

Chapter 1—The Role and Method of Economics

MULTIPLE CHOICE

1. What is economics most concerned with?
 - a. how to reduce inflation
 - b. how to profit from trading in the stock market
 - c. studying how we allocate scarce resources to satisfy unlimited wants
 - d. government taxation and spending

ANS: C

PTS: 1

DIF: Easy

REF: p. 1

BLM: Knowledge

2. What is the central concern of economics?
 - a. how to regulate the supply of money
 - b. how to reduce the wants of individuals, businesses, and government
 - c. how to find more resources to satisfy everyone's wants
 - d. how to make the best use of scarce resources to satisfy our unlimited wants

ANS: D

PTS: 1

DIF: Easy

REF: p. 1

BLM: Knowledge

3. Why is there scarcity?
 - a. because average costs may exceed average benefits
 - b. because human wants are limited
 - c. because theory dictates it
 - d. because our unlimited wants exceed our limited resources

ANS: D

PTS: 1

DIF: Easy

REF: p. 1

BLM: Knowledge

4. Why does the problem of scarcity exist?
 - a. because resources are limited relative to wants
 - b. because governments fail to intervene in the market place
 - c. because resources are unlimited relative to wants
 - d. because the world has many poor people

ANS: A

PTS: 1

DIF: Easy

REF: p. 1

BLM: Knowledge

5. What does scarcity result from?
- a. government decision making
 - b. positive economics
 - c. wants that exceed the resources necessary to provide them
 - d. inappropriate normative judgments

ANS: C

PTS: 1

DIF: Moderate

REF: p. 1

BLM: Comprehension

6. What causes scarcity?
- a. the allocation of goods by prices
 - b. specialization and division of labour
 - c. unlimited wants and limited resources
 - d. the market mechanism

ANS: C

PTS: 1

DIF: Easy

REF: p. 1

BLM: Knowledge

7. What does economics primarily explore?
- a. how the government allocates its budget among competing political interests
 - b. how stock and bond prices fluctuate when there are changes in demand or supply
 - c. how goods and services are produced and distributed in a world with limited resources
 - d. how businesses market products under competitive conditions

ANS: C

PTS: 1

DIF: Moderate

REF: p. 1

BLM: Comprehension

8. What is economics primarily the study of?
- a. how firms compete for profits in the marketplace
 - b. how limited resources are allocated to satisfy unlimited wants
 - c. how we deal with unemployed resources
 - d. how prices are set in the marketplace

ANS: B

PTS: 1

DIF: Moderate

REF: p. 1

BLM: Knowledge

9. What do economists mean when they state that a good is scarce?
- a. People will want to buy more of the good regardless of price.
 - b. It is impossible to expand the availability of the good.
 - c. Our wants exceed our limited resources.
 - d. There is a shortage of the good at a sale price.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 1

BLM: Knowledge

10. Which of the following statements about scarcity is the most accurate?
- a. It occurs only in centrally planned economies.
 - b. It will likely be eliminated by technological progress.
 - c. It occurs if there are insufficient resources to provide for human wants.
 - d. It exists only in poor nations.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 1

BLM: Application

11. According to most economists, what is the fundamental economic problem?
- a. unemployment
 - b. government intervention into markets
 - c. poverty
 - d. scarcity

ANS: D

PTS: 1

DIF: Easy

REF: p. 1

BLM: Knowledge

12. What do all economic problems arise from?
- a. scarcity
 - b. too little currency available in circulation
 - c. high unemployment rates
 - d. competition

ANS: A

PTS: 1

DIF: Easy

REF: p. 1

BLM: Knowledge

13. As defined by an economist, what does the word scarcity mean?
- a. Consumers are too poor to purchase the available goods and services.
 - b. Demand exceeds supply at the current market price.
 - c. The desire for goods exceeds our ability to produce them with limited available resources.
 - d. Supply exceeds demand at the current market price.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 1

BLM: Knowledge

14. Which of the following statements best describes the problem of scarcity?
- a. Scarcity means that shortages occur at the existing market price.
 - b. It is impossible to satisfy unlimited human wants with limited resources.
 - c. When there is scarcity, individuals do not face trade-offs.
 - d. As a result of scarcity, individuals do not have the ability to make choices.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 1

BLM: Knowledge

15. What problem is caused when not all human wants can be satisfied with current resources and technology?
- a. scarcity
 - b. normative economics
 - c. the fallacy of composition
 - d. *ceteris paribus*

ANS: A

PTS: 1

DIF: Moderate

REF: p. 1

BLM: Comprehension

16. What does economics primarily study?
- a. how to interpret corporate balance sheets and income statements
 - b. how choices are made because of scarcity
 - c. how to make money in the stock market
 - d. how to operate a business

ANS: B

PTS: 1

DIF: Easy

REF: p. 1

BLM: Knowledge

17. What do economists mean when they say goods are scarce?
- a. Government programs are needed to lift families out of poverty.
 - b. At the current price, consumers are willing to buy more of a good than suppliers are willing to produce.
 - c. Consumers do not have enough money to purchase the goods.
 - d. The desire for goods and services exceeds our ability to produce them with limited resources.

ANS: D

PTS: 1

DIF: Difficult

REF: p. 1

BLM: Application

18. Which of the following statements about scarcity is the most accurate?
- a. It is a problem that solely exists in the developing world.
 - b. It is only a problem in centrally planned economies.
 - c. It is a problem that necessitates making choices and trade-offs.
 - d. It is only a problem in modern industrialized economies.

ANS: C

PTS: 1

DIF: Easy

REF: p. 1

BLM: Comprehension

19. Which of the following statements best describes scarcity?
- a. There will always be families living below the poverty line.
 - b. Human wants are limited.
 - c. Limited resources cannot satisfy all of our unlimited human wants.
 - d. Resources are unlimited.

ANS: C

PTS: 1

DIF: Easy

REF: p. 1

BLM: Knowledge

20. What is economics the study of?
- a. how people deal with limited human wants
 - b. how people cope with fluctuations in stock prices
 - c. how people deal with greed
 - d. how people cope with limited resources

ANS: D

PTS: 1

DIF: Easy

REF: p. 1

BLM: Knowledge

21. Which of the following most accurately describes a “scarce” good?
- a. a good for which available resources are insufficient to satisfy unlimited human desires for it
 - b. a good that is always in demand at any price
 - c. a good for which there is a shortage at the current market price
 - d. a good for which it is impossible to increase production any further given the available resources and technology

ANS: A

PTS: 1

DIF: Difficult

REF: p. 1

BLM: Comprehension

22. What question is economics fundamentally concerned with?
- a. How can limited wants be used to satisfy limited resources?
 - b. How are limited resources allocated to satisfy unlimited wants?
 - c. How are scarce resources allocated to satisfy limited wants?
 - d. How are limited resources allocated to satisfy scarce wants?

ANS: B

PTS: 1

DIF: Easy

REF: p. 1

BLM: Knowledge

23. Which of the following statements best describes the study of scarcity?
- a. using limited resources in order to best satisfy our unlimited desires
 - b. using limited resources in order to promote full employment and price stability
 - c. using unlimited resources in order to promote full employment and price stability
 - d. using unlimited resources in order to best satisfy our unlimited desires

ANS: A

PTS: 1

DIF: Moderate

REF: p. 1

BLM: Knowledge

24. What is the primary concern of economics?
- a. studying limited desires in the face of unlimited resources
 - b. studying problems such as poverty and unemployment
 - c. studying production and distribution of goods in a world of unlimited resources
 - d. studying production and distribution of goods in a world of limited resources

ANS: D

PTS: 1

DIF: Moderate

REF: p. 1

BLM: Knowledge

25. Which of following statements about economics is the most accurate?
- a. It explores how choices are made between conflicting wants and desires in a world of scarcity.
 - b. It relies entirely upon normative analysis.
 - c. It typically uses controlled experiments to learn about consumer and firm behaviour.
 - d. It uses models that cannot be tested empirically due to the complex nature of the economy.

ANS: A

PTS: 1

DIF: Difficult

REF: p. 1

BLM: Comprehension

26. What is the solution to solving the fundamental economic problem?
- a. to allocate limited resources among competing uses
 - b. to guarantee everyone on the planet a minimum level of food, shelter, and clean water
 - c. to eliminate poverty in the developing world
 - d. to increase the amount of leisure time available to people

ANS: A

PTS: 1

DIF: Moderate

REF: p. 1

BLM: Comprehension

27. Which of the following statements about economics is the most accurate?
- a. It is concerned with predicting business conditions in the future, not with the current state of the stock market.
 - b. It is a natural science like biology and chemistry.
 - c. It is composed of two main branches known as positive and normative economics.
 - d. It is a science concerned with reaching generalizations about human behaviour, not unlike sociology or psychology.

ANS: D

PTS: 1

DIF: Difficult

REF: p. 3

BLM: Application

28. Which of the following statements about economics is the most accurate?
- a. It concerns itself only with monetary decisions.
 - b. It says very little about "everyday life."
 - c. It is a narrowly focused discipline.
 - d. It is a broad-ranging, problem-solving discipline.

ANS: D

PTS: 1

DIF: Difficult

REF: p. 3

BLM: Comprehension

29. Which of the following would be studied in a microeconomics course?
- a. how the economy's total output is measured
 - b. the amount of unemployment in Canada
 - c. the production decisions made by individual firms
 - d. the effect of a recession on the economy

ANS: C

PTS: 1

DIF: Easy

REF: p. 3

BLM: Comprehension

30. Who makes economic decisions?
- a. They are only made by government leaders.
 - b. They are made in both the private and public sectors.
 - c. They are only made where monetary exchanges take place.
 - d. They are only made at the management level of corporations.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 3

BLM: Application

31. What is the basic difference between macroeconomics and microeconomics?
- a. Microeconomics explores the causes of inflation, while macroeconomics focuses on the causes of unemployment.
 - b. Microeconomics concentrates on the behaviour of individual consumers, while macroeconomics focuses on the behaviour of firms.
 - c. Microeconomics concentrates on the behaviour of individual consumers and firms, while macroeconomics focuses on the performance of the entire economy.
 - d. Microeconomics concentrates on individual markets, while macroeconomics focuses primarily on international trade.

