correct
 - Economists assume that people don't respond to incentives. Incorrect
-

15 ■ ■ ■ — The field of economics that focuses on decision-making
■ ■ ■ — by individuals, businesses, industries, and government is called:

- macroeconomics. Incorrect
 - decision science. Incorrect
 - mini-economics. Incorrect
 - microeconomics. (*True Answer*) Correct
-

16 ■ ■ ■ — The field of economics that is concerned about the
■ ■ ■ — broader issues in the economy such as inflation, unemployment, and national output of goods and services is called:

- macroeconomics. (*True Answer*) Correct

- microeconomics. Incorrect
 - national economics. Incorrect
 - labor force economics. Incorrect
-

17 ■ ■ ■ — Microeconomics is concerned with issues such as:
■ ■ ■ —

- inflation. Incorrect
 - unemployment. Incorrect
 - which job to take. (*True Answer*)Correct
 - interest rates. Incorrect
-

18 ■ ■ ■ — Macroeconomics is concerned with issues such as:
■ ■ ■ —

- which orange juice to buy. Incorrect
 - unemployment. (*True Answer*)Correct
 - which job to take. Incorrect
 - what price to charge for goods. Incorrect
-

19 ■ ■ ■ — The main difference between macroeconomics and
■ ■ ■ — microeconomics is that:

- microeconomics largely deals with the fallacy of composition, and macroeconomics does not deal with the fallacy of composition. Incorrect
 - macroeconomics focuses on the aggregate economy, and microeconomics focuses on small components of that economy. (*True Answer*)Correct
 - macroeconomics looks at how individuals make choices, and microeconomics looks at the aggregate of those choices. Incorrect
 - macroeconomics is concerned with economic policy, and microeconomics is concerned with international policies. Incorrect
-

20 ■ ■ ■ — Macroeconomics focuses on:
■ ■ ■ —

- decisions made by individuals. Incorrect
 - decisions made by firms. Incorrect
 - the decision to purchase a new home for a family. Incorrect
 - decisions for the entire economy. (*True Answer*)Correct
-

21 ■ ■ ■ — All of the following fall under the category of
■ ■ ■ — microeconomics, EXCEPT:

- cooks at McDonalds supply labor in return for wages. Incorrect

- the cost of living has risen due to rising housing and food prices. (*True Answer*)Correct
 - Jonathan decided to go to the movies instead of go to work. Incorrect
 - Pepsi experienced an increase in revenue last quarter. Incorrect
-

22 ■ — Which of the following is a microeconomic statement?
■ —
■ —

- The unemployment rate fell by 2%. Incorrect
 - All businesses in the United States experienced a decrease in revenues of 5% due to the recession. Incorrect
 - About 15% of the teachers were laid off last week. (*True Answer*)Correct
 - GDP increased by 6% last quarter. Incorrect
-

23 ■ — Which topic is MOST likely to be studied in a
■ — microeconomics course?
■ —

- energy policy (*True Answer*)Correct
 - unemployment Incorrect
 - inflation Incorrect
 - recession Incorrect
-

24 ■ — Which topic is MOST likely to be studied in a
■ — macroeconomics course?
■ —

- taxation methods Incorrect
 - recession (*True Answer*)Correct
 - public utility regulation Incorrect
 - game theory Incorrect
-

25 ■ — Macroeconomics deals with all of the following,
■ — EXCEPT:
■ —

- recession. Incorrect
 - inflation. Incorrect
 - job creation rates. Incorrect
 - markets for semiconductor chips. (*True Answer*)Correct
-

26 ■ — Which of the following is a microeconomic topic?
■ —
■ —

- the U.S. inflation rate in 2009 Incorrect
- the price of an iPad sold by Apple (*True Answer*)Correct
- the U.S. unemployment rate in March 2010 Incorrect
- the U.S. rate of growth in GDP for the first quarter in

2010 Incorrect

27 ■ — Which of the following is a macroeconomic topic?
■ —
■ —

- a study of the business cycle (*True Answer*)Correct
 - the price of a pair of Nike shoes Incorrect
 - the total sales for GE in 2009 Incorrect
 - the labor market for computer analysts Incorrect
-

28 ■ — Supply and demand analysis is used:
■ —
■ —

- only in microeconomics. Incorrect
 - only in macroeconomics. Incorrect
 - in both microeconomics and macroeconomics. (*True Answer*)Correct
 - in neither microeconomics nor macroeconomics. Incorrect
-

29 ■ — Which of the following concepts would be addressed by
■ — microeconomics?
■ —

- national unemployment rate Incorrect
 - reasons for a decline in a country's total output Incorrect
 - price of college tuition that an individual student pays (*True Answer*)Correct
 - inflation rate in Brazil Incorrect
-

30 ■ — International finance is generally studied in:
■ —
■ —

- microeconomics. Incorrect
 - macroeconomics. (*True Answer*)Correct
 - deductive logic. Incorrect
 - inductive logic. Incorrect
-

31 ■ — The economics of uranium mining would be studied in:
■ —
■ —

- microeconomics. (*True Answer*)Correct
 - macroeconomics. Incorrect
 - deductive logic. Incorrect
 - inductive logic. Incorrect
-

32 ■ — Which of the following does NOT deal with
■ — microeconomics?
■ —

- Profits for some manufacturing firms fell in 2009. Incorrect

- In 2009, the unemployment rate in the United States rose to nearly 10%. (*True Answer*)Correct
 - Salaries of some top executives fell in 2009. Incorrect
 - Competitive markets promote efficiency. Incorrect
-

33 ■ — Which of the following statements regarding
■ — macroeconomics and microeconomics is TRUE?

- Microeconomics examines consumer behavior, while macroeconomics studies business behavior. Incorrect
 - Macroeconomics employs many of the same analytical tools as microeconomics. (*True Answer*)Correct
 - Because it focuses on national economies, macroeconomics does not study international trade and finance. Incorrect
 - Neither macroeconomics nor microeconomics is concerned with prices. Incorrect
-

34 ■ — Which of the following does NOT deal with
■ — macroeconomics?

- the effect of the budget deficit on the economy Incorrect
 - the effect of monetary policy on inflation Incorrect
 - the effect of Walmart's pricing policies on consumers (*True Answer*)Correct
 - the effect of the government policies on the country's unemployment rate Incorrect
-

35 ■ — Which is the BEST example of a microeconomic issue?
■ —

- whether the Federal Reserve will raise interest rate this week Incorrect
 - whether the unemployment rate will exceed 6% this month Incorrect
 - whether the country's price level has increased last quarter Incorrect
 - whether the production of automobiles decreased last year (*True Answer*)Correct
-

36 ■ — Which of the following is NOT a macroeconomic issue?
■ —

- whether the Federal Reserve will raise interest rate this week Incorrect
- whether the unemployment rate will exceed 6% this month Incorrect
- whether the country's price level has increased last quarter Incorrect
- whether the production of automobiles decreased last

year (*True Answer*)Correct

37 Which is a characteristic of economic models?

- They try to boil down an economic situation to its most basic elements. (*True Answer*)Correct
 - They are always complex because the economy is complex. Incorrect
 - They attempt to reproduce reality exactly. Incorrect
 - They try to avoid invoking the *ceteris paribus* assumption. Incorrect
-

38 Which of the following is NOT true of economic model building?

- There may be exceptions to economic models. Incorrect
 - Adding more complexity to models does not always provide greater insights. Incorrect
 - Economic models always reach verifiable results. (*True Answer*)Correct
 - Economic models provide generalizations about economic behavior. Incorrect
-

39 Economists like to use graphs and equations primarily because:

- these tools efficiently express economic concepts. (*True Answer*)Correct
 - economics should be difficult. Incorrect
 - a mathematical aptitude is necessary to understand economics. Incorrect
 - the use of mathematics reduces rigor. Incorrect
-

40 A theory composed of a number of assumptions and facts boiled down to their basic relevant elements is called a:

- metaphor. Incorrect
 - model. (*True Answer*)Correct
 - conclusion. Incorrect
 - practice. Incorrect
-

41 The purpose of an economic model is to:

- be a complex, exact replica of reality. Incorrect
- demonstrate which values and beliefs are best for the economy. Incorrect
- explain the behavior of the issue being examined. (*True Answer*)Correct

- manage the economy like an automatic pilot. Incorrect
-

42 ■ — Which of the following statements does NOT describe model building in economics?

- Models are developed to cover specific behaviors only. (*True Answer*)Correct
 - Models are created and then tested. Incorrect
 - Models are used to help understand the general economy. Incorrect
 - Assumptions are used to analyze an economic issue. Incorrect
-

43 ■ — Economic models must:

- be completely realistic to be useful. Incorrect
 - include all relationships that exist in the relevant thing to be modeled. Incorrect
 - completely represent the real world. Incorrect
 - rely on the *ceteris paribus* assumption. (*True Answer*)Correct
-

44 ■ — Stylized economic models must include:

- assumptions. (*True Answer*)Correct
 - inflation. Incorrect
 - money. Incorrect
 - complexity. Incorrect
-

45 ■ — _____ occur(s) when goods are produced at the lowest possible cost, and _____ occur(s) when individuals who desire a product the most receive those goods and services.

- Production efficiency; allocative efficiency (*True Answer*)Correct
 - Production possibilities; allocative possibilities Incorrect
 - Allocative possibilities; production possibilities Incorrect
 - Allocative efficiency; production efficiency Incorrect
-

46 ■ — _____ is how well resources are used and allocated.

- Equity Incorrect
- Efficiency (*True Answer*)Correct
- Choice Incorrect
- Scarcity Incorrect

47 ■ ■ — _____ is the fairness of various issues and policies.
■ ■ —

- Equity (*True Answer*) Correct
- Efficiency Incorrect
- Choice Incorrect
- Scarcity Incorrect

48 ■ ■ — When goods are produced at the lowest possible cost, an
■ ■ — economy is said to have achieved:

- production efficiency. (*True Answer*) Correct
- allocative efficiency. Incorrect
- cheap production. Incorrect
- inferior quality goods. Incorrect

49 ■ ■ — Allocative efficiency occurs when:
■ ■ —

- production is allocated equally among all citizens. Incorrect
- people who wants a product the most gets it. (*True Answer*) Correct
- goods are produced at the lowest possible cost. Incorrect
- resources are equally allocated between the private and public sectors of the economy. Incorrect

50 ■ ■ — Which of the following is NOT true?
■ ■ —

- There are often tradeoffs between efficiency and equity. Incorrect
- Both equity and efficiency are subjective concepts. (*True Answer*) Correct
- There are often disagreements over what is an equitable distribution of income. Incorrect
- Another term for equity is fairness. Incorrect

51 ■ ■ — A society that is able to produce goods and services at
■ ■ — the lowest cost possible is experiencing:

- allocative efficiency. Incorrect
- production efficiency. (*True Answer*) Correct
- opportunity costs. Incorrect
- scarcity. Incorrect

52 ■ ■ — In the study of economics, the goals of efficiency and
■ ■ — equity are often:

- compatible. Incorrect

- conflicting with one another. (*True Answer*)Correct
 - objectively definable. Incorrect
 - given equal emphasis. Incorrect
-

53 ■ — Production efficiency occurs when goods are:



- produced with the lowest possible resource cost. (*True Answer*)Correct
 - allocated equally. Incorrect
 - delivered to those who have the greatest willingness and ability to acquire them. Incorrect
 - allocated to those with the greatest need. Incorrect
-

54 ■ — Production inefficiency implies that:



- goods are produced at too high a cost. (*True Answer*)Correct
 - people who want the specific goods cannot get them at any price. Incorrect
 - too many Twinkies and too few Ding Dongs were produced. Incorrect
 - workers are lazy. Incorrect
-

55 ■ — The main focus of efficiency is:



- firms charging high prices for their goods. Incorrect
 - firms earning the largest profits. Incorrect
 - consumers getting the goods and services they want at the lowest possible resource cost. (*True Answer*)Correct
 - consumers paying high prices. Incorrect
-

56 ■ — Production efficiency:



- reflects how often economists make assumptions about important variables. Incorrect
 - reflects how well resources are allocated. (*True Answer*)Correct
 - reflects the fact that all labor is equally productive. Incorrect
 - is an assumption used by economists that holds important variables constant. Incorrect
-

57 ■ — If society produces a pie at the lowest possible cost and then distributes the pie evenly among its population, then:



- production and allocative efficiency are achieved. Incorrect

- only production efficiency is achieved. (*True Answer*)Correct
 - neither production efficiency nor allocative efficiency is achieved. Incorrect
 - only allocative efficiency is achieved. Incorrect
-

58 ■ — Allocative inefficiency implies that:
■ —

- goods are produced at too high at cost. Incorrect
 - the people who want a specific good the most cannot get it, while others can. (*True Answer*)Correct
 - too many Twinkies and too few Ding Dongs were produced. Incorrect
 - workers are lazy. Incorrect
-

59 ■ — Economists generally have _____ to say about
■ — equity than efficiency.