ANS: C

PTS: 1

DIF: Difficult

REF: p. 3

BLM: Knowledge

32. What two main branches of study can economics be divided into?
- a. capitalism and communism
 - b. microeconomics and macroeconomics
 - c. demand and supply
 - d. capitalism and socialism

ANS: B

PTS: 1

DIF: Easy

REF: p. 3

BLM: Knowledge

33. Which of the following is most likely a topic of discussion in macroeconomics?
- a. an increase in the price of food
 - b. a decrease in the production of DVD players by a consumer electronics company
 - c. a decrease in the unemployment rate
 - d. an increase in the wage rate paid to automobile workers

ANS: C

PTS: 1

DIF: Moderate

REF: p. 3

BLM: Application

34. What is the term for the branch of economics that studies the decisions made by individual firms and consumers?
- a. microeconomics
 - b. normative economics
 - c. macroeconomics
 - d. positive economics

ANS: A

PTS: 1

DIF: Easy

REF: p. 3

BLM: Knowledge

35. What is the term for the branch of economics that studies the aggregate decisions of all households and all firms?
- a. normative economics
 - b. microeconomics
 - c. positive economics
 - d. macroeconomics

ANS: D

PTS: 1

DIF: Easy

REF: p. 3

BLM: Knowledge

36. Which of the following statements most likely lies within the realm of microeconomics?
- a. An increase in government spending will increase the aggregate demand for goods and services in the economy.
 - b. An increase in labour costs will increase the cost of producing another airplane.
 - c. Unemployment rises during a recession and falls during an expansion.
 - d. A rapid acceleration of the supply of money may create inflation.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 3

BLM: Application

37. Which of the following statements most likely lies within the realm of macroeconomics?
- a. Due to process innovations in computer chip manufacturing, the market supply of computers increased.
 - b. Due to an economic recession, manufacturing firms began implementing layoffs of their workforces.
 - c. An increase in the price of automobiles will lead to a decrease in the quantity of automobiles demanded.
 - d. Anticipating that the benefits would outweigh costs involved, an undergraduate student purchases the course textbook.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 3

BLM: Application

38. What type of science do most people consider economics to be?
- a. a social science
 - b. an accounting science
 - c. a physical science
 - d. an earth science

ANS: A

PTS: 1

DIF: Easy

REF: p. 3

BLM: Knowledge

39. Which topic does macroeconomics usually NOT include?
- a. the rate of unemployment
 - b. the rate of inflation
 - c. the profit maximizing decisions of an individual manufacturer
 - d. economic growth

ANS: C

PTS: 1

DIF: Easy

REF: p. 3

BLM: Comprehension

40. Which of the following lies primarily within the realm of microeconomics?
- a. an economic model forecasting the impact of a tax increase on consumer spending and national output
 - b. a model forecasting the impact of a change in interest rates on the level of investment in the economy
 - c. an empirical analysis of the relationship between the growth of the money supply and the rate of inflation
 - d. a study of supply and demand conditions in the market for orange juice

ANS: D

PTS: 1

DIF: Difficult

REF: p. 3

BLM: Application

41. Which of the following lies primarily within the realm of macroeconomics?
- a. a study of the elasticity of demand for gasoline
 - b. a study of how tax cuts stimulate aggregate production
 - c. a study of the impact of "mad cow" disease on the price of beef worldwide
 - d. an analysis of supply and demand conditions in the electricity market

ANS: B

PTS: 1

DIF: Difficult

REF: p. 3

BLM: Application

42. Which of the following is most likely a topic of discussion in a microeconomics course?
- a. an increase in the rate of inflation
 - b. an increase in the number of jobless individuals filing employment insurance claims
 - c. an increase in the price of lumber used to construct houses
 - d. a decrease in the share of national income paid to the government in taxes

ANS: C

PTS: 1

DIF: Difficult

REF: p. 3

BLM: Application

43. What is the basic difference between macroeconomics and microeconomics?
- a. Microeconomics is concerned with the trees (individual markets), while macroeconomics is concerned with the forest (aggregate markets).
 - b. Macroeconomics is concerned with positive economics, while microeconomics is concerned with normative economics.
 - c. Macroeconomics is concerned with policy decisions, while microeconomics applies only to theory.
 - d. Microeconomics looks at the forest (aggregate markets), while macroeconomics is concerned with the trees (individual markets).

ANS: A

PTS: 1

DIF: Moderate

REF: p. 3

BLM: Comprehension

44. What is the term for the branch of economics that focuses on outcomes in highly aggregated markets, such as the markets for labour or consumer products?
- a. normative economics
 - b. macroeconomics
 - c. Marxian economics
 - d. positive economics

ANS: B

PTS: 1

DIF: Moderate

REF: p. 3

BLM: Knowledge

45. What is the term for the branch of economics that focuses on the conduct of affairs within narrowly defined units, such as households or business firms?
- a. macroeconomics
 - b. applied economics
 - c. socioeconomics
 - d. microeconomics

ANS: D

PTS: 1

DIF: Easy

REF: p. 3

BLM: Knowledge

46. What topic does microeconomics NOT usually include?
- a. how firms choose output to maximize profits
 - b. how consumers maximize utility subject to a budget constraint
 - c. how wages are determined in the labour market
 - d. how national income is calculated

ANS: D

PTS: 1

DIF: Moderate

REF: p. 3

BLM: Application

47. What is the term for the branch of economics that studies the economy as a whole?
- a. positive economics
 - b. microeconomics
 - c. normative economics
 - d. macroeconomics

ANS: D

PTS: 1

DIF: Easy

REF: p. 3

BLM: Knowledge

48. Which of the following best describes macroeconomics?
- a. It is narrower in scope than microeconomics.
 - b. It is concerned with the expansion of a small sole proprietorship into a large corporation.
 - c. It is concerned with the expansion and contraction of the overall economy.
 - d. It analyzes mergers and acquisitions between firms.

ANS: C

PTS: 1

DIF: Difficult

REF: p. 3

BLM: Application

49. Which topic does microeconomics NOT usually include?
- a. the determinants of the demand for DVD players by consumers
 - b. the impact of large government budget deficits on private investment spending
 - c. the regulation of monopoly firms
 - d. the determinants of the supply of wheat by farmers

ANS: B

PTS: 1

DIF: Difficult

REF: p. 3

BLM: Application

50. Which topic does macroeconomics NOT generally include?
- a. government spending and taxation
 - b. aggregate demand
 - c. the production decisions of individual firms
 - d. inflation

ANS: C

PTS: 1

DIF: Moderate

REF: p. 3

BLM: Comprehension

51. Which area of study is most concerned with measuring the rate of inflation?
- a. macroeconomics
 - b. microeconomics
 - c. normative economics
 - d. positive economics

ANS: A

PTS: 1

DIF: Moderate

REF: p. 3

BLM: Comprehension

52. What area of economic study is most concerned with the determination of prices in the market for automobiles?
- a. microeconomics
 - b. normative economics
 - c. macroeconomics
 - d. positive economics

ANS: A

PTS: 1

DIF: Moderate

REF: p. 3

BLM: Comprehension

53. Which of the following statements about microeconomics is the most accurate?
- a. It is a "positive" science, whereas macroeconomics is a "normative" science.
 - b. It provides an overall view of the economy and how it functions.
 - c. It explores the behaviour of individual consumers and firms when confronted with scarcity.
 - d. It examines the aggregate behaviour of consumers and firms when confronted with scarcity.

ANS: C

PTS: 1

DIF: Difficult

REF: p. 3

BLM: Comprehension

54. What does microeconomics primarily examine?
- a. the behaviour of firms and how they interact with each other in the marketplace
 - b. the overall economy, especially fiscal and monetary policy
 - c. the behaviour of households but not firms
 - d. the behaviour of both firms and households and how they interact in the marketplace

ANS: D

PTS: 1

DIF: Easy

REF: p. 3

BLM: Knowledge

55. What does macroeconomics primarily examine?
- a. broad issues such as national output, employment, and inflation
 - b. how prices are determined within individual markets
 - c. the behaviour of individual households and firms
 - d. the output levels that maximize the profits of business firms

ANS: A

PTS: 1

DIF: Easy

REF: p. 3

BLM: Knowledge

56. How do microeconomics and macroeconomics differ?
- a. Microeconomics is concerned with consumer behaviour, while macroeconomics is concerned with firm behaviour.
 - b. Microeconomics utilizes positive economic analysis, while macroeconomics utilizes normative economic analysis.
 - c. Microeconomics studies aggregate decision making, while macroeconomics examines individual decision making.
 - d. Microeconomics studies individual decision making, while macroeconomics examines aggregate decision making.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 3

BLM: Knowledge

57. How is an economic hypothesis tested?
- a. by comparing the hypothesis's prediction to real-world data
 - b. by using a controlled experiment
 - c. by assessing the realism of its assumptions
 - d. by assessing the level of descriptive detail

ANS: A

PTS: 1

DIF: Difficult

REF: p. 4

BLM: Application

58. Which of the following statements most accurately describes the concept of economic theory?
- a. It should be as detailed as possible in order to model the complexity of an economy.
 - b. It is an abstraction from reality.
 - c. It is only useful if it rests on realistic assumptions.
 - d. It is unrealistic and therefore of questionable usefulness in explaining what occurs in a complex economy.

ANS: B

PTS: 1

DIF: Difficult

REF: p. 4

BLM: Comprehension

59. What is the basis of a good economic theory?
- a. It explains economic behaviour and predicts well.
 - b. It rests on assumptions.
 - c. It always provides a highly detailed analysis of an economic sector.
 - d. It can best be expressed mathematically.

ANS: A

PTS: 1

DIF: Moderate

REF: p. 4

BLM: Knowledge

60. What is the basis of a good economic theory?
- a. It relies on simplifying assumptions in order to explain economic behaviour.
 - b. It does not rely on simplifying assumptions.
 - c. It includes every detail that affects the economic behaviour of interest.
 - d. It relies on conducting uncontrolled experiments.

ANS: A

PTS: 1

DIF: Difficult

REF: p. 4

BLM: Comprehension

61. Which of the following statements about testing an economic hypothesis is the most accurate?
- a. It can be tested using empirical analysis.
 - b. It can be tested using normative analysis.
 - c. It cannot be tested since it is normative in nature.
 - d. It cannot be tested since it is a positive economic statement.

ANS: A

PTS: 1

DIF: Moderate

REF: p. 4

BLM: Knowledge

62. What is a hypothesis?
- a. It is a normative economic statement.
 - b. It is a testable proposition.
 - c. It is a statement that cannot be evaluated using real-world data.
 - d. It is a model with no connection to the real world.

ANS: B

PTS: 1

DIF: Easy

REF: p. 4

BLM: Knowledge

63. What is the definition of a theory?
- It is an untestable assertion or statement of untestable fact.
 - It is a normative statement that can be tested empirically through analysis of real-world data.
 - It is a testable statement that can be definitively proven to be true or false using empirical analysis.
 - It is a deliberate simplification of factual relationships that attempts to explain and predict how those relationships work.

ANS: D

PTS: 1

DIF: Difficult

REF: p. 4

BLM: Knowledge

64. How does an economist define a good economic theory?
- an abstraction from reality useful for explaining but not predicting behaviour (since theories are too simplistic)
 - an opinion that can be tested against economic data
 - an abstraction for the sake of argument
 - a statement or relationship that is used to explain and predict human behaviour

ANS: D

PTS: 1

DIF: Difficult

REF: p. 4

BLM: Knowledge

65. How is an economic theory tested?
- by assessing the realism of its assumptions
 - by comparing and contrasting its simplicity with related theories
 - by comparing its predictions with real-world observations
 - by polling economists to see if there is consensus as to the validity of the hypothesis

ANS: C

PTS: 1

DIF: Moderate

REF: p. 4

BLM: Knowledge

66. Why do economists need to develop abstractions?
- to avoid analyzing real-world economic interactions, which are too complicated to understand
 - to understand and explain economic behaviour
 - to avoid committing the fallacy of composition
 - to distinguish normative economic behaviour from positive economic behaviour

ANS: B

PTS: 1

DIF: Difficult

REF: p. 4

BLM: Comprehension

67. What is the difference between a theory and a hypothesis?
- a. A hypothesis is a testable proposition and is tentatively accepted as a theory.
 - b. A hypothesis abstracts from reality while a theory describes reality.
 - c. A theory is not an established explanation but a hypothesis is.
 - d. A theory abstracts from reality while a hypothesis describes reality.

ANS: A

PTS: 1

DIF: Moderate

REF: p. 4

BLM: Knowledge

68. Which of the following describes the chain of events involved in creating a theory?
- a. Gather data, evaluate results, tentatively accept the theory, and support or refute the hypothesis.
 - b. Select a theory, create a hypothesis, and evaluate the evidence.
 - c. Formulate a hypothesis, gather data, evaluate the results, support or refute the hypothesis, and tentatively accept theory.
 - d. Predict behaviour, evaluate the results, and formulate a hypothesis.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 4-5

BLM: Knowledge

69. An economist at the University of Alberta in Edmonton has been asked to explain why the price of Albertan crude oil has fallen recently. Which steps should the professor take in order to assemble a scholarly answer?
- a. Develop a hypothesis, test the proposition by engaging in empirical analysis, and examine the data to see if it fits with the facts.
 - b. Gather data on crude oil prices and seemingly unrelated variables in order to look for associations, then formulate a hypothesis based on those unexpected associations.
 - c. The oil industry is controlled by a cartel and the economist should gather data from other similarly structured industries to determine a theory.
 - d. Use a questionnaire to determine why residents of Alberta are not purchasing oil and create a theory based on this data.