- less (*True Answer*)Correct
 - a little bit more Incorrect
 - about the same Incorrect
 - much more Incorrect
-

60 ■ — An economy exhibits production efficiency if:
■ —

- it produces more than enough clothes to clothe everyone. Incorrect
 - economic growth increases every year. Incorrect
 - it produces goods at the lowest cost possible. (*True Answer*)Correct
 - it eliminates poverty. Incorrect
-

61 ■ — Efficiency within economics focuses on:
■ —

- how well resources are used and allocated. (*True Answer*)Correct
 - the fairness of various policies. Incorrect
 - how quickly a task can be completed. Incorrect
 - calculations of opportunity cost. Incorrect
-

62 ■ — When goods are produced at the lowest possible cost, the
■ — economy is experiencing:

- allocative efficiency. Incorrect
 - production efficiency. (*True Answer*)Correct
 - equity. Incorrect
 - deflation. Incorrect
-

- 63 ■ ■ ■ — When the individuals who get a good or service are the ones who desire that product the most, the economy is experiencing:
- allocative efficiency. (*True Answer*)Correct
 - production efficiency. Incorrect
 - equity. Incorrect
 - deflation. Incorrect
-

- 64 ■ ■ ■ — When government policies are being designed:
- there is usually a tradeoff between equity and efficiency. (*True Answer*)Correct
 - equity and efficiency goals are usually independent of each other. Incorrect
 - equity can usually be achieved without an efficiency loss. Incorrect
 - increasing efficiency usually results in more equity. Incorrect
-

- 65 ■ ■ ■ — The problem of the medically uninsured involves:
- opportunity cost. Incorrect
 - equity. (*True Answer*)Correct
 - production efficiency. Incorrect
 - allocative efficiency. Incorrect
-

- 66 ■ ■ ■ — Which is an example of a normative question?
- How do interest rates influence employment? Incorrect
 - How should a society achieve full employment? (*True Answer*)Correct
 - How do unemployment rates differ among nations? Incorrect
 - What are the long-term effects of unemployment? Incorrect
-

- 67 ■ ■ ■ — Resources are:
- unlimited but wants are limited. Incorrect
 - limited but efficiency is unlimited. Incorrect
 - limited but wants are unlimited. (*True Answer*)Correct
 - unlimited but efficiency is limited. Incorrect
-

68 ■ ■ ■ Scarcity:
■ ■ ■

- is synonymous with poverty. **Incorrect**
 - is eliminated with greater technology. **Incorrect**
 - is faced by all individuals and societies. (*True Answer*) **Correct**
 - can be eliminated with adequate resources. **Incorrect**
-

69 ■ ■ ■ The idea that wants are virtually unlimited but the
■ ■ ■ resources to meet those wants are limited is called:

- the want-resource paradox. **Incorrect**
 - the economic gap. **Incorrect**
 - the dismal conclusion. **Incorrect**
 - scarcity. (*True Answer*) **Correct**
-

70 ■ ■ ■ A common definition of *economics* is that it is the study
■ ■ ■ of:

- the allocation of scarce resources to competing wants. (*True Answer*) **Correct**
 - maximizing net personal disposable income. **Incorrect**
 - the factors underlying financial markets. **Incorrect**
 - maximizing personal financial wealth. **Incorrect**
-

71 ■ ■ ■ There would be no economic problems in a world where
■ ■ ■ all resources are:

- unlimited. (*True Answer*) **Correct**
 - privately owned. **Incorrect**
 - owned by the government. **Incorrect**
 - scarce. **Incorrect**
-

72 ■ ■ ■ _____ people are forced to make tradeoffs.
■ ■ ■

- Only wealthy **Incorrect**
 - Only middle-class **Incorrect**
 - Only poor **Incorrect**
 - All (*True Answer*) **Correct**
-

73 ■ ■ ■ The concept of scarcity:
■ ■ ■

- exists in all societies. (*True Answer*) **Correct**
 - affects only greedy people. **Incorrect**
 - is the cause of poverty. **Incorrect**
 - used to be a problem, but is not an issue for modern industrial nations. **Incorrect**
-

74 ■ ■ ■ — When economists say that all societies face scarcity, they
■ ■ ■ — are describing:

- free lunches. Incorrect
 - unlimited resources. Incorrect
 - unlimited wants. Incorrect
 - tradeoffs societies must make. (*True Answer*)Correct
-

75 ■ ■ ■ — The core problem in economics is:
■ ■ ■ —

- unemployment. Incorrect
 - economic growth. Incorrect
 - inflation. Incorrect
 - scarcity. (*True Answer*)Correct
-

76 ■ ■ ■ — Opportunity costs:
■ ■ ■ —

- are generally the same from individual to individual. Incorrect
 - involve monetary rather than nonmonetary costs. Incorrect
 - decrease as individuals become wealthier. Incorrect
 - influence all economic decisions. (*True Answer*)Correct
-

77 ■ ■ ■ — What would be a possible opportunity cost of you going
■ ■ ■ — to a doctor for a check-up?

- the cost of getting nontraditional care Incorrect
 - the opportunity to make an acquaintance in the waiting room Incorrect
 - lost income due to not being at work for those hours (*True Answer*)Correct
 - the cost of the insurance reimbursing the doctor Incorrect
-

78 ■ ■ ■ — An airline finds that its 6 P.M. flights are half-empty but
■ ■ ■ — its mid-afternoon flights are full. Which would be the MOST plausible thing for an economist to say?

- Cut the price of the early morning flight and raise the price of the afternoon flight. (*True Answer*)Correct
 - Nothing can be done to rectify the situation because of consumer sovereignty. Incorrect
 - Fewer flights should be scheduled in the afternoon to force travelers to take the morning flight. Incorrect
 - Nothing can be done because travelers are inflexible with their schedules. Incorrect
-

79 ■ — The opportunity costs of attending college do NOT include:

- the expenditures for food. (*True Answer*)Correct
 - the costs of textbooks or eBooks. Incorrect
 - the forgone wages that could have been earned working. Incorrect
 - required student activity fees. Incorrect
-

80 ■ — The opportunity cost of buying a ticket to a major league baseball game and then going to the game is:

- the price of the ticket. Incorrect
 - the next best alternative activity that could have been undertaken. (*True Answer*)Correct
 - the time spent at the game. Incorrect
 - all other alternative activities that could have been undertaken. Incorrect
-

81 ■ — _____ costs include the time and money that could have been spent on another highly valued activity

- Opportunity (*True Answer*)Correct
 - Marginal Incorrect
 - Social Incorrect
 - Total Incorrect
-

82 ■ — The basic idea of opportunity cost is that:

- buyers miss opportunities to find better bargains. Incorrect
 - using resources in an activity imposes costs on other people. Incorrect
 - the decision to use resources in one activity means that they cannot be used elsewhere. (*True Answer*)Correct
 - economic agents are always looking for better opportunities. Incorrect
-

83 ■ — The _____ of parking at school includes the amount of time I have to search for a parking space.

- opportunity cost (*True Answer*)Correct
 - equity concerns Incorrect
 - efficiency Incorrect
 - productivity Incorrect
-

84 ■ — If you were not studying economics, you could be doing one of the following: sleeping in (which you value at \$5), playing cards with your friends (which you value at \$10), or working (you would have earned an extra \$8).

The opportunity cost of studying economics is therefore:

- \$23. Incorrect
 - \$10. (*True Answer*) Correct
 - \$8. Incorrect
 - \$5. Incorrect
-

85 ■ ■ — When the government chooses to use resources to build
■ ■ — tourist centers, the chosen resources are no longer
■ — available to build highways. This BEST illustrates the
concept of:

- macroeconomics. Incorrect
 - scarcity. Incorrect
 - opportunity cost. (*True Answer*) Correct
 - efficiency. Incorrect
-

86 ■ ■ — Suppose Mike has three hours of time to spend and he
■ ■ — sets the following activities in order of priority: (1) see a
■ — movie; (2) attend a ball game; (3) study economics.
Assume that each activity takes three hours. What is
Mike's opportunity cost of seeing the movie?

- attending a ball game and studying
economics Incorrect
 - studying economics Incorrect
 - attending a ball game (*True Answer*) Correct
 - either attending a ball game or studying
economics Incorrect
-

87 ■ ■ — The _____ the opportunity cost of an activity, the _____ a
■ ■ — person will do that activity.

- higher; more Incorrect
 - higher; less (*True Answer*) Correct
 - lower, less Incorrect
 - It doesn't matter. Price alone will determine the
action. Incorrect
-

88 ■ ■ — Opportunity costs exist because:
■ ■ —

- using resources for one activity means that their use
elsewhere must be given up. (*True Answer*) Correct
 - sellers are unwilling to give up their product without a
price. Incorrect
 - there are opportunities to find ways to reduce
costs. Incorrect
 - buyers always have an opportunity to go to another
seller. Incorrect
-

89 ■ — The highest valued alternative that is foregone when you
■ — choose an action is called its:

- opportunity cost. (*True Answer*)Correct
 - utility. Incorrect
 - scarcity. Incorrect
 - benefit. Incorrect
-

90 ■ — The opportunity cost of undertaking an activity is
■ — defined as the:

- cost forgone by not undertaking another activity. Incorrect
 - monetary cost of undertaking that activity. Incorrect
 - benefit forgone by not undertaking the next-best activity. (*True Answer*)Correct
 - monetary benefit of undertaking that activity. Incorrect
-

91 ■ — Specialization in tasks in which one is more proficient
■ — coupled with trade:

- can lead to gains for all parties. (*True Answer*)Correct
 - leads to gains for one party and losses for the other parties. Incorrect
 - leads to losses for all parties. Incorrect
 - works only with government intervention. Incorrect
-

92 ■ — With the use of specialization:
■ —

- society is more productive, while individuals are less productive. Incorrect
 - there are greater gains in material well-being. (*True Answer*)Correct
 - there is more emphasis on self-reliance. Incorrect
 - opportunity costs tend to be constant. Incorrect
-

93 ■ — Which is TRUE about specialization and exchange
■ — between two individuals?

- They generally benefit the poorer individual at the expense of the richer individual. Incorrect
 - They generally benefit the richer individual at the expense of the poorer individual. Incorrect
 - They generally benefit the poorer individual as well as the richer individual. (*True Answer*)Correct
 - They generally benefit neither the poorer individual nor the richer individual. Incorrect
-

- 94 ■ — Employers give full-time employees that have been on the job more than three years employee stock options. This is an example of:
- people following incentives. *(True Answer)*Correct
 - thinking on the margin. Incorrect
 - irrational behavior. Incorrect
 - opportunity costs. Incorrect
-

- 95 ■ — Which of the following represents incentives for decisions?
- tax deductions for individual retirement accounts Incorrect
 - investment tax credits for businesses Incorrect
 - tax deductions for education savings account Incorrect
 - All of these are incentives. *(True Answer)*Correct
-

- 96 ■ — Which is an example of a “bad” incentive?
- charging drivers a gasoline tax to fund green energy projects Incorrect
 - offering factories tax credits for reducing pollution Incorrect
 - rewarding students for studying and earning high grades Incorrect
 - raising homeowners' property taxes on home improvements *(True Answer)*Correct
-

- 97 ■ — Which statement about incentives is TRUE?
- Each of us is motivated by the same incentive. Incorrect
 - Each of us is motivated by different incentives. *(True Answer)*Correct
 - Incentives can be manipulated with precision. Incorrect
 - Price is the only relevant economic incentive. Incorrect
-

- 98 ■ — Tax policy is partly based on the notion that:
- high taxes are preferable to low taxes. Incorrect
 - government must always run a budget surplus. Incorrect
 - markets never work efficiently. Incorrect
 - people respond to financial incentives. *(True Answer)*Correct

)Correct

99 ■ — Discounted matinee movie ticket prices demonstrate
■ — that:

- people follow incentives. (*True Answer*)Correct
 - government intervention in the market is helpful. Incorrect
 - market outcomes are always equitable. Incorrect
 - the cost of living is decreasing. Incorrect
-

100 ■ — Which of the following is a key idea in economic
■ — thinking?

- Scarcity exists for the poor but not for the rich. Incorrect
 - Incentives matter. (*True Answer*)Correct
 - The value of a good can be objectively measured, and is the same for everyone. Incorrect
 - All of these are key ideas in economic thinking. Incorrect
-

101 ■ — A basic supposition of economics is that:
■ —

- people always, and in every case, respond to economic incentives. Incorrect
 - in general, people respond to economic incentives. (*True Answer*)Correct
 - history shows that tax incentives rarely work. Incorrect
 - people do not respond to changes in costs and prices. Incorrect
-

102 ■ — Marginal analysis would put an emphasis on:
■ —

- total monetary costs and benefits. Incorrect
 - total opportunity costs and benefits. Incorrect
 - additional costs and benefits. (*True Answer*)Correct
 - total tangible costs and benefits. Incorrect
-

103 ■ — Rational behavior requires “thinking at the margin.”
■ — Which of the following is an example of this type of thinking?

- deciding whether a second burger is worth the extra \$2 Incorrect
- deciding whether your overtime pay is worth working on Saturday (your day off) Incorrect
- deciding whether to pay a fine for polluting the local harbor or installing antipollution machinery Incorrect

- All of these are examples of “thinking at the margin.” (*True Answer*)Correct
-

104 ■ — “Thinking at the margin” involves:

- influencing how individuals make decisions. Incorrect
 - making wiser decisions given limited information. Incorrect
 - maximizing an firm's or individual's well-being. Incorrect
 - weighing the impact of one additional activity. (*True Answer*)Correct
-

105 ■ — Suppose that a store sells candy bars for \$0.89 for one, and \$1.50 for two. The marginal cost of the second candy bar is:

- \$0.61. (*True Answer*)Correct
 - \$0.75. Incorrect
 - \$0.89. Incorrect
 - \$1.50. Incorrect
-

106 ■ — Which of the following questions is NOT an example involving marginal analysis?

- Should a university offer another section of a class? Incorrect
 - Should a restaurant stay open another hour? Incorrect
 - Should K-Mart convert all its stores to Sears stores? (*True Answer*)Correct
 - Should Boeing hire another assembly-line worker? Incorrect
-

107 ■ — When economists use the word *additional*, they generally mean:

- rational. Incorrect
 - economics. Incorrect
 - marginal. (*True Answer*)Correct
 - opportunity cost. Incorrect
-

108 ■ — Hitting your snooze alarm before you get out of bed is an example of:

- thinking at the margin. (*True Answer*)Correct
 - efficiency. Incorrect
 - equity. Incorrect
 - market equilibrium. Incorrect
-

109 ■ — Rational behavior:
■ —

- means incentives don't matter. Incorrect
 - requires people to consider the total costs and total benefits of their decisions. Incorrect
 - requires thinking at the margin. (*True Answer*)Correct
 - requires perfect information. Incorrect
-

110 ■ — Choosing to work an extra hour of overtime is an
■ — example of:

- thinking at the margin. (*True Answer*)Correct
 - efficiency. Incorrect
 - equity. Incorrect
 - market equilibrium. Incorrect
-

111 ■ — If a restaurant that traditionally has served only lunch
■ — and dinner wants to open for breakfast, which of the
■ — following factors should be considered?

- rent Incorrect
 - furniture Incorrect
 - cost of the additional food (*True Answer*)Correct
 - insurance costs Incorrect
-

112 ■ — People use _____ to determine how many hours to
■ — work, and businesses use _____ to determine how much
■ — of their product they are willing to supply to the
■ — market.

- marginal analysis; marginal analysis (*True Answer*)Correct
 - allocative efficiency; production efficiency Incorrect
 - production efficiency; marginal analysis Incorrect
 - marginal analysis; allocative efficiency Incorrect
-

113 ■ — The extra cost associated with undertaking some action
■ — is its:

- marginal benefit. Incorrect
 - marginal cost. (*True Answer*)Correct
 - net cost. Incorrect
 - total cost. Incorrect
-

114 ■ — People make decisions at the margin. Therefore, when
■ — deciding whether to purchase a second car, they would
■ — compare:

- the dollar cost of having two cars with the potential income the two cars may generate. Incorrect
- the additional benefits expected from a second car

with the total cost of the two cars. **Incorrect**

- the additional benefits expected from a second car with the additional costs of the second car. (*True Answer*) **Correct**

- None of the answers is correct. **Incorrect**

115 ■ ■ — You will take the day off work if:
■ ■ —

- marginal costs exceed marginal benefits. **Incorrect**

- marginal costs are less than marginal benefits. (*True Answer*) **Correct**

- you can make up the missed work tomorrow. **Incorrect**

- you have additional sick days to spare. **Incorrect**

116 ■ ■ — All of the following involve thinking at the margin,
■ ■ — EXCEPT:

- If I work another hour, I will beat traffic. **Incorrect**

- I worked eight hours today. (*True Answer*) **Correct**

- My supervisor asked me to work an extra four hours this week. **Incorrect**

- If I work on my day off, I will make an additional \$300. **Incorrect**

117 ■ ■ — Heather has one employee in her sweater shop who can
■ ■ — sew six sweaters a day. When she hires a second person, the two employees can make 10 sweaters together. As it relates to thinking at the margin, the extra benefit received from hiring a second worker is:

- 16 sweaters. **Incorrect**

- 10 sweaters. **Incorrect**

- four sweaters. (*True Answer*) **Correct**

- six sweaters. **Incorrect**

118 ■ ■ — Markets provide an incentive structure to:
■ ■ —

- maximize equity. **Incorrect**

- eliminate scarcity. **Incorrect**

- maximize market information. **Incorrect**

- maximize efficiency. (*True Answer*) **Correct**

119 ■ ■ — Private markets will typically maximize production
■ ■ — efficiency because they provide:

- incentives for profit. (*True Answer*) **Correct**

- equity. **Incorrect**

- market information. **Incorrect**

- tax revenue for the government sector. **Incorrect**
-

120 ■ ■ ■ — It must be recognized that private markets:

- will always produce the most rational level of production. **Incorrect**
 - can fail. (*True Answer*) **Correct**
 - satisfy everyone. **Incorrect**
 - will never produce the most rational outcome. **Incorrect**
-

121 ■ ■ ■ — Efficiency in markets is generally increased by the “discipline” of:

- planning and profits. **Incorrect**
 - prices and planning. **Incorrect**
 - prices and profits. (*True Answer*) **Correct**
 - production and planning. **Incorrect**
-

122 ■ ■ ■ — Which statement about markets is **TRUE**?

- They always operate efficiently. **Incorrect**
 - They bring buyers and sellers together. (*True Answer*) **Correct**
 - Profits are never an effective discipline on the market. **Incorrect**
 - Markets need to be always controlled by government. **Incorrect**
-

123 ■ ■ ■ — What drives and disciplines markets?

- equity **Incorrect**
 - prices and profits (*True Answer*) **Correct**
 - *ceteris paribus* assumptions **Incorrect**
 - efficiency **Incorrect**
-

124 ■ ■ ■ — The situation in which markets fail to provide efficiently is called:

- market failure. (*True Answer*) **Correct**
 - uneconomic efficiency. **Incorrect**
 - market collapse. **Incorrect**
 - government failure. **Incorrect**
-

125 ■ ■ ■ — Markets tend to be efficient because:

- people respond to incentives. (*True Answer*) **Correct**

- Adam Smith created markets. **Incorrect**
 - entrepreneurs always try to produce at the lowest possible cost. **Incorrect**
 - decisions are always made at the margin. **Incorrect**
-

126 ■ — Which of the following is NOT an example of market failure?

- Water is polluted by a paper company located by a river. **Incorrect**
 - Air is polluted by a manufacturing firm. **Incorrect**
 - Competition leads firms to provide products at the lowest possible price. (*True Answer*) **Correct**
 - Consumers must buy water from one local water utility. **Incorrect**
-

127 ■ — Government intervention in the market is helpful when:

- consumers are free to buy from many different firms. **Incorrect**
 - consumers are forced to buy from just one firm. (*True Answer*) **Correct**
 - business firms face increasing competition from new entrants into the market. **Incorrect**
 - business firms always use the cleanest technologies available to mitigate pollution. **Incorrect**
-

128 ■ — Information plays an important role in the market because it allows:

- market participants to make good decisions based on cost-benefit analysis. (*True Answer*) **Correct**
 - sellers to “pad” their sales pitch. **Incorrect**
 - the media to grow in importance. **Incorrect**
 - managers to make more risky decisions. **Incorrect**
-

129 ■ — One of the key ingredients in making rational choices is access to:

- sufficient funds. **Incorrect**
 - information. (*True Answer*) **Correct**
 - foreign markets. **Incorrect**
 - a university psychology department. **Incorrect**
-

130 ■ — When consumers have no choice but to buy from one firm (local utility, etc.):

- they usually end up paying way too much for the good or service. **Incorrect**
- government regulation is usually used to protect

consumers. (*True Answer*)Correct

- they will always get the good or service at the lowest price available. Incorrect
 - None of these occur. Incorrect
-

131 ■ ■ ■ — Which of the following is a case when the government should intervene in the economy?

- when consumers cannot make up their minds what they want to purchase Incorrect
 - when sellers make poor business decisions Incorrect
 - when producers use the least-cost methods of production Incorrect
 - when the market fails to provide goods efficiently (*True Answer*)Correct
-

132 ■ ■ ■ — Government intervention in the market is helpful when:

- consumers are free to buy from a number of different firms. Incorrect
 - consumers and firms have good information. Incorrect
 - firms face increasing competition from new entrants into the market. Incorrect
 - business firms engage in production activities that pollute the air and water. (*True Answer*)Correct
-

133 ■ ■ ■ — People tend to make rational choices, to help make these, they rely on:

- scarcity. Incorrect
 - utility. Incorrect
 - information. (*True Answer*)Correct
 - *ceteris paribus*. Incorrect
-

134 ■ ■ ■ — Economists believe that:

- making information available to market participants improves the functioning of the market. (*True Answer*)Correct
 - information should be sold to the highest bidder. Incorrect
 - the flow of information has minimal impact on market efficiency. Incorrect
 - data is more important to traders than information. Incorrect
-

135 ■ ■ — When the _____ outweigh(s) the _____ of the
■ ■ — information, people attempt to obtain the information.

- costs; benefits Incorrect
 - benefits; costs (*True Answer*) Correct
 - equity; efficiency Incorrect
 - efficiency; equity Incorrect
-

136 ■ ■ — Which of the following statements is TRUE?
■ ■ —

- Low productivity and low pay go together. (*True Answer*) Correct
 - High productivity and low pay go together. Incorrect
 - Low productivity and high pay go together. Incorrect
 - The most productive countries are those with the lowest average per capita incomes. Incorrect
-

137 ■ ■ — For a nation, _____ productivity growth leads to
■ ■ — _____ standards of living.