ANS: A

PTS: 1

DIF: Moderate

REF: p. 4-5

BLM: Application

70. Why is economics different from a "hard" science like physics?
- a. Economists cannot easily control all the variables that might influence human behaviour.
 - b. Economists have to control fewer variables than what is found in a physics experiment.
 - c. Economic experiments are easier to conduct than those in physics.
 - d. Economists abstract from reality in creating their theories.

ANS: A

PTS: 1

DIF: Difficult

REF: p. 5

BLM: Comprehension

71. Which of the following statements describing the relationship between theory and hypothesis is most accurate?
- a. A hypothesis is a theory whose formulation relies on mathematics.
 - b. A theory may result from a tested and confirmed hypothesis.
 - c. "Theory" and "hypothesis" are interchangeable terms meaning the same thing.
 - d. A hypothesis may result from a tested and confirmed theory.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 5

BLM: Comprehension

72. Which of the following is NOT a reason that economists use theories?
- a. to explain and help predict human behaviour
 - b. to understand economic behaviour
 - c. to develop a testable hypothesis
 - d. to abstract from the complexities of the world

ANS: C

PTS: 1

DIF: Difficult

REF: p. 5

BLM: Comprehension

73. On what basis is the best test of an economic theory?
- a. on the accuracy of its assumptions
 - b. on the rigour of its mathematical formulation
 - c. on the ability of it to explain and predict
 - d. on the level of real-world detail it captures

ANS: C

PTS: 1

DIF: Difficult

REF: p. 5

BLM: Comprehension

74. An economist might hypothesize that people will buy less gasoline at a price of \$1.20 per litre than at \$1.00 per litre. In order for the hypothesis to become a theory, it would have to be tested. Which of the following observations would seem to support this hypothesis?
- Individuals buy less gas because they are purchasing more fuel-efficient vehicles.
 - Gasoline consumption varies with the quantity of cars purchased in each region.
 - Individuals in each region respond to an increase in price by purchasing less gasoline.
 - People in each region buy the same amount of gasoline regardless of the price.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 5

BLM: Analysis

75. What does the term "*ceteris paribus*" mean when used by an economist?
- Their conclusions are based on normative rather than positive economic analysis.
 - The causal relationship between two economic variables cannot be determined.
 - The analysis is true for the individual but not for the economy as a whole.
 - All other variables except the ones specified are assumed to be constant.

ANS: D

PTS: 1

DIF: Easy

REF: p. 5

BLM: Knowledge

76. What does the term "*ceteris paribus*" mean?
- Everything is variable.
 - What is true for the individual is not necessarily true for the whole.
 - All variables except those specified are constant.
 - No one knows which variables will change and which will remain constant.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 5

BLM: Comprehension

77. What do economists use the term "*ceteris paribus*" to indicate?
- Supply and demand are in balance.
 - Their conclusions are based on normative rather than positive economic analysis.
 - Other things are assumed to remain constant.
 - The analysis is true for the individual but not for the economy as a whole.

ANS: C

PTS: 1

DIF: Easy

REF: p. 5

BLM: Knowledge

78. What does "*ceteris paribus*" mean?
- a. If events A and B occur together, one must cause the other.
 - b. Other things are held constant.
 - c. What is true for the individual must be true for the whole.
 - d. All relevant details are included.

ANS: B

PTS: 1

DIF: Easy

REF: p. 5

BLM: Knowledge

79. Why is the *ceteris paribus* assumption important?
- a. It allows one to separate normative economic issues from positive economic ones.
 - b. It allows one to analyze the relationship between two variables apart from the influence of other variables.
 - c. It allows one to hold all variables constant so the economy can be carefully observed in a suspended state.
 - d. It allows one to generalize from the whole to the individual.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 5

BLM: Comprehension

80. A theory asserts that manufacturers are less willing to sell units of output as the price of goods decreases. However, as the price of computers fell throughout the 1990s, more computers were sold. Which of the following explanations of the apparent conflict between theory and data is most accurate?
- a. It is likely that variables other than the price and quantity of computers sold were changing.
 - b. The theory must be invalid.
 - c. The theory rests on assumptions that are too simplistic.
 - d. All variables other than the price and quantity of computers sold were unchanged.

ANS: A

PTS: 1

DIF: Difficult

REF: p. 5

BLM: Analysis

81. A theory asserts that consumers will purchase less of a good at higher prices than they will at lower prices. However, when the average price of cars increased throughout the 1990s, more cars were purchased. Which of the following explanations of the apparent conflict between theory and data is most accurate?
- a. The price and quantity data gathered by researchers was clearly measured incorrectly.
 - b. It is likely that variables other than the price and quantity of cars demanded were changing.
 - c. The *ceteris paribus* assumption is valid.
 - d. The theory must be invalid.

ANS: B

PTS: 1

DIF: Difficult

REF: p. 5

BLM: Analysis

82. A scientist is trying to test a theory about the relationship between people's consumption of alcohol and their longevity. Which of the following variables would the scientist NOT hold constant?
- a. the past histories of heart and lung disease
 - b. the amount of dietary fat that people in the experimental group consumed
 - c. the amount of alcohol that people in the experimental group consumed
 - d. the amount of cigarettes that people in the experimental group smoked

ANS: C

PTS: 1

DIF: Moderate

REF: p. 5

BLM: Application

83. Which of the following statements describing correlation is the most accurate?
- a. Two sets of phenomena may be related, but one does not necessarily cause the other.
 - b. When two phenomena are not observed together, one still causes the other.
 - c. When two phenomena are repeatedly observed together, one must cause the other.
 - d. Two sets of phenomena are not related and one may in fact cause the other.

ANS: A

PTS: 1

DIF: Moderate

REF: p. 6

BLM: Knowledge

84. If individuals who sit in the back of the classroom receive lower grades on average than the rest of the class, does that mean that sitting in the back of a classroom causes one to perform poorly on exams?
- The reoccurrence of such a relationship is sufficient evidence that sitting in the back of a classroom will lead to lower grades.
 - It is not possible for an economist to determine causation between variables.
 - The reoccurrence of a certain relationship between two variables does not necessarily imply causation.
 - The reoccurrence of such a relationship is sufficient evidence that students who receive low grades prefer to keep a low profile and always sit in the back of the classroom.

ANS: C

PTS: 1

DIF: Difficult

REF: p. 6

BLM: Application

85. Ten-year-old Tommy observes that people who play hockey are larger than average and tells his mom that he's going to play hockey because it will make him big and strong. What is the problem with Tommy's logic?
- He is committing the fallacy of composition.
 - He is committing the fallacy of decomposition.
 - He is violating the *ceteris paribus* assumption.
 - He is mistaking correlation for causation.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 6

BLM: Analysis

86. Many people have heard that the US stock market rises when a team from the National Football Conference (NFC) wins the Super Bowl, and falls when a team from the American Football Conference (AFC) is victorious. If you conclude that there is a causal relationship between the outcome of the Super Bowl and stock prices, you probably are making what mistake?
- You are committing the fallacy of composition.
 - You are violating the *ceteris paribus* assumption.
 - You are confusing correlation with causation.
 - You are confusing the direction of causality; stock prices determine which team wins the Super Bowl.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 6

BLM: Analysis

87. A student football team manager examined variables influencing the team's record and concluded that the best scores resulted when the "third-string" team played the most minutes. Therefore he recommended that the third-string team become the first team. Why is this conclusion probably erroneous?
- a. He failed to recognize that correlation is not causation.
 - b. He did not review the entire game strategy carefully enough.
 - c. He committed the fallacy of composition.
 - d. He confused positive and normative analysis.

ANS: A

PTS: 1

DIF: Moderate

REF: p. 6

BLM: Analysis

88. If rain dancing is correlated with rain, does that necessarily mean rain dancing causes rain?
- a. No. This is an example of the fallacy of composition.
 - b. No. Two variables may be correlated without one necessarily causing the other.
 - c. Yes. This is an example of a failure to properly employ the *ceteris paribus* assumption.
 - d. Yes. If it rains after individuals have engaged in rain dancing, then there is certainly causation at work.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 6

BLM: Analysis

89. If Canadian consumers bought more gasoline in 2007 (when prices averaged \$1.30 per litre) than they did in 1980 (when prices averaged \$0.40 per litre), does that mean that people buy more gasoline at higher prices?
- a. Yes, because gasoline is a luxury good that consumers willingly purchase—even at higher prices.
 - b. Yes, because gas is a necessity that is in short supply. Consumers are always willing to buy more gasoline—even at higher prices.
 - c. No, because there is too little information provided about inflation, consumer income and other variables to make an appropriate comparison.
 - d. No, because prices cannot be compared over time.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 6

BLM: Analysis

90. What would an economist predict would happen if airfares to Europe were to increase?
- a. Airlines would make significantly greater profits.
 - b. Most people would not change their travel and vacation plans.
 - c. More individuals would choose to fly to Europe because now it is a more valuable experience.
 - d. Many individuals would substitute toward other travel destinations.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 6

BLM: Application

91. "When one hockey team spends a large sum of money acquiring better players, it is better off. If all teams do the same thing, all of them are better off." What is this statement an illustration of?
- a. the fallacy of composition
 - b. the *ceteris paribus* condition
 - c. a misunderstanding of the direction of causality
 - d. confusing correlation with causation

ANS: A

PTS: 1

DIF: Moderate

REF: p. 7

BLM: Application

92. Which of the following best illustrates the fallacy of composition?
- a. If Mr. Ahmad had more money, he would buy a new car; if he had a new car, he would have less money.
 - b. If Mr. Mua had more money, he could buy more goods; if the Mua family had more money, it could buy additional goods.
 - c. If Ms. Smith had more money, she would buy her children more gifts; if her children had more gifts, they would be happier.
 - d. If Ms. Shiflet had more money, she could buy more scarce goods; if the nation had more money, everyone could buy more scarce goods.

ANS: D

PTS: 1

DIF: Difficult

REF: p. 7

BLM: Application

93. What is the fallacy of composition?
- a. the idea that correlation need not imply causation
 - b. the erroneous view that an economic activity can sometimes exceed the sum of its components
 - c. the view that the aggregation of economic activity will necessarily lead to an outcome that is different from the outcome generated by each individual in the group
 - d. the erroneous view that what is true for the individual will also be true for the group

ANS: D

PTS: 1

DIF: Easy

REF: p. 7

BLM: Knowledge

94. Which of the following best illustrates the fallacy of composition?
- a. If the price of bread rose, consumers would buy less; if consumers bought less, the price of bread would rise.
 - b. If Mr. Lewis produces more, he can consume more; if Mr. Lewis consumes more, he can produce more.
 - c. If prices of houses went down, more people could afford houses; and if more people bought houses, the prices of houses would increase.
 - d. If Mr. Lewis had more money, he would be wealthier; if a nation's money supply were larger, the people of the nation would be wealthier.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 7

BLM: Application

95. Which of the following is the erroneous view that is associated with the fallacy of composition?
- a. An increase in the supply of money will cause a general increase in the level of prices.
 - b. When two events are correlated, the one observed first must have caused the second.
 - c. If something is true for an individual, then it must also be true for a group.
 - d. A small change in an economic variable will have an unrecognizable but significant effect on the economy.

ANS: C

PTS: 1

DIF: Easy

REF: p. 7

BLM: Knowledge

96. Which of the following best illustrates the fallacy of composition?
- a. If I talk loudly at a party, I have a better chance of being heard by my listeners. If everyone at the party talks loudly, everyone can be heard more clearly.
 - b. Resources are scarce; therefore, there is no such thing as a free lunch.
 - c. If the price of a product rises, the quantity supplied will decline.
 - d. The average wage rate tends to increase at approximately the same rate as inflation; hence, wage increases must cause inflation.