- high; low Incorrect
 - low; high Incorrect
 - high; unchanging Incorrect
 - high; high (*True Answer*) Correct
-

138 ■ ■ — Economists generally define *institutions* as all of these,
■ ■ — EXCEPT as a:

- government free of corruption. Incorrect
 - government that controls resource allocation. (*True Answer*) Correct
 - legal system that enforces contracts and laws. Incorrect
 - strong monetary system. Incorrect
-

139 ■ ■ — A nation's standard of living is primarily a function of:
■ ■ —

- natural resource availability. Incorrect
 - government benefits. Incorrect
 - national defense. Incorrect
 - productivity. (*True Answer*) Correct
-

140 ■ ■ — The country of Economia has higher productivity rate
■ ■ — than Productstan. Which statement is therefore correct?

- Economia has a lower standard of living for its citizens than Productstan. Incorrect

- It cannot be determined from the information given which country has the higher standard of living. **Incorrect**
 - Economica has a higher standard of living for its citizens than Productstan. (*True Answer*) **Correct**
 - It can be assumed that both have the same high standard of living because productivity and living standards are unrelated. **Incorrect**
-

141 ■ — All of the following are considered key principles of economics, EXCEPT:

- scarcity exists for everyone. **Incorrect**
 - people face economic incentives on a regular basis. **Incorrect**
 - irrational behavior requires thinking at the margin. (*True Answer*) **Correct**
 - information is important to producers and consumers. **Incorrect**
-

142 ■ — Which of the following is NOT a key principle of economics?

- People follow incentives. **Incorrect**
 - Productivity determines our standard of living. **Incorrect**
 - Rational thinking requires perfect information. (*True Answer*) **Correct**
 - Government can sometimes correct market failure. **Incorrect**
-

143 ■ — Economists use graphs:

- because they represent relationships between variables. (*True Answer*) **Correct**
 - because they are more efficient than models. **Incorrect**
 - because they are less efficient than models. **Incorrect**
 - it makes the analysis more complicated. **Incorrect**
-

144 ■ — Time series graphs:

- show data that can be split into percentage parts that, combined, make up the whole. **Incorrect**
- show the relative importance of some variable's components as a share of the whole. **Incorrect**
- include the value of a variable on the horizontal axis and minutes, hours, days, months, quarters, or years on the vertical axis. **Incorrect**

- include the value of a variable on the vertical axis and minutes, hours, days, months, quarters, or years on the horizontal axis. (*True Answer*)Correct
-

145 ■ ■ — Pie charts:
■ ■ —

- depict two variables to see if any correlation exists. Incorrect
 - show how data can be split into percentages by category. (*True Answer*)Correct
 - include a variable for time. Incorrect
 - show trends of data over time. Incorrect
-

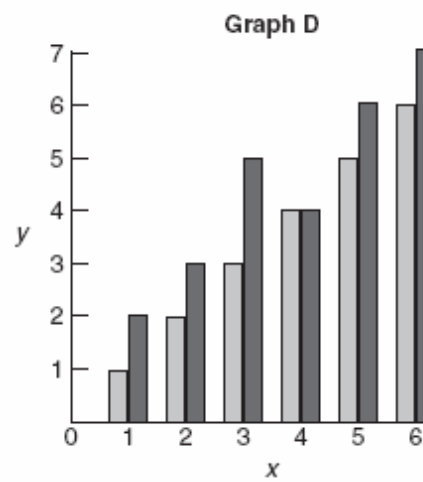
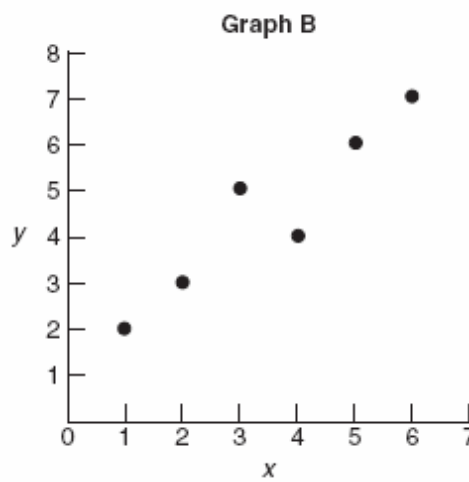
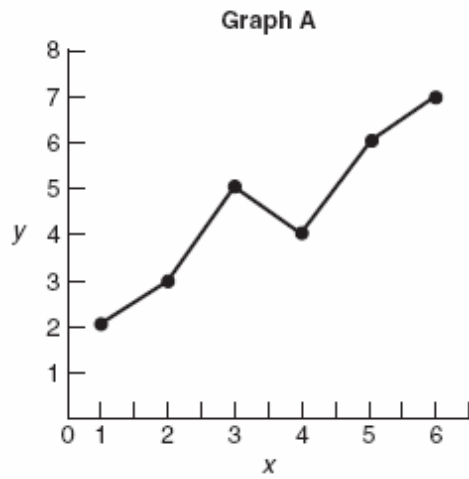
146 ■ ■ — A graph of a business cycle that plots output on the vertical axis and quarters of a year on the horizontal axis is an example of a:
■ —

- bar chart. Incorrect
 - pie chart. Incorrect
 - scatter plot. Incorrect
 - time series. (*True Answer*)Correct
-

147 ■ ■ — If you plot temperature on the y axis and time on the x axis, then you have created a:
■ —

- time series. (*True Answer*)Correct
 - scatter plot. Incorrect
 - pie chart. Incorrect
 - bar chart. Incorrect
-

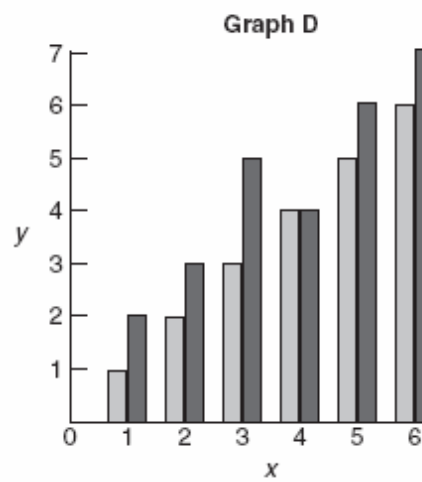
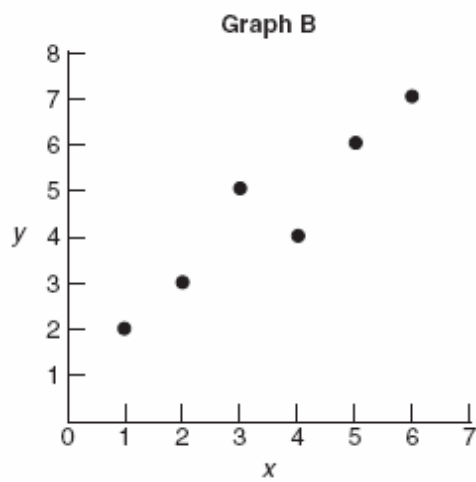
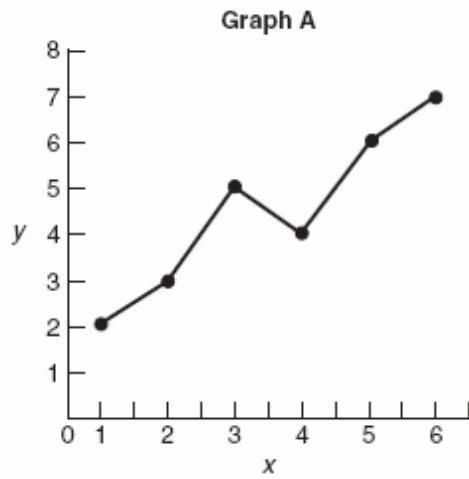
14 ■ ■ — Figure: Graph Examples
8 ■ —



Reference: Ref 1-1

(Figure: Graph Examples) Which graph is an example of a scatter plot?

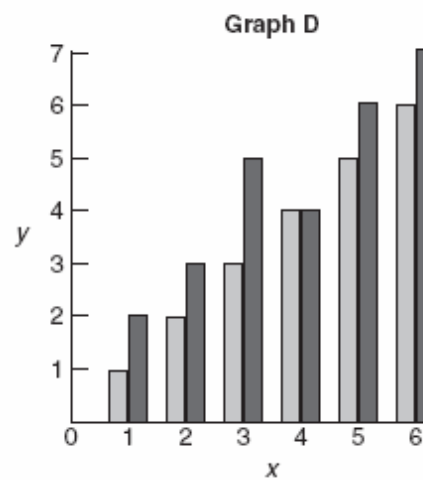
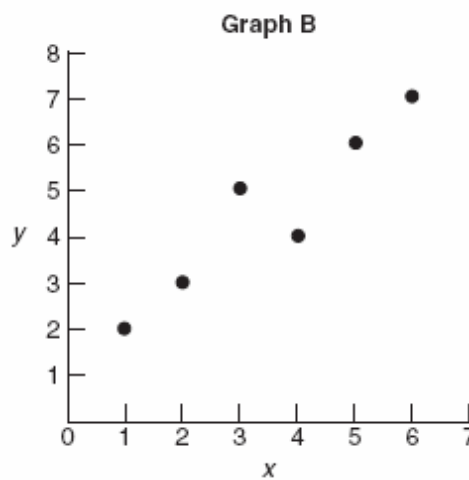
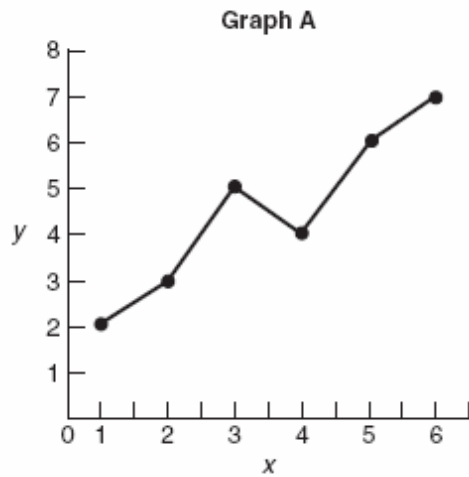
- graph A Incorrect
- graph B (*True Answer*) Correct
- graph C Incorrect
- graph D Incorrect



Reference: Ref 1-1

(Figure: Graph Examples) Which graph is an example of a pie chart?

- graph A Incorrect
- graph B Incorrect
- graph C (True Answer) Correct
- graph D Incorrect



Reference: Ref 1-1

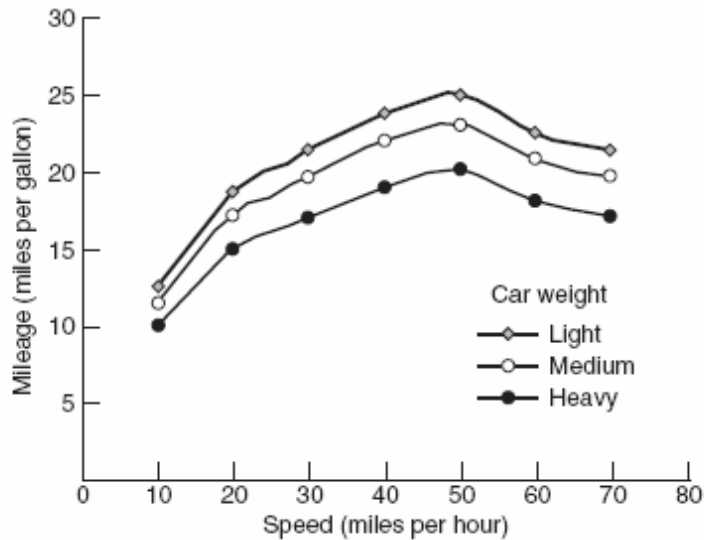
(Figure: Graph Examples) Which graph in the figure is an example of a bar chart?

- graph A Incorrect
- graph B Incorrect
- graph C Incorrect
- graph D (*True Answer*)Correct

151 ■■■ If you plot temperature on the y axis and world carbon emissions on the x axis, then you have created a:

- time series. Incorrect
- scatter plot. (*True Answer*)Correct
- pie chart. Incorrect
- bar chart. Incorrect

152 ■■■ Figure: Mileage and Speed by Car Weight



Reference: Ref 1-2

(Figure: Mileage and Speed by Car Weight) Which of the following statements about the graph is correct?

- Mileage is related only to speed, not car weight. **Incorrect**
- Speed is related to mileage and car weight. **Incorrect**
- Mileage is related to both speed and car weight. *(True Answer)* **Correct**
- Mileage is unrelated to speed and car weight. **Incorrect**

153 ■ = If two variables are positively related, then as one variable:

- increases, the other variable decreases. **Incorrect**
- increases, the other variable increases. **Incorrect**
- decreases, the other variable decreases. **Incorrect**
- increases, the other variable increases and as one variable decreases, the other variable decreases. *(True Answer)* **Correct**

154 ■ = If temperature and ice cream sales are positively related, as the temperature:

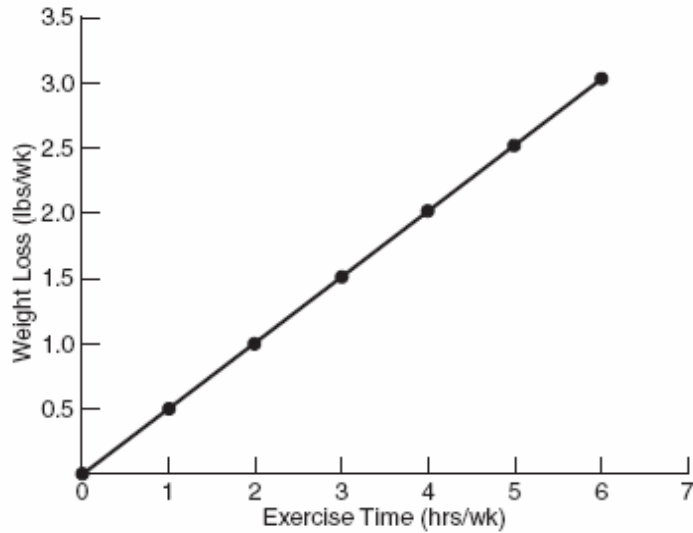
- rises, ice cream sales fall. **Incorrect**
- rises, ice cream sales stay the same. **Incorrect**
- falls, ice cream sales decline. *(True Answer)* **Correct**
- falls, ice cream sales rise. **Incorrect**

155 ■ = If a graph drawn for the relationship between hot chocolate sales and temperature is downward sloping, then sales of hot chocolate:

- fall as temperature falls. **Incorrect**
- rise as temperature falls. *(True Answer)* **Correct**

- rise over time. Incorrect
- fall over time. Incorrect

156 ■■■ Figure: Weight Loss and Exercise Time

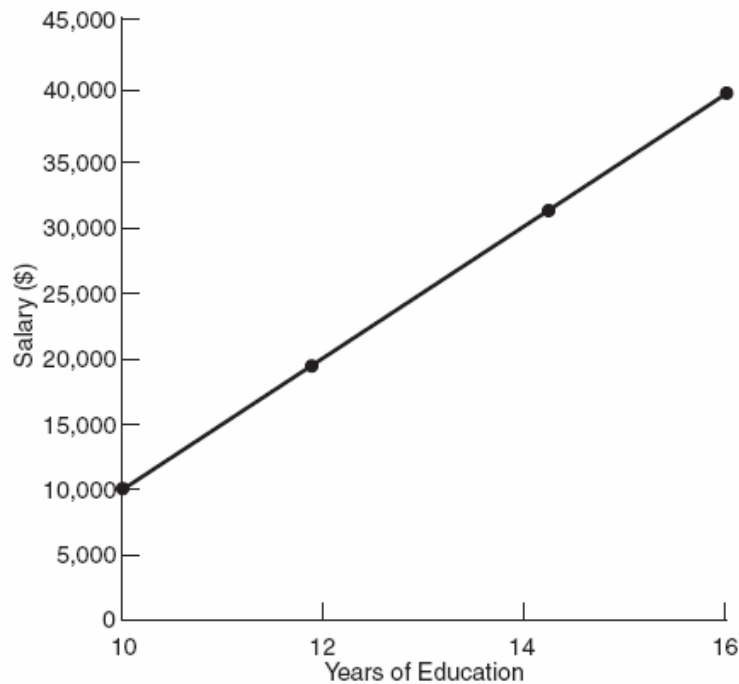


Reference: Ref 1-3

(Figure: Weight Loss and Exercise Time) According to the data in the graph, where weight loss is shown on the y axis, every 2 extra hours of exercise:

- increases weight by 1 pound. Incorrect
- decreases weight by 1/2 pound. Incorrect
- decreases weight by 1 pound. (True Answer) Correct
- increases weight by 1/2 pound. Incorrect

157 ■■■ Figure: Education and Earnings



Reference: Ref 1-4

(Figure: Education and Earnings) The hypothetical graph shows the relationship between years of education and salary. Which statement is NOT correct?

- A person with 13 years of education can expect to earn \$25,000. Incorrect
- The slope of the line is 5,000. Incorrect
- The line represents a simple model of the relationship between education and earnings. Incorrect
- The relationship between the two variables is nonlinear. (*True Answer*) Correct

158 ■ ■ ■ ■ ■

Temperature	Hot Chocolate Sales
25	100
30	90
35	80
40	70
45	60
50	50
55	40

Reference: Ref 1-5

(Table) If the numbers in the table were placed on a graph, with hot chocolate sales on the vertical axis and temperature on the horizontal axis, a:

- positive, nonlinear curve would result. Incorrect
- negative, linear relationship between temperature and hot chocolate sales would be shown. (*True Answer*) Correct
- positive, linear relationship between temperature and hot chocolate sales would be shown. Incorrect
- negative, nonlinear curve would result. Incorrect

159 ■ ■ ■ ■ ■

Temperature	Hot Chocolate Sales
25	100
30	90
35	80
40	70
45	60
50	50
55	40

- definitely nonlinear. Incorrect
-

162 ■ — *Ceteris paribus* means:
■ —
■ —

- everything changes. Incorrect
 - everything is held constant. Incorrect
 - other things being equal. (True Answer)Correct
 - nothing changes. Incorrect
-

163 ■ — “If the price of carrots drops, *ceteris paribus*, people
■ — will buy more carrots.” What would be a way of
■ — explaining that statement?

- The relationship between the price of carrots and the number of carrots that people buy is independent of other things. Incorrect
 - If carrots are the only available goods, people will buy more of them if the price decreases. Incorrect
 - If the price of carrots drops and everything else remains the same, the number of carrots people buy will increase. (True Answer)Correct
 - As the price of carrots decreases, and all other prices decrease, then the quantity of carrots purchased will increase. Incorrect
-

164 ■ — John is a farmer and thinks he will make a profit next
■ — year, if the weather stays the same, if the price of his
■ — crop doesn't change, and if the price of fertilizer and
seed doesn't change. An economist would say that the
farmer thinking he will make a profit is an example of:

- laissez-faire. Incorrect
 - *ceteris paribus*. (True Answer)Correct
 - *post hoc ergo propter hoc*. Incorrect
 - *e pluribus unum*. Incorrect
-

165 ■ — When we analyze the relationship between inflation
■ — and the money supply, we assume that:
■ —

- all other factors that affect the rate of inflation remain constant. (True Answer)Correct
 - this relationship holds only in a democratic country. Incorrect
 - this relationship reflects a nonlinear relationship. Incorrect
 - the money supply is backed by gold alone. Incorrect
-

166 ■ — When the *ceteris paribus* assumption is violated in
■ — economics, the effect is shown by:
■ —

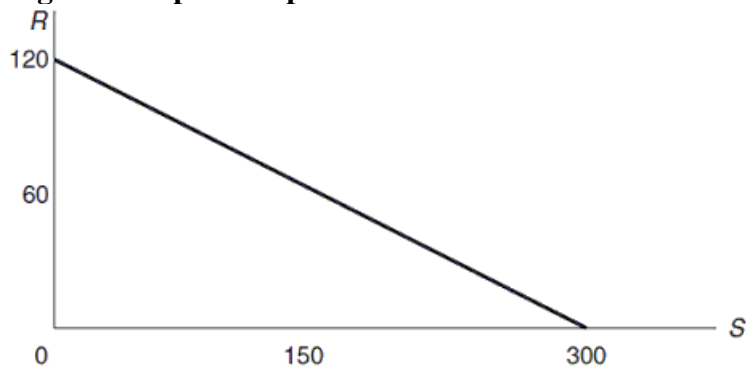
- a movement down along the curve. Incorrect

- a movement up along the curve. **Incorrect**
- a shift of the entire curve. (*True Answer*) **Correct**
- correlation but not causation. **Incorrect**

167 ■ ■ ■ The purpose of invoking *ceteris paribus* is to:

- simplify the analysis being done. (*True Answer*) **Correct**
- make the economic model more realistic. **Incorrect**
- allow the model to take more complexity into account. **Incorrect**
- introduce risk into the model. **Incorrect**

168 ■ ■ ■ Figure: Graph Interpretation

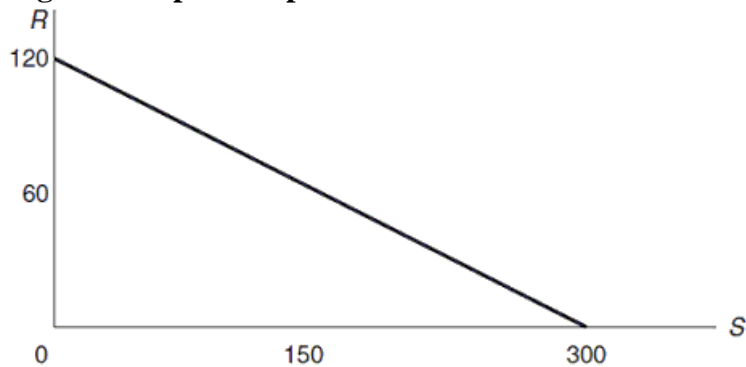


Reference: Ref 1-7

(Figure: Graph Interpretation) In the graph, _____ is the dependent variable and the slope of the line is _____.