ANS: A

PTS: 1

DIF: Moderate

REF: p. 7

BLM: Application

97. Which of the following best illustrates the fallacy of composition?
- a. A great many people have been immunized against polio because it can be such a devastating disease. As a result, I probably do not personally need to be immunized against polio.
 - b. I hate driving to work when the traffic is so heavy, so I decide to leave 30 minutes earlier than in the past. If everyone were to leave 30 minutes earlier for work, we'd all get to work faster.
 - c. Whenever I attend a hockey game at the local arena, the home team wins. Therefore, if I attend all of the team's local games, they will achieve a perfect winning record at home.
 - d. The parking at York University is in short supply on the main campus. It would be better for more people to ride the bus to school.

ANS: B

PTS: 1

DIF: Difficult

REF: p. 7

BLM: Application

98. Which of the following statements best illustrates the fallacy of composition?
- a. the error of omitting relevant variables from an economic model
 - b. the error of confusing normative economics with positive economics
 - c. the error of generalizing from the individual to the whole
 - d. the error of confusing correlation with causation

ANS: C

PTS: 1

DIF: Moderate

REF: p. 7

BLM: Comprehension

99. "To do well and be at the top 10 percent of the class, one should study more. If everyone studies more then they all can do well and finish at the top of the class." What is the problem with the logic in this statement?
- There is causation but no correlation.
 - There is correlation but no causation.
 - It is a normative statement and should be a positive statement.
 - There is a fallacy of composition.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 7

BLM: Analysis

100. In a parliamentary debate about agricultural price supports, Members of Parliament and other experts made the following four statements. Which one of these is a normative statement?
- "Without price supports, the price of wheat and corn will fall by over 20 percent."
 - "Price supports are important because Canada should preserve the small family farm."
 - "The decline in commodity prices caused by the removal of price supports will result in fewer, larger farms."
 - "The decline in commodity prices caused by the removal of price supports will reduce the number of tractors sold in Canada."

ANS: B

PTS: 1

DIF: Moderate

REF: p. 7

BLM: Application

101. Your mother tells you, "Watching ten hours of TV per day will make you stupid." Why is this a positive statement?
- Your mother is concerned with your well being.
 - You should be studying instead of watching TV.
 - It is a proposition that can be tested.
 - It is your mother's opinion.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 7

BLM: Comprehension

102. Why is it important to be able to distinguish positive from normative statements about economic policy?
- a. Positive statements are always true and are the basis of economic policy while normative statements are false and should never be used.
 - b. Positive statements help us understand the good results of a policy change, and normative statements help us understand the negative results.
 - c. Positive statements help us understand the value judgements towards a particular policy, while normative statements reflect the economy's response.
 - d. Positive statements help us understand the economy's response to a particular policy, while normative statements reflect value judgments.

ANS: D

PTS: 1

DIF: Difficult

REF: p. 7

BLM: Comprehension

103. Which description of positive statements is the most accurate?
- a. They are optimistic, putting the best possible interpretation on things.
 - b. They are descriptive, making claims about how the world is.
 - c. They are prescriptive, making claims about how the world ought to be.
 - d. They are affirmative, justifying existing economic policy.

ANS: B

PTS: 1

DIF: Difficult

REF: p. 7

BLM: Comprehension

104. Which of the following descriptions of normative statements is the most accurate?
- a. They are prescriptive, making claims about how the world ought to be.
 - b. They are descriptive, making claims about how the world is.
 - c. They are affirmative, justifying existing economic policy.
 - d. They are optimistic, putting the best possible interpretation on things.

ANS: A

PTS: 1

DIF: Difficult

REF: p. 7

BLM: Comprehension

105. How should we judge the validity of a positive statement?
- a. by determining whether it corresponds to our own ideas on ethics, religion, and political philosophy
 - b. by ensuring there is no fallacy of composition
 - c. by examining the professional credentials of the person who made the statement
 - d. by analyzing the relevant data

ANS: D

PTS: 1

DIF: Moderate

REF: p. 7

BLM: Application

106. Which of the following represents a normative statement?
- a. The temperature outside is 32 degrees Celsius.
 - b. The study of economics is more important than the study of history.
 - c. A decrease in price leads to an increase in quantity demanded.
 - d. People will buy less butter at \$6.00 per kilogram than they will at \$5.00 per kilogram.

ANS: B

PTS: 1

DIF: Easy

REF: p. 7

BLM: Comprehension

107. Which of the following is a statement of positive economics?
- a. An increase in tax rates will reduce unemployment.
 - b. We should increase pension payments to the elderly.
 - c. Teenage unemployment should be reduced.
 - d. New tax laws are needed to help the poor.

ANS: A

PTS: 1

DIF: Easy

REF: p. 7

BLM: Comprehension

108. "The government should levy higher taxes on the rich and use the additional revenues to provide better housing for the poor." What is this statement an illustration of?
- a. the fallacy of composition
 - b. a normative economic statement
 - c. the basic principle of economics
 - d. a positive economic statement

ANS: B

PTS: 1

DIF: Moderate

REF: p. 7

BLM: Analysis

109. "The minimum wage should be increased so that low-income workers can afford to feed their families." What is this statement an example of?
- a. a positive economic statement
 - b. a negative economic statement
 - c. a normative economic statement
 - d. the fallacy of composition

ANS: C

PTS: 1

DIF: Moderate

REF: p. 7

BLM: Analysis

110. "A reduction in the rate at which stock dividends are taxed will lead to greater investment in the stock market." What is this statement an example of?
- a. a normative economic statement
 - b. the fallacy of composition
 - c. a positive economic statement
 - d. a negative economic statement

ANS: C

PTS: 1

DIF: Moderate

REF: p. 7

BLM: Analysis

111. What is the difference between a positive economic statement and a normative one?
- a. Positive economic statements are descriptive in nature, while normative economic statements are quantitative.
 - b. Positive economic statements are used to explain economic behaviour, while normative economic statements are used to predict economic behaviour.
 - c. Positive economic statements are descriptive in nature, while normative economic statements involve value judgments.
 - d. Positive economic statements involve value judgments, while normative economic statements are descriptive in nature.

ANS: C

PTS: 1

DIF: Difficult

REF: p. 7

BLM: Comprehension

112. An economic study concludes that an investment tax credit would increase business investment next year. What is this conclusion an example of?
- a. positive analysis
 - b. the fallacy of composition
 - c. normative analysis
 - d. negative economic analysis

ANS: A

PTS: 1

DIF: Moderate

REF: p. 7

BLM: Analysis

113. Which of the following is a normative statement?
- a. Running government budget deficits leads to higher market interest rates.
 - b. An increase in taxes will cause higher unemployment.
 - c. An increase in tariffs will increase the domestic prices paid by consumers.
 - d. Income should be redistributed from the top 2 percent of wage earners to the lower income brackets.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 7

BLM: Application

114. When U.S. President Harry Truman said that he wanted to find a one-armed economist because his economic advisors always said, "On the one hand . . . and on the other hand . . ." he recognized that the advice of economists is often ambiguous. Why is their advice often ambiguous?
- a. Economists are often unable to identify the critical questions involved in policy issues.
 - b. Economists are aware that trade-offs are involved in most policy questions.
 - c. Economists have difficulty seeing the fallacy of composition.
 - d. Economists disagree a lot over positive statements.

ANS: B
PTS: 1
DIF: Difficult
REF: p. 8
BLM: Analysis

115. What is the result of economic choices or trade-offs?
- a. poverty
 - b. basic human greed
 - c. scarcity
 - d. private ownership of resources

ANS: C
PTS: 1
DIF: Easy
REF: p. 9
BLM: Knowledge

116. Which of the following statements best describes scarcity?
- a. Scarcity and poverty are basically the same thing.
 - b. Goods are scarce because of greed.
 - c. Even in the wealthiest of countries, the desire for material goods is greater than productive capabilities.
 - d. The absence of scarcity means that a minimal level of income is provided to all individuals.

ANS: C
PTS: 1
DIF: Moderate
REF: p. 9
BLM: Comprehension

117. What does scarcity imply?
- a. At current market price, consumers are willing to purchase more of a good than suppliers are willing to produce.
 - b. It is impossible to completely fulfill the unlimited human desire for goods and services with the limited resources available.
 - c. Consumers are too poor to afford the goods and services available.
 - d. Consumers would be willing to purchase the same quantity of a good at a higher price.

ANS: B
PTS: 1
DIF: Easy
REF: p. 9
BLM: Knowledge

118. Which of the following best describes scarcity?
- a. Human desires are limited.
 - b. All but the very wealthy must face choices.
 - c. Resources are insufficient to satisfy all human desires.
 - d. Choices are unnecessary.

ANS: C

PTS: 1

DIF: Easy

REF: p. 9

BLM: Knowledge

119. What happens to us because of scarcity?
- a. We can obtain more of a desirable good without sacrificing other goods and services.
 - b. We face shortages of goods that prevail at current market prices.
 - c. We must sacrifice valuable alternatives to obtain more goods and services we desire.
 - d. We have an opportunity cost of consumption which is zero.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 9

BLM: Comprehension

120. Which of the following statements about scarcity is the most accurate?
- a. It is a problem in both communist and socialist countries, but not in market economies.
 - b. It will never be eradicated because humans develop new wants as productive capabilities improve.
 - c. It is a problem only in communist countries.
 - d. It does not exist in wealthy countries.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 9

BLM: Comprehension

121. Which statement about an economy's resources is the most accurate?
- a. They consist of land, labour, capital, and entrepreneurial skills.
 - b. They consist of land, labour, and entrepreneurial skills, but not capital.
 - c. They are always efficiently utilized in wealthy nations.
 - d. They are unlimited in a country like Canada.

ANS: A

PTS: 1

DIF: Easy

REF: p. 10

BLM: Knowledge

122. Which of the following is NOT a factor of production?
- a. entrepreneurship
 - b. capital
 - c. legal institutions
 - d. labour

ANS: C

PTS: 1

DIF: Easy

REF: p. 10

BLM: Knowledge

123. Which of the following is NOT a factor of production?
- a. cash
 - b. labour
 - c. land
 - d. entrepreneurship

ANS: A

PTS: 1

DIF: Easy

REF: p. 10

BLM: Knowledge

124. Which of the following is NOT a factor of production?
- a. entrepreneurship
 - b. private property rights
 - c. land
 - d. capital

ANS: B

PTS: 1

DIF: Easy

REF: p. 10

BLM: Knowledge

125. Raylene works at an accounting firm. What type of resource is she considered to be?
- a. an entrepreneur
 - b. management
 - c. capital
 - d. labour

ANS: D

PTS: 1

DIF: Easy

REF: p. 10

BLM: Application

126. In what way can additions to human capital be made?
- a. through increases in the general population of an area
 - b. through improved education and on-the-job training
 - c. through monthly deposits into a savings account
 - d. through the purchase of tools and equipment by workers

ANS: B

PTS: 1

DIF: Moderate

REF: p. 10

BLM: Comprehension

127. What is another term for economic resources?
- a. elements
 - b. factors of production
 - c. financial capital
 - d. building blocks

ANS: B

PTS: 1

DIF: Moderate

REF: p. 10

BLM: Comprehension

128. Which of the following will NOT directly add to improvements in human capital?
- a. free business classes for low-level managers
 - b. increases in take-home pay
 - c. improved job training programs offered to employees
 - d. an increase in the computer-proficiency requirements of all high school graduates

ANS: B

PTS: 1

DIF: Moderate

REF: p. 10

BLM: Application

129. Which of the following is *NOT* an example of a factor of production?
- a. the land ploughed by a farmer in order to grow corn
 - b. the chief executive officer of a large corporation
 - c. an office building
 - d. a product's price

ANS: D

PTS: 1

DIF: Moderate

REF: p. 10

BLM: Application

130. In order for a student to acquire an education, many resources are required. Which of the following might be categorized as capital resources?
- a. the work effort of registrars, clerical assistants, and teaching assistants
 - b. chalkboards, overhead projectors, and the expertise of professors
 - c. water, trees, and the acreage a campus rests on
 - d. exams, natural gas (which heats the buildings), and electricity

ANS: B

PTS: 1

DIF: Easy

REF: p. 10

BLM: Comprehension

131. Why is money NOT considered to be an economic resource?
- a. Money is produced by the Bank of Canada.
 - b. Money loses its value too easily due to inflation.
 - c. Money is an intangible good.
 - d. Money is not directly used to produce goods and services.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 10

BLM: Comprehension

132. Which of the following is an example of physical capital?
- a. a cheeseburger
 - b. a chainsaw
 - c. a \$100 bill
 - d. a stock certificate

ANS: B

PTS: 1

DIF: Easy

REF: p. 10

BLM: Application

133. Which of the following statements about human capital is the most accurate?
- a. It is the same as labour.
 - b. It is a term describing the tools and equipment owned by households.
 - c. It is a worker's physical effort when working with machines.
 - d. It is the expertise or knowledge possessed by workers.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 10

BLM: Comprehension

134. Which of the following is an example of human capital?
- a. 100 hectares of farmland in Central Ontario
 - b. a pitch fork
 - c. a commercial sewing machine
 - d. the expertise of a computer programmer

ANS: D

PTS: 1

DIF: Easy

REF: p. 10

BLM: Application

135. Which of the following is an example of a capital resource?
- a. a dump truck
 - b. a bond issued by a company selling electric generators
 - c. the funds in a savings account at a bank
 - d. stock in a computer software company

ANS: A

PTS: 1

DIF: Moderate

REF: p. 10

BLM: Application

136. Which of the following is an example of a capital resource?
- a. yellow-fin tuna
 - b. an unskilled worker
 - c. a large coal deposit
 - d. a fishing boat

ANS: D

PTS: 1

DIF: Easy

REF: p. 10

BLM: Application

137. Which of the following is *NOT* an example of a capital resource?
- a. a commercial sewing machine
 - b. a pitch fork
 - c. 100 hectares of farmland in Central Ontario
 - d. the expertise of a computer programmer

ANS: C

PTS: 1

DIF: Easy

REF: p. 10

BLM: Application

138. Which of the following is an example of a capital resource?

- a. an oil rig
- b. unskilled labour
- c. pine trees
- d. stocks and bonds

ANS: A

PTS: 1

DIF: Easy

REF: p. 10

BLM: Application

139. Which of the following is NOT a function of an entrepreneur?

- a. bear the business risks
- b. make the good
- c. organize the other factors of production
- d. innovate

ANS: B

PTS: 1

DIF: Moderate

REF: p. 10

BLM: Comprehension

140. Which of the following statements about entrepreneurship is the most accurate?

- a. It is another word for physical capital that is used to produce goods and services.
- b. It is human capital.
- c. It is another word for the financial capital that can be used to start a business.
- d. It is the resource that organizes the other factors of production in order to produce goods and/or services.

ANS: D

PTS: 1

DIF: Easy

REF: p. 10

BLM: Knowledge

141. Trent decides to spend an hour playing basketball rather than studying. What is his opportunity cost?

- a. The increase in skill he obtains from playing basketball for that hour.
- b. Nothing, because he had a free pass into the sports complex to play basketball.
- c. The benefit to his grades from studying for an hour.
- d. Nothing, because he enjoys playing basketball more than studying.

ANS: C

PTS: 1

DIF: Easy

REF: p. 12

BLM: Application

142. What is the opportunity cost of an action equal to?
- a. the highest valued opportunity that must be sacrificed in order to take the action
 - b. the value of all of the alternative actions that could have been taken
 - c. the total time spent by all parties in carrying out the action
 - d. the monetary payment the action required

ANS: A

PTS: 1

DIF: Easy

REF: p. 12

BLM: Knowledge

143. What is included in the opportunity cost of going to college?
- a. both tuition and the value of the student's time
 - b. tuition, but not the value of the student's time, which is a cash cost
 - c. tuition, but not the value of the student's time, which is a monetary cost
 - d. neither tuition nor the value of the student's time, since obtaining a college degree makes one's income higher in the future

ANS: A

PTS: 1

DIF: Moderate

REF: p. 12

BLM: Application

144. Which of the following statements best describes the idea of opportunity cost and writing a test?
- a. There is no opportunity cost of writing a test because it only applies to people that are working.
 - b. There is no opportunity cost of writing a test because they are so important.
 - c. The opportunity cost of writing a test is the wages given up from not working plus the loss of time studying for another test.
 - d. The opportunity cost of writing a test is the time given up for doing an important assignment for another class.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 12

BLM: Application

145. Which of the following statements about the opportunity cost of an item is the most accurate?
- a. It is the value of all available alternatives you sacrifice to get that item.
 - b. It is always equal to the dollar value of the item.
 - c. It is greater during periods of inflation and lower during periods of deflation.
 - d. It is the highest valued alternative you give up to get that item.

ANS: D

PTS: 1

DIF: Easy

REF: p. 12

BLM: Knowledge

146. "If I didn't have class tonight, I would save the \$4 campus parking fee and spend four hours at work where I earn \$10 per hour." What is the opportunity cost of attending class tonight?
- a. \$0
 - b. \$4
 - c. \$40
 - d. \$44

ANS: D

PTS: 1

DIF: Easy

REF: p. 12

BLM: Application

147. Which of the following statements best describes opportunity costs?
- a. The opportunity cost of attending college is the same for all students at the same university but may differ among students at different universities.
 - b. Some economic decisions have zero opportunity cost.
 - c. The opportunity cost of a decision is the value of the best forgone alternative.
 - d. The opportunity cost of a decision is equal to the explicit cost in monetary terms.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 12

BLM: Knowledge

148. Which of the following statements about opportunity costs is the most accurate?
- a. They never involve costs paid out-of-pocket.
 - b. They include only explicit costs paid out-of-pocket.
 - c. They always include costs paid out-of-pocket.
 - d. They may or may not involve costs paid out-of-pocket.

ANS: D

PTS: 1

DIF: Difficult

REF: p. 12

BLM: Comprehension

149. What does the opportunity cost of an action include?
- a. the highest valued alternative use of the time spent on the action
 - b. the total benefits received as a result of the action
 - c. the lowest valued alternative use of the time spent on the action
 - d. the net benefits received as a result of the action

ANS: A

PTS: 1

DIF: Moderate

REF: p. 12

BLM: Knowledge

150. What is the opportunity cost of an action equal to?
- a. the highest valued alternative sacrificed as a result of the action
 - b. the sum of the benefits received as a result of the action
 - c. the monetary benefit received as a result of the action
 - d. the value of any alternative use of the time expended on the action

ANS: A

PTS: 1

DIF: Moderate

REF: p. 12

BLM: Knowledge

151. Which of the following statements about the opportunity cost of an action is the most accurate?
- a. It can be objectively determined only by economists.
 - b. It can be determined by considering both the benefits that flow from as well as the monetary costs incurred as a result of the action.
 - c. It is a subjective valuation that can be determined only by the individual who chooses the action.
 - d. It can be determined by adding up the bills incurred as a result of the action.

ANS: C

PTS: 1

DIF: Difficult

REF: p. 12

BLM: Comprehension

152. Which of the following does the term "opportunity cost" refer to?
- a. the price paid for the opportunity to buy stock in an initial public offering
 - b. the finder's fee paid to a job placement agency for locating employment for workers
 - c. the dollar price paid for a good
 - d. the value of the best forgone alternative

ANS: D

PTS: 1

DIF: Easy

REF: p. 12

BLM: Knowledge

153. Which of the following statements about the opportunity cost of an action is the most accurate?
- a. It is the same for everyone who undertakes the action.
 - b. It is the difference between the benefits that result and the expenses incurred as a result of the action.
 - c. It is the value of the best forgone alternative.
 - d. It is the same as the expected benefit of the action.

ANS: C

PTS: 1

DIF: Easy

REF: p. 12

BLM: Knowledge

154. What is the term for the highest valued alternative sacrificed as a result of a choice?
- a. the explicit cost, which can be objectively measured by anyone
 - b. the explicit cost, which can be subjectively measured only by the individual who chooses
 - c. the opportunity cost, which can be subjectively measured only by the individual who chooses
 - d. the opportunity cost, which can be objectively measured by anyone

ANS: C

PTS: 1

DIF: Moderate

REF: p. 12

BLM: Comprehension

155. In order to acquire more of a good we must sacrifice production of another good (because resources are in limited supply). What concept is this an illustration of?
- a. *ceteris paribus*
 - b. specialization
 - c. opportunity cost
 - d. exchange

ANS: C

PTS: 1

DIF: Moderate

REF: p. 12

BLM: Analysis

156. What is implied by the expression, "There's no such thing as a free lunch"?
- a. Costs are incurred when resources are used to produce goods and services.
 - b. No one has time for a good lunch anymore.
 - c. The person consuming a good must always pay for it.
 - d. Everyone has to pay for his/her own lunch.

ANS: A

PTS: 1

DIF: Moderate

REF: p. 13

BLM: Comprehension

157. Which of the following is the opportunity cost of attending university NOT likely to include?
- a. the cost of required textbooks
 - b. tuition fees
 - c. the income you forgo in order to attend classes
 - d. the cost of groceries during the school term

ANS: D

PTS: 1

DIF: Moderate

REF: p. 13

BLM: Application

158. What is the opportunity cost of attending a university for a year?
- a. the size of the student loans the student becomes responsible for
 - b. the tuition fees incurred
 - c. the value of the best opportunity or opportunities forgone in order to enrol for the year
 - d. the sum of all expenditures on rent, food, books, and tuition incurred during the school year

ANS: C

PTS: 1

DIF: Moderate

REF: p. 13

BLM: Application

159. Jamie and Danny both attend the same college and incur the same expenses for tuition, books, and school supplies. Jamie gave up a lucrative modeling job in Paris to attend school full time and Danny gave up a part-time job as a sales clerk in a department store. Which of the following statements about opportunity cost is the most accurate?
- a. The opportunity cost of attending college is likely greater for Danny than for Jamie.
 - b. The opportunity cost is miniscule for both since college graduates are paid much higher than high school graduates on average.
 - c. The opportunity cost of attending college is the same for both since they are enrolled at the same academic institution.
 - d. The opportunity cost of attending college is likely greater for Jamie than for Danny.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 13

BLM: Analysis

160. Which of the following statements about the opportunity cost of an airplane flight is the most accurate?
- a. It is identical for all passengers and equal to the number of hours a particular flight takes.
 - b. It differs across passengers to the extent that both the airfare paid and the highest valued use of travel time vary.
 - c. It is equal to the cost of a bus ticket, the next best form of alternative transportation to flying.
 - d. It differs across passengers only to the extent that each traveller pays a different airfare.

ANS: B

PTS: 1

DIF: Difficult

REF: p. 13

BLM: Analysis

TABLE 1-1

Possibility	Economics	History
I	94	76
II	87	84
III	77	91

161. Refer to Table 1-1. A student has only a few hours to prepare for two different exams this afternoon. The above table shows alternative possible exam scores with three alternative uses of the student's time. What is the opportunity cost of scoring a 94 on the economics exam rather than a 77?
- 8 points on the history exam
 - 14 points on the history exam
 - 15 points on the history exam
 - 17 points on the history exam

ANS: C

PTS: 1

DIF: Difficult

REF: p. 13

BLM: Application

162. Refer to Table 1-1. A student has only a few hours to prepare for two different exams tomorrow morning. The above table shows alternative possible exam outcomes with three alternative uses of the student's time. What is the opportunity cost of scoring an 84 on the history exam rather than a 76?
- 10 points on the economics exam
 - 8 points on the history exam
 - 7 points on the economics exam
 - 12 points on the economics exam

ANS: C

PTS: 1

DIF: Difficult

REF: p. 13

BLM: Application

163. What is the opportunity cost of attending a university basketball game?
- the sum of the value of all the alternative uses of your time while at the game
 - the price of the admission to the game
 - the value of the highest alternative use of your time and money sacrificed as a result of attending the game
 - zero if your favourite team wins

ANS: C

PTS: 1

DIF: Moderate

REF: p. 13

BLM: Application

164. Lance's boss offers him twice his usual wage rate to work tonight instead of taking his girlfriend on a romantic date. Which of the following is the likely outcome of this offer?
- a. It will decrease the opportunity cost of going on the date, since Lance really needs the money.
 - b. It will increase the opportunity cost of going on the date.
 - c. It will not affect the opportunity cost of going on the date.
 - d. It will reduce the opportunity cost of going on the date because giving up the additional work dollars will make his girlfriend feel even more appreciated.