- R; negative (*True Answer*) **Correct**
- R; positive **Incorrect**
- S; negative **Incorrect**
- S; positive **Incorrect**

169 ■ ■ ■ Figure: Graph Interpretation



Reference: Ref 1-7

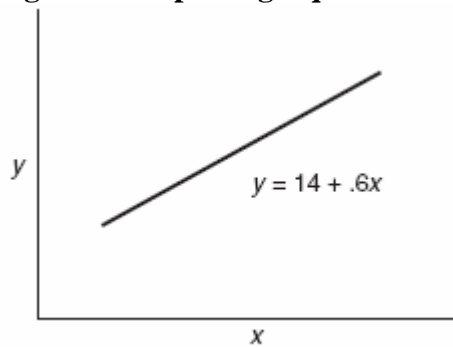
(Figure: Graph Interpretation) In the graph, the equation for the line is:

- $R = 120 - 0.4S$. (True Answer)Correct
- $R = 120 - 300S$. Incorrect
- $R = 120 + 0.4S$. Incorrect
- $S = 300 + 120R$. Incorrect

170 ■ ■ ■ In the equation $S = 130 - 2T$, where S is hot chocolate sales and T is temperature, the slope is:

- 130. Incorrect
- -2. (True Answer)Correct
- 2. Incorrect
- -65. Incorrect

171 ■ ■ ■ Figure: Interpreting Equations on a Graph

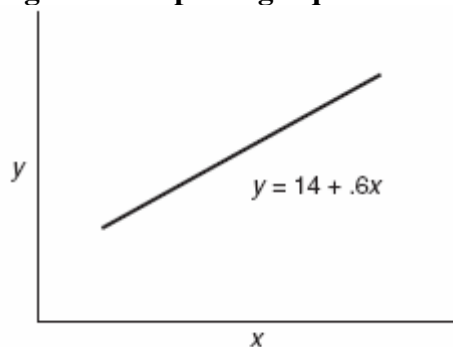


Reference: Ref 1-8

(Figure: Interpreting Equations on a Graph) The graph illustrates:

- a nonlinear equation. Incorrect
- a linear equation. (True Answer)Correct
- the concept of efficiency. Incorrect
- a rectangular hyperbola. Incorrect

172 ■ ■ ■ Figure: Interpreting Equations on a Graph



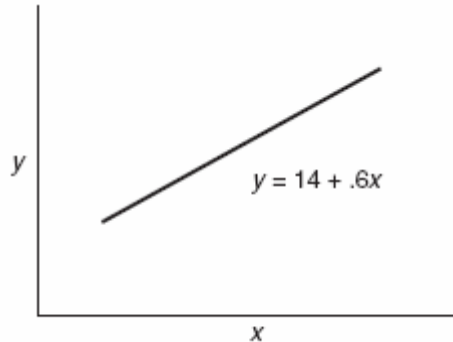
Reference: Ref 1-8

(Figure: Interpreting Equations on a Graph) In the graph, if x is 0, then the intercept with the y axis is:

- 0. Incorrect
- 14.6. Incorrect
- 14. (True Answer)Correct

- 0.6. Incorrect

173 ■ ■ ■ ■ Figure: Interpreting Equations on a Graph

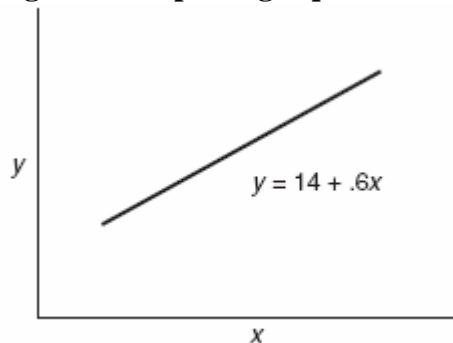


Reference: Ref 1-8

(Figure: Interpreting Equations on a Graph) In the graph, the slope of the line is:

- 0. Incorrect
- 14.6. Incorrect
- 14. Incorrect
- 0.6. (True Answer)Correct

174 ■ ■ ■ ■ Figure: Interpreting Equations on a Graph



Reference: Ref 1-8

(Figure: Interpreting Equations on a Graph) In the graph, if y stands for inflation, and x stands for the money supply, then:

- for every 1% increase in the money supply, inflation increases by 0.6%. (True Answer)Correct
- for every 1% increase in inflation, the money supply increases by 0.6%. Incorrect
- if the money supply increases by 14, then inflation goes up 0.6%. Incorrect
- if inflation increases by 14, then inflation goes up 0.6%. Incorrect

175 ■ ■ ■ ■ In the equation $S = 130 - 2T$, where S is hot chocolate sales and T is temperature, sales:

- increase by 20 if temperature increases by 10

degrees. Incorrect

- increase by 2 if temperature increases by 10 degrees. Incorrect

- decrease by 20 if temperature increases by 10 degrees. (*True Answer*)Correct

- decrease by 2 if temperature increases by 10 degrees. Incorrect

176 ■ ■ ■ In the equation $S = 130 - 2T$, where S is hot chocolate sales and T is temperature, sales:

- decrease by 10 if temperature falls by 5 degrees. Incorrect

- decrease by 2 if temperature falls by 5 degrees. Incorrect

- increase by 10 if temperature falls by 5 degrees. (*True Answer*)Correct

- increase by 2 if temperature falls by 5 degrees. Incorrect

177 ■ ■ ■ Consider the equation $Y = e + fX$. Which letter represents the slope?

- e Incorrect

- f (*True Answer*)Correct

- X Incorrect

- Y Incorrect

178 ■ ■ ■ Consider the equation $Y = e + fX$. Which letter represents the intercept?

- e (*True Answer*)Correct

- f Incorrect

- X Incorrect

- Y Incorrect

179 ■ ■ ■ In the equation $Y = e + fX$, _____ is the independent variable and _____ is the slope.

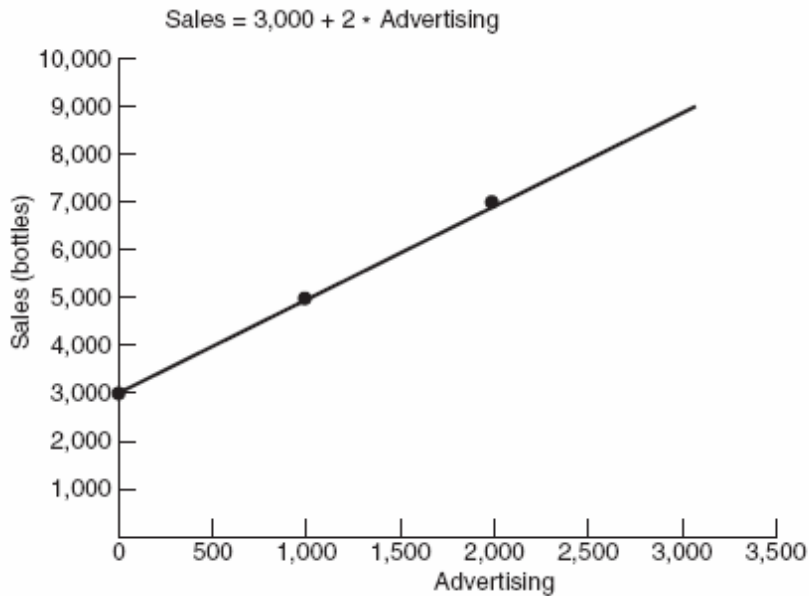
- $Y; e$ Incorrect

- $Y; f$ Incorrect

- $X; e$ Incorrect

- $X; f$ (*True Answer*)Correct

180 ■ ■ ■ Figure: Sales and Advertising

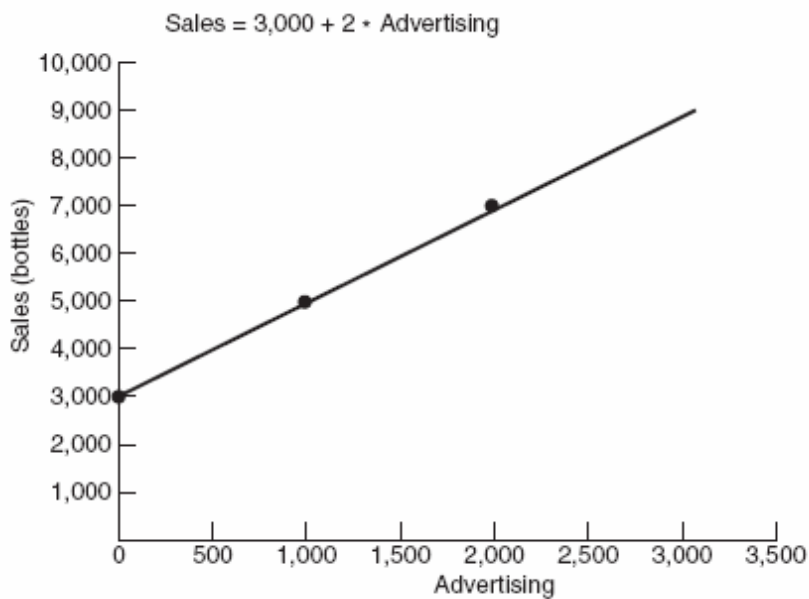


Reference: Ref 1-9

(Figure: Sales and Advertising) The graph shows the advertising expenditures and the resulting sales (in bottles) of a new caffeinated beverage called Jump. If the company that manufactures Jump spends \$3,000 on advertising, how many bottles of Jump will it sell?

- 13,500 Incorrect
- 9,000 (*True Answer*) Correct
- 10,000 Incorrect
- 7,000 Incorrect

181 **Figure: Sales and Advertising**



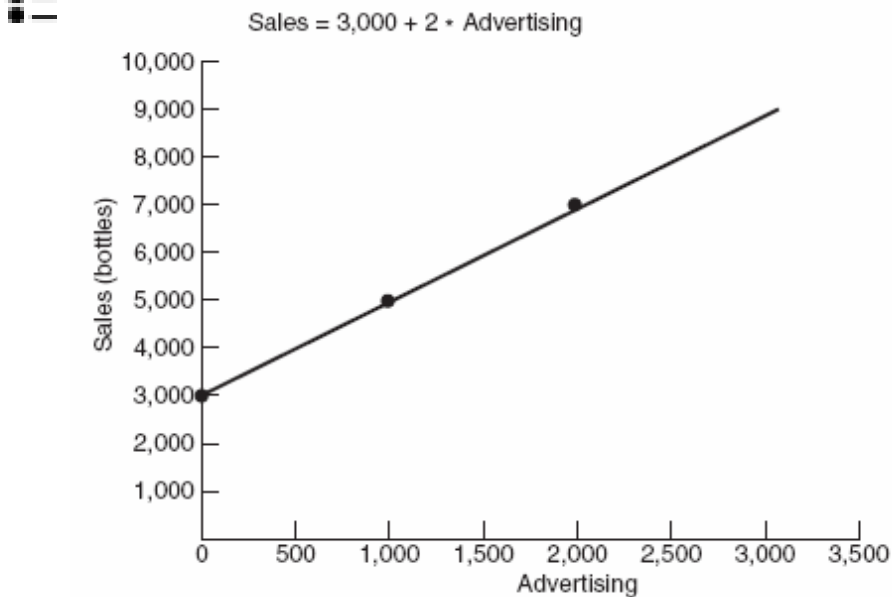
Reference: Ref 1-9

(Figure: Sales and Advertising) The graph shows the advertising expenditures and the resulting sales (in bottles) of

a new caffeinated beverage called Jump. If consumer tastes change in the region where Jump is marketed and base sales increase by 1,500 bottles, what is the equation of the “shifted” line?

- Sales = 1,500 + 2 · Advertising Incorrect
- Sales = 4,500 + 2 · Advertising (*True Answer*) Correct
- Sales = 3,000 + 1,502 · Advertising Incorrect
- Sales = 3,000 + 2 · Advertising Incorrect

182 ■ ■ ■ — Figure: Sales and Advertising



Reference: Ref 1-9

(Figure: Sales and Advertising) The graph shows the advertising expenditures and the resulting sales (in bottles) of a new caffeinated beverage called Jump. If a new health advisory is released warning consumers about problems associated with too much caffeine consumption and the level of base sales of Jump decreases by 2,000 bottles, what is the equation of this “shifted” line?

- Sales = 1,000 + 2 · Advertising (*True Answer*) Correct
- Sales = 3,000 + 2,002 · Advertising Incorrect
- Sales = 3,000 + 2 · Advertising Incorrect
- Sales = 5,000 + 2 · Advertising Incorrect

183 ■ ■ ■ — In the equation $S = 130 - 2T$, where S is hot chocolate

■ — sales and T is temperature, hot chocolate sales are:

- 130 when the temperature is 0. (*True Answer*) Correct
- 65 when the temperature is 0. Incorrect
- 132 when the temperature is 0. Incorrect
- 128 when the temperature is 0. Incorrect

184 ■ — Suppose an economist discovers that the relationship
■ — between grades and hours of tutoring is $\text{Grade} = 60 + 5(\text{Hours})$. Based on the equation, which statement is TRUE?

- Tutoring is not worthwhile because each hour raises grade by only 5 points. Incorrect
 - If no tutoring is done then the grade will be zero. Incorrect
 - The expected grade with 5 hours of tutoring is 85. (*True Answer*) Correct
 - The relationship between tutoring and grades is weak. Incorrect
-

185 ■ — Which of the following paired variables might indicate
■ — a correlation but NOT causation?