ANS: B

PTS: 1

DIF: Difficult

REF: p. 13

BLM: Application

165. A university offers a free shuttle service around campus. What is the opportunity cost of the shuttle service equal to?
- a. the wages paid to the shuttle drivers, plus the gasoline expenses
 - b. the wages paid to the shuttle drivers
 - c. the highest valued alternative use of the resources devoted to the shuttle program
 - d. zero, since it is free to students who want to ride

ANS: C

PTS: 1

DIF: Moderate

REF: p. 13

BLM: Comprehension

166. The armed forces rely exclusively on volunteers to fill their ranks. According to economic theory, what type of people are the military personnel most likely to consist of?
- a. People who are motivated primarily by patriotism.
 - b. People who would serve for no pay.
 - c. People who are motivated exclusively by money.
 - d. People who have lower valued opportunities available.

ANS: D

PTS: 1

DIF: Difficult

REF: p. 13

BLM: Analysis

167. What is the likely reason that airlines might restrict the use of frequent flyer miles during holiday periods?
- a. The opportunity cost to airlines of filling seats with frequent flyers is lower at these times.
 - b. Airlines want to protect their most loyal customers from the discomfort of overcrowded airplanes.
 - c. The opportunity cost to airlines of filling seats with frequent flyers is higher at these times.
 - d. Passengers have more transportation alternatives available to them at these times.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 13

BLM: Application

168. Which of the following best demonstrates marginal thinking?
- a. measuring all of the costs of a meal against all of the benefits when deciding whether to order a second milkshake
 - b. choosing to spend one more hour studying economics because you think the improvement in your score on the next quiz will be worth the sacrifice of time
 - c. acquiring the information relevant to a choice before making that choice
 - d. deciding to never purchase a coat made with animal skins or furs

ANS: B

PTS: 1

DIF: Easy

REF: p. 14

BLM: Comprehension

169. Which of the following best characterizes marginal thinking?
- a. comparing the total benefit and total cost of two desserts when deciding whether or not to enjoy a second dessert
 - b. the rule of rational choice
 - c. calculating the ratio of the total benefit of an activity to the total cost of that activity
 - d. people wanting to make themselves better off

ANS: B

PTS: 1

DIF: Difficult

REF: p. 14

BLM: Comprehension

170. According to the rule of rational choice, what must occur for an individual to be willing undertake an activity?
- a. The expected marginal benefits must be less than the expected marginal costs.
 - b. The total costs must exceed total benefits.
 - c. The expected marginal benefits must be greater than the expected marginal costs.
 - d. The expected marginal benefit must equal the expected marginal cost.

ANS: C

PTS: 1

DIF: Easy

REF: p. 14

BLM: Knowledge

171. What is the term for the additional benefit received as a result of undertaking an action?
- a. the marginal benefit
 - b. the marginal cost
 - c. the average benefit
 - d. the opportunity cost

ANS: A

PTS: 1

DIF: Easy

REF: p. 14

BLM: Knowledge

172. What is the term for the additional cost incurred as a result of undertaking an action?
- a. the total cost
 - b. the gross cost
 - c. the marginal cost
 - d. the marginal benefit

ANS: C

PTS: 1

DIF: Easy

REF: p. 14

BLM: Knowledge

173. What is the marginal benefit of a slice of pizza?
- a. the price of the slice of pizza
 - b. the total amount that a consumer is willing to pay for a whole pizza, divided by the number of slices
 - c. the maximum amount that a consumer is willing to pay for the slice
 - d. the difference between the value of the slice to the consumer and the price of the slice

ANS: C

PTS: 1

DIF: Moderate

REF: p. 14

BLM: Comprehension

174. What is the marginal (dollar) cost of an additional plate of food to a patron at an "All-You-Can-Eat" restaurant?
- a. It is equal for all plates of food consumed during the meal.
 - b. It is equal to the price paid for the meal (since there is no such thing as a free lunch).
 - c. It is equal to the price paid for the meal divided by the number of plates of food consumed.
 - d. It is equal to zero.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 14

BLM: Application

175. Which of the following statements about rational choices is the most accurate?
- a. They can only be made by comparing opportunity cost with the marginal cost.
 - b. They are made based on expectations of the additional benefits and additional costs involved.
 - c. They are based on a comparison of total benefits and total costs.
 - d. They measure benefits based on the past.

ANS: B

PTS: 1

DIF: Easy

REF: p. 14

BLM: Comprehension

176. You consider purchasing one more cup of coffee before you go to class. What is this an example of?
- a. average thinking
 - b. positive thinking
 - c. marginal thinking
 - d. total thinking

ANS: C
PTS: 1
DIF: Easy
REF: p. 14
BLM: Analysis

177. Which of the following statements about the rule of rational choice is the most accurate?
- a. It requires the availability of complete information before decisions can be made.
 - b. It includes marginal benefits but not marginal costs.
 - c. It involves marginal thinking.
 - d. It can only be applied in business decisions.

ANS: C
PTS: 1
DIF: Moderate
REF: p. 14
BLM: Comprehension

178. Litres of milk at a local grocery store are priced at one for \$2 or two for \$3. What is the marginal cost of buying a second litre of milk?
- a. \$0
 - b. \$1
 - c. \$2
 - d. \$3

ANS: B
PTS: 1
DIF: Easy
REF: p. 14
BLM: Application

179. Thelma, with no money in her bank account, estimates that there is a 25 percent chance that she will get caught stealing a Porsche. According to an economist, under what circumstances might it be rational for Thelma to steal the Porsche?
- a. if the expected marginal cost exceeds the retail value of the Porsche
 - b. if her expected marginal benefit exceeds the amount of money in her bank account
 - c. if the expected marginal costs outweigh the expected marginal benefits from doing so
 - d. if the expected marginal benefits outweigh the expected marginal costs from doing so

ANS: D
PTS: 1
DIF: Moderate
REF: p. 15
BLM: Knowledge

180. Which of the following processes does marginal analysis involve?
- a. comparing the additional benefit from an action to the additional cost
 - b. comparing the total benefits of all actions to the total costs incurred as a result of those actions
 - c. abstract thinking, which is never actually utilized by consumers when making purchasing decisions
 - d. holding all other variables constant when isolating the relationship between two variables

ANS: A

PTS: 1

DIF: Easy

REF: p. 15

BLM: Knowledge

181. A beer at the hockey arena costs \$5 each. According to the rule of rational choice, when will Cynthia stop drinking beer?
- a. when the marginal benefit received from consuming peanuts with beer just equals \$5
 - b. when the marginal cost of an additional beer is less than \$5
 - c. when the marginal benefit of an additional beer equals zero
 - d. when the marginal benefit of an additional beer falls below \$5

ANS: D

PTS: 1

DIF: Moderate

REF: p. 15

BLM: Application

182. According to the rule of rational choice, under what circumstances will you engage in more of an activity?
- a. when the additional cost incurred as a result of the activity exceeds the additional benefit received
 - b. when the opportunity cost of your time is very low
 - c. when the total benefit from that activity exceeds the total cost of the activity
 - d. when the additional benefit received as a result of the activity exceeds the additional cost incurred

ANS: D

PTS: 1

DIF: Easy

REF: p. 15

BLM: Knowledge

183. If a student enrolls in an additional course at the university, what would an economist conclude?
- The total benefit that the student expects to receive as a result of completing her university degree exceeds the total cost of her university education.
 - The student is not following the rule of rational choice.
 - The student is not looking at the opportunity costs.
 - The expected marginal benefit of an additional course must exceed the expected marginal cost of the course.

ANS: D

PTS: 1

DIF: Easy

REF: p. 15

BLM: Application

184. The price of a ticket to the latest concert is \$80. According to an economist, under what circumstances will you purchase a ticket?
- when you place a lower valuation on seeing the concert than \$80 but are extremely bored
 - when your marginal benefit of going to the concert is positive
 - when your expected marginal benefit from viewing the concert exceeds \$80
 - when your expected marginal cost from viewing the concert exceeds \$80

ANS: C

PTS: 1

DIF: Easy

REF: p. 15

BLM: Application

185. The expected marginal benefit to you from purchasing a new sport utility vehicle is \$30 000. If the price of the new sport utility vehicle is \$32 000, what will you do?
- If you are acting rationally, you will borrow \$2000 and purchase a new sport utility vehicle.
 - You will not purchase the new sport utility vehicle at this time if you are acting rationally.
 - If you are acting rationally, you will purchase sport utility vehicles until the marginal cost of doing so falls to \$30 000.
 - If you do not purchase the new sport utility vehicle, your net loss will be \$2000.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 15

BLM: Application

186. The marginal benefit to you of drinking bottled iced tea is \$1.50. If the price of a bottle of iced tea is \$1.25, what will you do?
- a. If you purchase iced tea you will suffer a net loss of 25 cents per bottle.
 - b. You will not purchase iced tea if you are acting rationally.
 - c. If you purchase a bottle of iced tea, the net gain to you from doing so is 25 cents.
 - d. If you are acting rationally, you will purchase iced tea until the marginal benefit falls to 25 cents.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 15

BLM: Application

187. If Jared declines to purchase a new bicycle priced at \$200, according to the rule of rational choice, what will be the expected marginal benefit of the bicycle for Jared?
- a. less than \$250
 - b. less than \$100
 - c. less than \$200
 - d. more than \$200

ANS: C

PTS: 1

DIF: Difficult

REF: p. 15

BLM: Application

188. Henry must choose between going to his psychology class this evening or going on a date. If he chooses to go on the date, which of the following statements about the expected value of the psychology lecture is most accurate?
- a. It is likely greater than the expected marginal benefit from going on the date.
 - b. It is impossible to compare to the expected enjoyment from going on a date.
 - c. It is likely equal to the expected marginal benefit from going on the date.
 - d. It is likely less than the expected marginal benefit from going on the date.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 15

BLM: Application

The marginal benefits to Roberto of weekend vacations during the year at a local resort are given by the following schedule:

TABLE 1-2

Number of Weekend Vacations	Marginal Benefit
1	\$600
2	\$550
3	\$475
4	\$325
5	\$250
6	\$180

189. Refer to Table 1-2. If the marginal cost of a weekend vacation at the local resort is constant and equal to \$350, how many weekends at the local resort is Roberto likely to enjoy?
- 2
 - 3
 - 4
 - 5

ANS: B

PTS: 1

DIF: Moderate

REF: p. 15

BLM: Application

The marginal benefit to a consumer of DVD rentals:

TABLE 1-3

DVD Rentals per Month	Marginal Benefit (in dollars)
1	\$8.50
2	\$7.50
3	\$6.50
4	\$5.50
5	\$4.50
6	\$3.50
7	\$2.50
8	\$1.50

190. Refer to Table 1-3. If the price of a DVD rental is \$4, how many DVDs will a consumer following the rule of rational choice rent per month?
- 2 DVDs
 - 3 DVDs
 - 4 DVDs
 - 5 DVDs

ANS: D

PTS: 1

DIF: Moderate

REF: p. 15

BLM: Application

The marginal benefit to a consumer from viewing theatrical-release films each month:

TABLE 1-4

Movie Tickets per Month	Marginal Benefit (in dollars)
1	\$10.50
2	\$9.50
3	\$8.50
4	\$7.50
5	\$6.50
6	\$5.50
7	\$4.50
8	\$3.50

191. Refer to Table 1-4. If the price of a movie ticket is \$8, how many movie tickets will a consumer following the rule of rational choice purchase per month?
- 2
 - 3
 - 4
 - 5

ANS: B

PTS: 1

DIF: Moderate

REF: p. 15

BLM: Application

192. The marginal cost of a vacation in the south of France is \$4500. If the marginal benefit to Druscilla of a vacation in the south of France is \$4800, what will she do?
- Druscilla will enjoy a net gain of \$4800 if she vacations in the south of France.
 - Druscilla will experience a net gain of \$300 if she vacations in the south of France.
 - Druscilla will lose \$300 if she vacations in the south of France.
 - Druscilla will be worse off if she vacations in the south of France.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 15

BLM: Application

193. The marginal cost of a vacation in Jamaica is \$3500. According to the rule of rational choice, if the marginal benefit to Colby of a vacation in Jamaica is \$3000, what will he do?
- Colby will experience a net gain of \$500 if he vacations in Jamaica.
 - Colby will choose not to vacation in Jamaica at this time.
 - Colby will borrow \$500 and vacation in Jamaica.
 - Colby will experience a net gain of \$3000 if he vacations in Jamaica.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 15

BLM: Application

194. If people follow the rule of rational choice, on what basis will they make their decisions?
- a. earning the most money
 - b. yielding the largest net gain
 - c. equating the total benefit of those options to their total cost
 - d. promoting the common good

ANS: B

PTS: 1

DIF: Moderate

REF: p. 15

BLM: Comprehension

195. You lose \$20 from your wallet and decide to miss an hour from work in order to search for it. What would an economist conclude from your behaviour?
- a. You estimate the expected cost of searching for one hour to be greater than \$20.
 - b. In your estimation, the expected value of searching for the lost \$20 for an hour is less than your hourly wage.
 - c. You must earn more than \$20 per hour.
 - d. In your estimation, the expected value of searching for the lost \$20 for an hour exceeds your hourly wage.

ANS: D

PTS: 1

DIF: Difficult

REF: p. 15

BLM: Application

196. Despite the warning on a package of cigarettes about the potential health hazards of smoking, a man lights up a cigarette. What would an economist conclude?
- a. In the man's judgment, the expected marginal benefit of smoking the cigarette outweighs the expected marginal cost.
 - b. In the man's judgment, the expected marginal cost of smoking the cigarette outweighs the expected marginal benefit.
 - c. The man is behaving irrationally.
 - d. The man has a positive marginal benefit.

ANS: A

PTS: 1

DIF: Moderate

REF: p. 16

BLM: Application

197. Pollution damages the environment we live in. When would an economist advise that we reduce air pollution?
- a. when air pollution is in excess of the levels experienced in the 1950s, when air was much cleaner near big cities
 - b. when the total benefit from air pollution reduction just equals the total cost of pollution reduction
 - c. when air pollution levels are above near-zero levels
 - d. when the marginal benefit from air pollution reduction outweighs the marginal cost of achieving the reduction

ANS: D

PTS: 1

DIF: Difficult

REF: p. 16

BLM: Analysis

198. Which of the following statements about criminal behaviour describes what economists believe?
- a. Economics can shed very little light on the subject.
 - b. Those choosing to commit criminal acts weigh the expected marginal benefits versus the expected marginal costs.
 - c. Individuals are irrational and don't respond to incentives.
 - d. People engage in criminal activity because they are genetically predisposed to do so.

ANS: B

PTS: 1

DIF: Easy

REF: p. 16

BLM: Analysis

199. Which of the following statements is most consistent with the rule of rational choice?
- a. Manufacturers of automobiles should seek to make cars safer, no matter the costs involved.
 - b. Police forces should be enlarged until virtually all crime is eliminated.
 - c. Environment Canada should strive to eliminate virtually all air and water pollution.
 - d. When evaluating new prescription drugs, Health Canada should weigh each drug's potential health benefits against the potential health risks posed by known side effects.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 16

BLM: Application

200. Several political leaders have proposed that parents be granted a substantially larger reduction in their annual personal income taxes for each child that they parent. According to economic thinking, what would be the result of this type of legislation?
- a. It would exert no impact on either the cost of raising children or the birth rate since parenting children is a noneconomic activity.
 - b. It would reduce the after-tax cost of raising children and therefore increase the birth rate.
 - c. It would make it more expensive for parents to provide for their children.
 - d. It would reduce the value of children to their parents and therefore lead to a reduction in the birth rate.

ANS: B

PTS: 1

DIF: Difficult

REF: p. 17

BLM: Analysis

201. Economists believe that people respond to incentives in predictable ways. Therefore, if the government imposed a tax on each child born, what would an economist expect to happen?
- a. Families would have the same number of children, but spaced further apart.
 - b. Families would have the same number of children, but wait longer to begin having them.
 - c. Fewer children would be born.
 - d. More children would be born, but spaced further apart.

ANS: C

PTS: 1

DIF: Easy

REF: p. 17

BLM: Application

202. Which of the following statements about positive incentives is the most accurate?
- a. They create additional taxes on behaviours.
 - b. They increase benefits and increase costs
 - c. They increase benefits or reduce costs.
 - d. They decrease benefits or increase costs.

ANS: C

PTS: 1

DIF: Easy

REF: p. 17

BLM: Knowledge

203. Which of the following statements about negative incentives is the most accurate?
- a. They increase benefits or reduce costs.
 - b. They increase benefits and increase costs
 - c. They decrease benefits or increase costs.
 - d. They include both cash subsidies and taxes.

ANS: C

PTS: 1

DIF: Easy

REF: p. 17

BLM: Knowledge

204. Which of the following is an example of a positive incentive?
- a. You expect to receive a scholarship if your grades remain high.
 - b. Desserts will be unavailable at the cafeteria if you arrive after 7:00 p.m.
 - c. Campus police institute a policy of impounding cars parked in delivery-zone spaces.
 - d. You expect to be grounded if your grades slip below a “B” average.

ANS: A

PTS: 1

DIF: Easy

REF: p. 17

BLM: Application

205. Which of the following is likely to provide teenagers with the greatest incentive NOT to smoke?
- a. a law prohibiting anyone from smoking in public buildings
 - b. a \$2.00 per-pack tax on cigarettes
 - c. a public service television advertisement featuring singer Jennifer Lopez urging kids to refrain from smoking
 - d. a refusal by actor Leonardo DiCaprio to play any part in which he will be seen smoking

ANS: B

PTS: 1

DIF: Moderate

REF: p. 17

BLM: Application

206. If incentives matter, then policies can be used to discourage undesirable behaviour. Which of the following policies would NOT likely help protect wildlife?
- a. a reduction in the number of park rangers and law enforcement personnel
 - b. jail sentences for camping or littering in protected areas
 - c. fines on hunting
 - d. the provision of additional rangers and law enforcement personnel

ANS: A

PTS: 1

DIF: Easy

REF: p. 17

BLM: Application

207. Why do people specialize?
- a. so that society becomes wealthier while not using their resources
 - b. so that people avoid having to trade
 - c. so that individuals can increase their opportunity cost for an activity
 - d. so that individuals make the best use of resources by devoting themselves to one primary productive activity

ANS: D

PTS: 1

DIF: Moderate

REF: p. 17

BLM: Comprehension

208. Under what circumstance does a country specialize in order to use resources more efficiently?
- when there is comparative advantage in production
 - when there is an absolute advantage in production
 - when there is disincentive to trade with others
 - when there is a higher opportunity cost to trade with others

ANS: A

PTS: 1

DIF: Moderate

REF: p. 18

BLM: Comprehension

209. Kelly is a lawyer and also an excellent typist. She can type 120 words per minute but she has all the legal work she can handle at \$75 per hour. Kelly's friend Todd works as a waiter earning \$25 per hour. Todd would like some typing work but can only type only 60 words per minute. What is the most efficient scenario?
- Todd should do the typing, and Kelly should pay him \$20 per hour.
 - Kelly should do all the typing because she is faster.
 - Unless Todd can match Kelly's typing speed, he should remain a waiter.
 - Todd should do the typing as long as his earnings are more than \$25 and less than \$37.50 per hour.

ANS: D

PTS: 1

DIF: Difficult

REF: p. 18

BLM: Application

210. Sergei makes millions of dollars a year playing hockey. Sergei is also the best tailor in his hometown in Russia. Based on the theory of specialization, why doesn't Sergei make his own clothes?
- Sergei has a comparative advantage in tailoring clothes.
 - The opportunity cost to him of making his own clothes is very low because it takes away from his lucrative hockey career.
 - The opportunity cost to him of making his own clothes is very high because it takes away from his lucrative hockey career.
 - Sergei does not face an opportunity cost in this situation since he is good at both activities.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 18

BLM: Application

211. When does an individual have a comparative advantage in production?
- when they are more self-sufficient than others
 - when they can produce at the highest opportunity cost
 - when they can produce at the lowest opportunity cost
 - when they are less self-sufficient than others

ANS: C

PTS: 1

DIF: Moderate

REF: p. 18

BLM: Knowledge

212. What occurs when a person possesses a comparative advantage in the production of one good or service?
- a. It promotes greater self-sufficiency.
 - b. It permits gains from trade to be realized due to a more efficient use of resources.
 - c. It discourages specialization.
 - d. The person's opportunity cost becomes higher than for that of other goods.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 18

BLM: Comprehension

213. Under what condition does a nation have a comparative advantage over another nation in the production of cars?
- a. if it can produce cars with more resources than the other country
 - b. if it can produce cars at a lower opportunity cost than the other country
 - c. if it can produce cars with fewer resources than the other country
 - d. if it can produce cars at a higher opportunity cost than the other country

ANS: B

PTS: 1

DIF: Easy

REF: p. 18

BLM: Comprehension

214. Saudi Arabia has a comparative advantage in oil production and China has a comparative advantage in electronics. Which of the following statements about specialization and trade is NOT correct?
- a. These two countries should trade because it will free up time in both countries.
 - b. These two countries should trade because it will free up resources in both countries.
 - c. These two countries should trade since prices would be higher and each can make higher revenues.
 - d. The two countries should trade and the workers in each country will become more skilled due to repetition.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 18

BLM: Comprehension

215. Which of the following statements about specialization is the most accurate?
- a. It leads to greater self-sufficiency.
 - b. It allows workers to develop skills by working on a large number of tasks.
 - c. It is always the result of an inefficient use of resources.
 - d. It can lead to an increase in overall production.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 18

BLM: Knowledge

216. What is the term for the ability to produce at a lower opportunity cost than someone else?
- a. competitive disadvantage
 - b. absolute advantage
 - c. absolute superiority
 - d. comparative advantage

ANS: D

PTS: 1

DIF: Easy

REF: p. 18

BLM: Knowledge

217. If Spain can produce a particular product at a lower relative cost than Portugal, what kind of advantage does Spain have?
- a. an absolute advantage in its production
 - b. a resource advantage for all goods
 - c. a production advantage for all goods
 - d. a comparative advantage in its production

ANS: D

PTS: 1

DIF: Easy

REF: p. 19

BLM: Application

218. In a market system, which of the following is a symptom of market failure?
- a. competition
 - b. scarcity of resources
 - c. falling prices
 - d. air pollution

ANS: D

PTS: 1

DIF: Moderate

REF: p. 21

BLM: Comprehension

219. Prices communicate information about relative availability of products. What does a decrease in the price of corn signal to consumers and producers?
- a. that consumers are stocking up on corn because of the predictions of a cold winter
 - b. that consumers are buying more corn than before
 - c. that corn is relatively less abundant than before
 - d. that corn is relatively more abundant than before