- advertising expenditures and sales Incorrect
 - snowfall amounts and stock market performance (*True Answer*) Correct
 - age and health care expenditures Incorrect
 - grade point average and future income Incorrect
-

186 ■ — Which of the following is correct?
■ —

- *Correlation* and *causation* are synonyms. Incorrect
 - Shortly after a new president is elected into office, the unemployment rate goes down. One must conclude that the new president's economic policies are responsible for the economic upturn. Incorrect
 - The fact that two variables are correlated with each other does not mean that one causes the other. (*True Answer*) Correct
 - If two variables move together, then they are causally related. Incorrect
-

187 ■ — An increase in the price of gold is always associated
■ — with the outbreak of wars. Increasing gold prices cause wars. This would be an example of what logical fallacy?

- *ceteris paribus* Incorrect
 - correlation is causation (*True Answer*) Correct
 - laissez-faire Incorrect
 - nonlinearity Incorrect
-

188 ■ — The observation that highly productive countries have
■ — taller populations is an example of:

- cause and effect. Incorrect
- correlation. (*True Answer*) Correct
- causation. Incorrect

- allocative efficiency. Incorrect
-

189 ■ ■ Economic analysis cannot be applied to concepts outside economics.

- True
 - False (*True Answer*)
-

190 ■ ■ The broad scope of economics analysis allows us to reflect on everyday choices in addition to more global issues.

- True (*True Answer*)
 - False
-

191 ■ ■ Economic analysis gives us a structure for making decisions in a rational manner.

- True (*True Answer*)
 - False
-

192 ■ ■ Economics is only about money.

- True
 - False (*True Answer*)
-

193 ■ ■ Economics is about allocating limited resources to maximize an individual or society's well-being or satisfaction.

- True (*True Answer*)
 - False
-

194 ■ ■ Economics deals only with financial issues.

- True
 - False (*True Answer*)
-

195 ■ ■ Scarcity is best defined as when the quantity demanded exceeds quantity supplied.

- True
 - False (*True Answer*)
-

196 ■ ■ A rich person does not experience scarcity.

- True
 - False (*True Answer*)
-

197 ■ ■ Economists look for rational responses to incentives.

- True (*True Answer*)
 - False
-

198 ■ ■ Examining whether the country's price level has increased last quarter is a macroeconomic topic.

- True (*True Answer*)
 - False
-

199 ■ ■ Macroeconomics deals with aggregate variables and microeconomics deals with individual issues.

- True (*True Answer*)
 - False
-

200 ■ ■ Microeconomics looks at how markets are structured.

- True (*True Answer*)
 - False
-

201 ■ ■ The decisions made by individuals and firms are covered in microeconomics.

- True (*True Answer*)
 - False
-

202 ■ ■ Macroeconomics focuses on decisions made for the entire economy.

- True (*True Answer*)
 - False
-

203 ■ ■ An example of a microeconomics question would be the reasons for increases and decreases in the price of bread.

- True (*True Answer*)
 - False
-

204 ■ ■ Microeconomics looks at particular markets within an economy.

- True (*True Answer*)
 - False
-

205 ■ ■ Microeconomics focuses on decision making by individuals, businesses, industries, and government.

- True (*True Answer*)
- False

206 ■ ■ **Macroeconomics is concerned about the broader issues in the economy such as inflation, unemployment, and national output of goods and services.**

- True (*True Answer*)
- False

207 ■ ■ **Macroeconomics studies the outcomes of individual markets in the national economy.**

- True
- False (*True Answer*)

208 ■ ■ **Economic models must fully reflect reality.**

- True
- False (*True Answer*)

209 ■ ■ **Complex models are always better than simple ones.**

- True
- False (*True Answer*)

210 ■ ■ **To be useful, an economic model must include every detail possible and not be an abstraction.**

- True
- False (*True Answer*)

211 ■ ■ **Stylized models boil down issues and facts to their basic relevant elements.**

- True (*True Answer*)
- False

212 ■ ■ **Model building leads to theories that must then be tested.**

- True (*True Answer*)
- False

213 ■ ■ **Economists create simplistic models in order to explain complex economic topics.**

- True (*True Answer*)
- False

214 ■ ■ **The *ceteris paribus* assumption holds some variables constant to aid in model building.**

- True (*True Answer*)

- False
-

215 ■ ■ A situation in which output is produced at the lowest possible cost is called allocative efficiency.

- True
 - False (*True Answer*)
-

216 ■ ■ There are no instances where efficient solutions to problems conflict with equity issues.

- True
 - False (*True Answer*)
-

217 ■ ■ Much of economic analysis is directed toward ensuring an efficient allocation of resources.

- True (*True Answer*)
 - False
-

218 ■ ■ It is impossible to have a conflict between allocative efficiency and production efficiency.

- True
 - False (*True Answer*)
-

219 ■ ■ The concept of equity relates to how quickly something can be produced.

- True
 - False (*True Answer*)
-

220 ■ ■ There is general agreement as to which economic policies are fair, or equitable.

- True
 - False (*True Answer*)
-

221 ■ ■ Positive questions are questions about how things ought to be.

- True
 - False (*True Answer*)
-

222 ■ ■ Positive questions involve the understanding of basic facts.

- True (*True Answer*)
 - False
-

223 ■ ■ Normative questions involve societal beliefs on what should or should not be done.

- True (*True Answer*)
 - False
-

224 ■ ■ “How do interest rates influence employment?” is an example of a normative question.

- True
 - False (*True Answer*)
-

225 ■ ■ The assumption that people will act in a way to maximize their self-interest is a reasonable one for most cases that economists analyze.

- True (*True Answer*)
 - False
-

226 ■ ■ Scarcity occurs when an individual's resources exceed his wants.

- True
 - False (*True Answer*)
-

227 ■ ■ Our wants are always greater than our resources.

- True (*True Answer*)
 - False
-

228 ■ ■ Scarcity is not a problem faced by Bill Gates.

- True
 - False (*True Answer*)
-

229 ■ ■ The concept of scarcity implies that people must make choices among alternatives.

- True (*True Answer*)
 - False
-

230 ■ ■ Tradeoffs occur because resources are scarce.

- True (*True Answer*)
 - False
-

231 ■ ■ Another definition of *opportunity cost* is the value of the next best alternative.

- True (*True Answer*)
 - False
-

232 ■ ■ The opportunity cost of one good is the quantity of resources that could be used to purchase the next best choice.

- True
 - False (*True Answer*)
-

233 ■ ■ Individuals do not experience opportunity costs unless external costs occur.

- True
 - False (*True Answer*)
-

234 ■ ■ Opportunity cost involves nonmonetary costs rather than monetary costs.

- True
 - False (*True Answer*)
-

235 ■ ■ Specialization and exchange between two individuals generally benefit the poorer individual at the expense of the richer individual.

- True
 - False (*True Answer*)
-

236 ■ ■ Economists never assume that people respond to economic incentives.

- True
 - False (*True Answer*)
-

237 ■ ■ Marginal analysis exists when a person continues to make a decision until the value of the outcome is zero.

- True
 - False (*True Answer*)
-

238 ■ ■ Thinking at the margin means that the individual thinks about the additional costs and benefits of doing something.

- True (*True Answer*)
 - False
-

239 ■ ■ *Thinking at the margin* is defined as maximizing a firm's or individual's well-being.

- True
 - False (*True Answer*)
-

240 ■ ■ If a store sells candy bars for \$0.89 for one bar, and \$1.50 for two. The marginal cost of the second candy bar is \$0.75.

- True
 - False (*True Answer*)
-

241 ■ ■ **The government can always successfully intervene if market failure exists.**

- True
 - False (*True Answer*)
-

242 ■ ■ **Generally speaking, private markets are the most efficient institutions for providing goods and services.**

- True (*True Answer*)
 - False
-

243 ■ ■ **Excessive pollution is an example of market failure.**

- True (*True Answer*)
 - False
-

244 ■ ■ **Most economists agree that there is no legitimate role for government to play in the economy.**

- True
 - False (*True Answer*)
-

245 ■ ■ **Economists point out that the quality of economic decisions depends on the quality of the information underlying those decisions.**

- True (*True Answer*)
 - False
-

246 ■ ■ **Open access to information is necessary in order for a market to work efficiently.**

- True (*True Answer*)
 - False
-

247 ■ ■ **Scatter plots use time and one other variable to determine possible relationships.**

- True
 - False (*True Answer*)
-

248 ■ ■ **Time series graphs include the value of a variable on the vertical axis and minutes, hours, days, months, quarters, or years on the horizontal axis.**

- True (*True Answer*)
 - False
-

249 ■ ■ The height of the bars in a bar chart may depict the number of data points in each category/class.

- True (*True Answer*)
 - False
-

250 ■ ■ Simple graphs never provide information about the relationship between variables.

- True
 - False (*True Answer*)
-

251 ■ ■ Titles, labels for axes, and a statement of how the data are measured help with the interpretation of graphs.

- True (*True Answer*)
 - False
-

252 ■ ■ Time series graphs allow us to see trends in one variable over a set time frame.

- True (*True Answer*)
 - False
-

253 ■ ■ A pie chart is useful for business presentations but not for macroeconomic analysis.

- True
 - False (*True Answer*)
-

254 ■ ■ Linear relationships show the same slope between any two points on a line.

- True (*True Answer*)
 - False
-

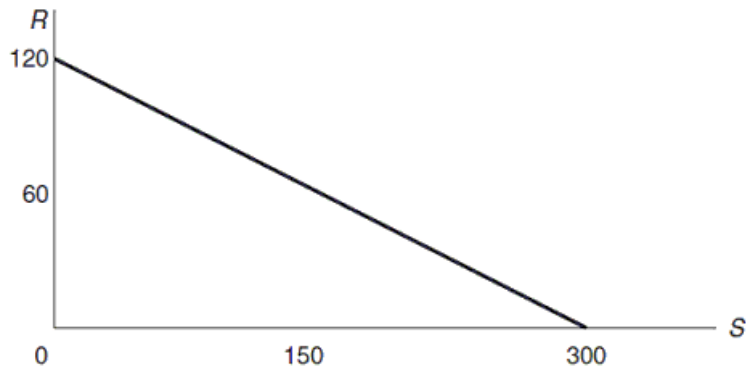
255 ■ ■ If variable X rises as variable Q falls, then X and Q have a positive relationship and the slope of the line is positive.

- True
 - False (*True Answer*)
-

256 ■ ■ If variable S falls as variable X falls, then S and X have a positive relationship and the slope of the line is positive.

- True (*True Answer*)
 - False
-

257 ■ ■ Figure: Graph Interpretation



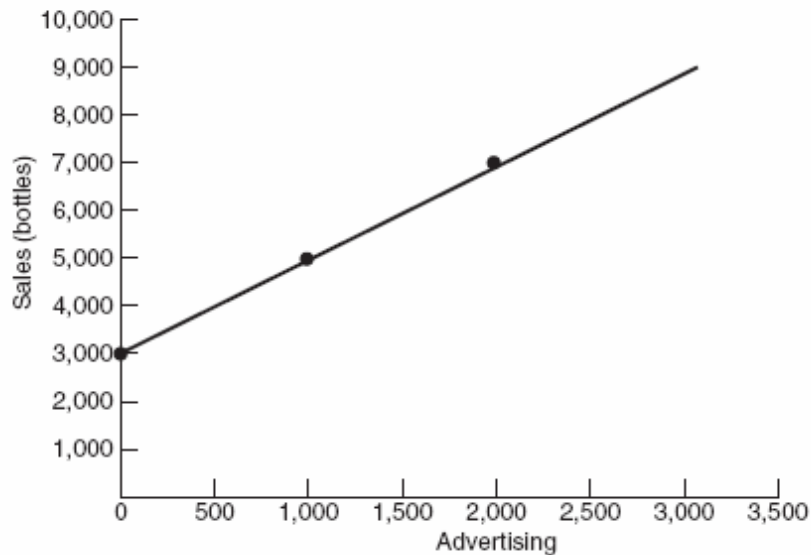
Reference: Ref 1-10

(Figure: Graph Interpretation) In the graph, a negative relationship is depicted with a slope of -0.4 .

- True (*True Answer*)
- False

258 ■ ■ Figure: Sales and Advertising

$$\text{Sales} = 3,000 + 2 \cdot \text{Advertising}$$

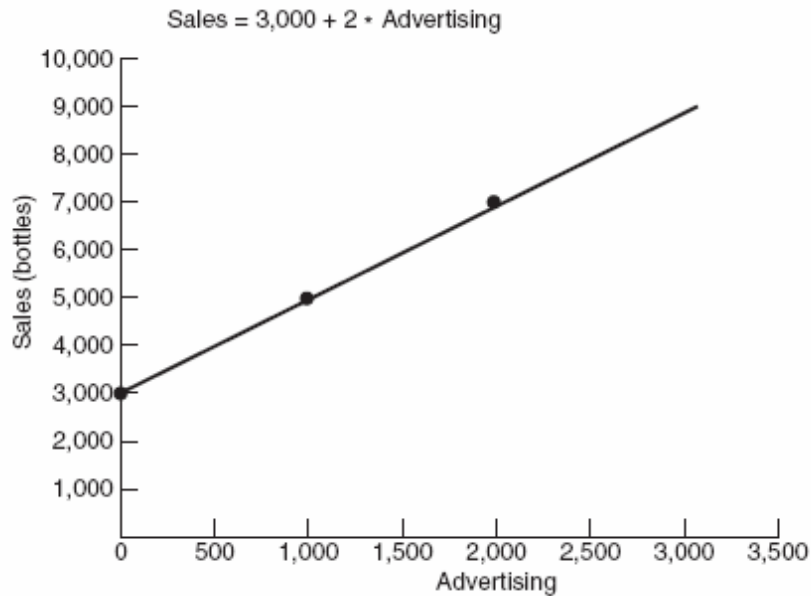


Reference: Ref 1-11

(Figure: Sales and Advertising) The graph shows the advertising expenditures and the resulting sales (in bottles) of a new caffeinated beverage called Jump. The vertical intercept for the equation graphed is 3,000 bottles.

- True (*True Answer*)
- False

259 ■ ■ Figure: Sales and Advertising



Reference: Ref 1-11

(Figure: Sales and Advertising) The graph shows the advertising expenditures and the resulting sales (in bottles) of a new caffeinated beverage called Jump. The slope for the equation graphed is 3,000.

- True
- False (*True Answer*)

260 ■ ■ In the equation $Y = b - aX$, a is the intercept.

- True
- False (*True Answer*)

261 ■ ■ In the equation $C = a + bY$, Y is the dependent variable and a is the intercept.

- True
- False (*True Answer*)

262 ■ ■ Correlation between two variables is not enough evidence to suggest that a causal relationship exists between the two variables.

- True (*True Answer*)
- False

263 ■ ■ When two variables appear to be related according to a scatter plot, one must be causing the other to occur.

- True
- False (*True Answer*)

264 ■ ■ If two variables are correlated with one another, it is possible but not necessary that one variable causes the other.

- True (*True Answer*)
 - False
-

265 ■ ■ Changes in stock prices are correlated with the amount of rainfall. Therefore, rainy weather causes the stock market to fall.

- True
 - False (*True Answer*)
-

266 ■ ■ What assumption about human motivation is made in economics? Explain.

- *In economics, we assume that people act as if motivated by self-interest and that people respond predictably to opportunities for gain. That is, people look out for their own self-interest and do so in a rational manner. A central assumption about human motivation is that people respond to incentives.*
-

267 ■ ■ What are the benefits of learning the techniques and tools involved within economic analysis?

- *Economic analysis provides a structure for making decisions in a rational manner. Economic analysis is a way of analyzing decisions that are not “economic” in the general sense of the term. That is the benefit of learning economic analysis. It can be applied to many areas.*
-

268 ■ ■ Distinguish between macroeconomics and microeconomics.

- *Macroeconomics focuses on the behavior of the economy as a whole, while microeconomics is concerned with the decisions of individuals, such as households and firms. Macroeconomics is concerned with aggregates such as the total output of the economy or unemployment, while microeconomics deals with the decisions of one firm or industry.*
-


269 ■ ■ Compare and contrast the focuses of microeconomics and macroeconomics.

- *Microeconomics deals with decision making by*


individuals, business firms, industries, and governments. Macroeconomics, in contrast, focuses on the broader issues we face as a nation.

270  What are some examples of the types of issues analyzed by microeconomics? What are some topics examined by macroeconomics?

- *There are many different examples of the types of situations a microeconomist would analyze. The answer should center on a particular market outcome or structure—pricing, employment in a particular trade, monopolization, changing demands, and resource usage are all typical microeconomic topics. Macroeconomics looks at overall outcomes of an economy. Most of the outcomes are captured in several categories of indicators: employment, price stability, production, international trade. Students can cite the business cycle, unemployment rate, inflation, or the balance of trade.*

271  Briefly describe how macroeconomics and microeconomics are related. How do they differ?


- *Microeconomics looks at the individual components of the economy—consumers, businesses, government, and imports/exports. Macroeconomics looks at the economy as a whole. For example, microeconomics would be concerned with the demand for particular products, such as SUVs, while macroeconomics examines the overall demand for goods and services.*

272  Is understanding recessions a microeconomic or a macroeconomic issue? Explain.


- **Macroeconomic; it is a national issue.**

273  Evaluate the following statement: “To be useful, a model must be completely realistic.”

- *This statement is NOT true. To be useful, a model must be fairly realistic but it does not have to account for every detail of the real world. The model needs to capture the essential relationships that enable us to analyze the problem with which we are concerned. A model is useful so long as it sheds light on the problem at hand.*

274  Describe how economists use models and how the results of stylized models may compare with those from more complex models.

- *By stylized, we mean that economists boil down facts to their basic relevant elements and use assumptions to develop a stylized (simple) model to analyze the issue. Although there are always situations that lie outside the models, they are the exception. Economists generalize about economic behavior and reach generally applicable results. We can add more dimensions and make the model more complex, but often complexity does not provide any greater insight than the simple model.*

275  Why is model building considered a process of understanding the economy?


- *Though model building can lead to surprising insights into how economic actors and economies behave, it is NOT the end of the story. Economic insights lead to economic theories, but the theories must then be tested. So it may be best to think of model building as a process of understanding economic actors and the general economy: models are created and then tested; if they fail to explain, new models are constructed. Some models have met the test of time. Others have had to be corrected or discarded. Progress, however, has been made.*

276  Explain: “Economic theories must be tested.”

- *Economists build models to explain economic relationships. To be useful, the model must bring insight into an economic situation. Therefore, as in any scientific endeavor, economists test models against real-world data. If the model does a poor job of explaining real-world observations, then new models must be developed.*

277  Why do economists develop models (“stylized facts”) to help with analysis? Discuss the strength and weakness of such an approach.

- *By using stylized facts, economists distill economic phenomena to their most basic relationships. The main advantage of the process is that it simplifies reality so that it is easier to grasp and analyze. The disadvantage is that an economic model cannot account for all details.*

278  Describe the *ceteris paribus* assumption and discuss how it might affect your purchase of fast-food meals this week.

- *To aid in model building, economists use the ceteris paribus assumption. “Holding all other things equal” means that we hold some important variables constant. For example, to determine how many fast-food meals you might be willing to purchase in any given week, we would hold your weekly income constant. We then would change the prices of fast-food meals to see the impact on the number purchased. Fast-food businesses, such as McDonald's, use this information to set what they hope is an optimum price.*

279  Why do economists focus on efficiency rather than equity?

- *Economists generally stay out of discussions about fairness, leaving the issue to philosophers and politicians. When it comes to public policy issues, economics will help you see the tradeoffs between equity and efficiency, but you will ultimately have to make up your own mind about the wisdom of the policy given these tradeoffs. Economists tend to focus on matters of efficiency and to avoid making sweeping judgments about equity, leaving each one of us to decide what is fair.*


280  Discuss the difference between efficiency and equity.

- *Efficiency deals with how well resources are utilized and allocated. No one likes waste. Much of economic analysis is directed toward ensuring that the most efficient outcomes result from public policy. The other side of the coin is equity or fairness. There are many divergent views about fairness until we get to extreme cases. There are instances where efficiency and equity collide. You may agree that a specific policy is efficient but think it is unfair to some group of people.*


281  Evaluate: “There is more than one concept of economic efficiency.”

- *Efficiency has to do with how things are allocated and utilized. When a firm tries to produce a product efficiently, it uses the mix of inputs (labor, raw materials, etc.) that has the lowest cost. However, there is also allocative efficiency, which deals with what is produced and who gets it. A society that produces large quantities of laptop computers, even at minimal cost, is not*


allocatively efficient because consumer demand favors other technologies, such as tablet computers. Society would be better off if more tablet computers and fewer laptop computers were made.

- 282  Explain what is meant by economic efficiency. Does efficiency imply that the fastest production processes or the most powerful equipment must always be used? Explain.


- *Output is greater when people produce goods for which the opportunity cost of producing is lower than in other locations. They trade for those goods for which they do not have a comparative advantage. International trade based on production taking place in areas of lowest opportunity cost increases total output of the two countries and can result in higher standards of living for citizens of both countries.*

- 283  Explain the difference between positive questions and normative questions.

- *Positive questions involve the understanding of basic facts, and can be answered one way or another as long as information is available. Normative questions, in contrast, involve societal beliefs on what should or should not be done, and will be answered differently by people with different beliefs.*

- 284  At the start of the war in Iraq, homeowners in the United States found it difficult to find plywood. The U.S. military, at the same time, was constructing buildings in Iraq. How do the two situations reflect economic tradeoffs?

- *All economic resources, including plywood, are limited. The decision to send and supply an army in the Middle East meant that resources had to be diverted to military use. The tradeoffs involved more than building material, as many workers were sent to Iraq, whether as members of the National Guard or as contractors.*


- 285  How do the concepts of scarcity and opportunity cost relate to each other?

- *We have limited resources (scarcity), so we must make tradeoffs in nearly everything we do. In fact, economics is often defined as the study of the allocation of scarce resources to competing wants. We have to decide between*

alternatives. We have limited resources. Every activity involves opportunity costs. Sleeping, eating, studying, partying, running, hiking, and so on all require spending resources that could be used in another activity. The activity not chosen represents the opportunity costs of the current activity chosen.

286  What is the opportunity cost of you taking this economics class?


- *Each student will have a different response. The opportunity cost is the value of what is given up in order to come to class and study. Some students may be giving up sleeping late, the chance to go on a trip because they use their money to pay tuition, or a job.*

287  Explain why incentives are important, and give examples of incentives that a business might provide to its customers to increase product sales on weekdays.


- *Incentives cause people to change their behavior. By providing the proper incentives, businesses can help increase their sales. A 40%-off sale, like that used by Macy's on Wednesdays only, can bring more customers into the store and increase weekday sales. Not everyone leaps to use the incentives all the time, but they are helpful. Another possibility is early-bird previews of seasonal merchandise on Mondays only.*

288  Explain the meaning of the phrase “People respond to incentives.”

- *People are rational, that is, they make decisions based on cost-benefit analyses. If the price of something rises, people buy less of it. For example, higher taxes on certain items discourage buyers from purchasing them. Retailers discount items they wish to sell more of. Rising gasoline prices discourage people from buying cars that are not fuel-efficient.*

289  What are some ways you use marginal analysis in your life?

- *There are many examples of marginal analysis students can provide. Should the student stay up an extra hour to study or go to sleep? Should the student take on an extra course at registration? Should the student work an extra hour at a part-time job?*

290  Why are markets efficient?

- *Private markets and the incentives they provide are the best mechanisms known today for providing products and services. Markets bring buyers and sellers together. Competition for the consumer dollar forces firms to provide products at the lowest possible price; otherwise, some other firm will undercut their high price. New products enter the market and old products die out.*

291  Provide two examples of what economists refer to as “institutions.”

- *Institutions include a legal system to enforce contracts and laws and to protect the rights of citizens and the ideas they create, a legislative process to develop laws and policies that provide incentives to individuals and firms to work hard, a government free of corruption, and a strong monetary system.*