ANS: D

PTS: 1

DIF: Easy

REF: p. 21

BLM: Application

220. In a market system, how are decisions about how to allocate resources made?
- a. by individuals and firms interacting in markets coordinated by market prices
 - b. by central planning boards in each industry
 - c. by a lottery system
 - d. by large conglomerates working cooperatively with the government

ANS: A

PTS: 1

DIF: Easy

REF: p. 21

BLM: Knowledge

221. In markets, how is information about the relative value of resources communicated?
- a. through unions
 - b. through planning committees
 - c. through prices
 - d. through government agencies

ANS: C

PTS: 1

DIF: Easy

REF: p. 21

BLM: Knowledge

222. In a market economy, what groups decide the amount of a good that is produced?
- a. buyers and sellers
 - b. producers and input suppliers
 - c. all consumers
 - d. producers and government planning committees

ANS: A

PTS: 1

DIF: Moderate

REF: p. 21

BLM: Knowledge

223. Which of the following statements best describes the effects of price controls?
- a. They always lower the price.
 - b. They efficiently allocate resources.
 - c. They always benefit those that the price is trying to help.
 - d. They distort market prices.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 21

BLM: Comprehension

224. Which of the following does the market place NOT determine?
- a. equity
 - b. price
 - c. distribution
 - d. production quantity

ANS: A

PTS: 1

DIF: Easy

REF: p. 27

BLM: Knowledge

225. In a four quadrant graph, economics is primarily concerned with which area?
- a. upper left
 - b. lower right
 - c. lower left
 - d. upper right

ANS: D

PTS: 1

DIF: Easy

REF: p. 27

BLM: Knowledge

226. What is the term for the beginning point of a graph (the 0,0 point)?
- a. the basis point
 - b. variable one
 - c. the origin
 - d. the quadrant

ANS: C

PTS: 1

DIF: Easy

REF: p. 27

BLM: Knowledge

227. Which of the following graphs or charts must add up to 100 percent?
- a. a labour graph
 - b. a time-series graph
 - c. a bar graph
 - d. a pie chart

ANS: D

PTS: 1

DIF: Easy

REF: p. 28

BLM: Knowledge

228. "The hotter it gets, the more water people drink." What type of relationship, if any, does this statement imply?
- There is no relationship.
 - There is an unequal relationship.
 - There is a negative slope.
 - There is a positive slope.

ANS: D

PTS: 1

DIF: Moderate

REF: p. 29

BLM: Application

229. Most students expect that if they spend more time studying, the outcome will be improved grades in the course. What does this suppose?
- Grades are independent variables.
 - A negative relationship exists between studying and grades.
 - A positive relationship exists between studying and grades.
 - Grades are not dependent variables.

ANS: C

PTS: 1

DIF: Moderate

REF: p. 29

BLM: Application

TABLE 1-5

Combination	Price of Apples per Bushel (in dollars)	Quantity of Apples Purchased in Bushels
A	9	3
B	7	4
C	5	6
D	4	8
E	2	10

230. Refer to Table 1-5. What does this table demonstrate about price and quantity at each combination?
- They are uncorrelated.
 - They are inversely related.
 - They have no effect on each other.
 - They are positively related.

ANS: B

PTS: 1

DIF: Moderate

REF: p. 29

BLM: Application

231. Refer to Table 1-5. What does the table demonstrate?
- More apples are purchased as the price declines.
 - Fewer apples are purchased as the price declines.
 - More apples are purchased at each and every price.
 - Fewer apples are purchased at each and every price.

ANS: A

PTS: 1

DIF: Moderate

REF: p. 29

BLM: Application

TRUE/FALSE

1. The main concern of economics is to study how well the stock markets are performing.

ANS: F

PTS: 1

REF: p. 1

2. Economics has much in common with sociology because it is concerned with how societies organize themselves. However, economics shares little in common with political science, psychology or anthropology.

ANS: F

PTS: 1

REF: p. 3

3. One topic that microeconomics explores is how prices are determined in individual markets, while macroeconomics is concerned with issues such as the economy's overall rate of inflation, economic growth and unemployment.

ANS: T

PTS: 1

REF: p. 3

4. Microeconomics is the branch of economics in which you study inflation and unemployment in the economy.

ANS: F

PTS: 1

REF: p. 3

5. Microeconomics explores the allocation of scarce resources from the perspective of small economic units such as consumers and firms.

ANS: T

PTS: 1

REF: p. 3

6. Economic theories are of limited use since they cannot be tested empirically.

ANS: F
PTS: 1
REF: p. 4

7. A hypothesis is a normative statement.

ANS: F
PTS: 1
REF: p. 4

8. A testable proposition that predicts how people will react to changed circumstances is called a hypothesis.

ANS: T
PTS: 1
REF: p. 4

9. A good economic theory should capture as many details about real-world behaviour as possible.

ANS: F
PTS: 1
REF: p. 4

10. Economists typically use controlled experiments to learn about how the economy functions.

ANS: F
PTS: 1
REF: p. 5

11. *Ceteris paribus* is a Latin expression that means "holding everything else constant."

ANS: T
PTS: 1
REF: p. 5

12. The fallacy of composition states that even if something is true for an individual, it is not necessarily true for many individuals as a group.

ANS: T
PTS: 1
REF: p. 7

13. Normative analysis focuses on statements that can be tested against real-world data.

ANS: F
PTS: 1
REF: p. 7

14. To be a positive economic statement, an assertion must be factual.

ANS: F

PTS: 1

REF: p. 7

15. "A tax cut will lead to higher inflation" is an example of a positive economic statement.

ANS: T

PTS: 1

REF: p. 8

16. Most disagreements among economists stem from normative issues.

ANS: T

PTS: 1

REF: p. 8

17. Tractors, shovels, copy machines, and computer programming expertise are all examples of scarce resources.

ANS: T

PTS: 1

REF: p. 9

18. Since resources are abundant, we do not have to make choices about their use.

ANS: F

PTS: 1

REF: p. 10

19. Human capital consists of computers, tools, and equipment owned by private individuals.

ANS: F

PTS: 1

REF: p. 10

20. An entrepreneur organizes the other factors of production and bears the business risk.

ANS: T

PTS: 1

REF: p. 10

21. Scarcity is a problem faced by all but the wealthiest of citizens.

ANS: F

PTS: 1

REF: p. 11

22. If Xavier gives up a job in which he earns \$23 000 per year in order to go to college full time, his forgone income is part of the opportunity cost of going to college.

ANS: T

PTS: 1

REF: p. 12

23. The opportunity cost of a decision is the value of the best forgone alternative.

ANS: T

PTS: 1

REF: p. 12

24. The opportunity cost of a decision is the value of all of the available alternatives that were not chosen.

ANS: F

PTS: 1

REF: p. 12

25. The opportunity cost of attending college is likely higher for a high school graduate who leaves a job grilling hamburgers than it is for a high school dropout who leaves a job working as a computer network administrator.

ANS: F

PTS: 1

REF: p. 13

26. Rational individuals act to advance their own self-interest; therefore, charitable giving must constitute irrational behaviour.

ANS: F

PTS: 1

REF: p. 14

27. Marginal cost is the additional cost incurred as the result of producing one additional unit of a good or service.

ANS: T

PTS: 1

REF: p. 14

28. When considering whether or not to consume a second slice of cake, an individual is following marginal thinking if she compares the total cost of consuming both the first and second slices with their total benefit before making a decision.

ANS: F

PTS: 1

REF: p. 14

29. Implementing a stricter smog control program after determining that the benefits of increased air quality outweigh the costs of pollution reduction is consistent with the rule of rational choice.

ANS: T

PTS: 1

REF: p. 15

30. Economists believe that the stiff penalties for drug trafficking in Singapore do not affect the decision making of those who traffic in drugs.

ANS: F

PTS: 1

REF: p. 18

31. A country has a comparative advantage in the production of DVD players if it can produce DVD players at a lower opportunity cost than others.

ANS: T

PTS: 1

REF: p. 18

32. Since it is possible to grow coffee in the greenhouses in Canada, we should clearly create a Canadian coffee industry and no longer import coffee from Brazil.

ANS: F

PTS: 1

REF: p. 19

33. Small, developing countries must first become self-sufficient before they can benefit from international trade.

ANS: F

PTS: 1

REF: p. 19

34. When two variables repeatedly change at the same time, there must be a causal relationship between them.

ANS: F

PTS: 1

REF: p. 29

ESSAY

1. Identify whether each of the following topics would be primarily a concern of microeconomics or macroeconomics:
 - a. The decision by a household to eat in rather than go out for dinner this evening.
 - b. The unemployment rate increased from 4.5 to 4.8 percent.
 - c. A decision by the Bank of Canada to decrease the supply of money in the economy.
 - d. The general level of prices increased by 5 percent last year.
 - e. The price of bicycles increased by \$30 last year.
 - f. The family restaurant chain closed down after losing much of its customer base to fast-food competitors over the last few years.

ANS:

Microeconomic topics: a, e, and f

Macroeconomic topics: b, c, and d

PTS: 1

2. How does microeconomics relate to macroeconomics?

ANS:

Microeconomics primarily examines the behaviour of individual households and firms, whereas macroeconomics concentrates on the behaviour of consumers and firms in the aggregate.

Macroeconomics studies economic problems as they influence the whole of society.

PTS: 1

3. What is the difference between a hypothesis and a theory?

ANS:

A hypothesis about behaviour is the first step in developing and constructing a theory. A hypothesis is testable and makes a prediction about behaviour in response to changed circumstances. If a hypothesis is shown to be consistent with real-world data, it can be tentatively accepted as an economic theory.

PTS: 1

4. The United Nations asks you to help it understand the causes of income disparities around the world. You develop the following two hypotheses. Test each hypothesis against the given facts, identify which fits the facts better, and offer a theory based on your observation.
- I. Countries with high populations have lower incomes because the large supply of labour drives down the wage rate.
 - II. Countries with high literacy rates have higher incomes because labour is more productive.

Country	Per Capita GDP (in US dollars)	Literacy Rate (%)	Population (in thousands)
Canada	40 200	99	33 213
United States	48 000	99	303 825
Switzerland	40 900	99	7 582
Germany	34 800	99	82 370
Cambodia	2 100	73.6	14 242
Indonesia	3 900	90.4	237 512
Afghanistan	800	28.1	32 738
India	2 900	61	1 147 996

Source: CIA World Factbook <http://www.odci.gov/cia/publications/factbook/index.html>

ANS:

This data supports hypothesis II better than hypothesis I. Two of the four countries with populations over 50 million had high incomes and two of the four with populations under 50 million had low incomes. The four countries with literacy rates over 95% had per capita incomes in excess of \$34 000. The four countries with relatively low literacy rates had substantially lower per capita incomes. There are two anomalies in the data. Germany has a marginally higher literacy rate when compared to Canada, yet has a slightly lower income. India has a significantly lower literacy rate than Indonesia with comparable per capita incomes. This tends to indicate that while literacy appears to be a determinant it may not be the only factor determining per capital income.

PTS: 1

5. Identify the error in judgment in each of the following statements:
- I. "If you leave a concert during the encore, you will avoid traffic and get home more rapidly; therefore, everyone should leave during the encore."
 - II. "Whenever I wear my lucky baseball cap to an exam, I receive an "A." My baseball cap must induce the teacher to give me good grades."

ANS:

Statement I is an example of the fallacy of composition.

Statement II is an example of confusing correlation with causation.

PTS: 1

6. "Government should do all it can to slow the process of global warming." Is this a positive or normative statement? Explain your answer.

ANS:

This is a normative statement. The key is the inclusion of the word "should" in the statement. It is a value judgment, although one that is shared by many people.

PTS: 1

7. "The president of the world's biggest polluter (the United States) needs to do more than propose well-intentioned but insufficient measures that amount to using a squirt gun to quell a raging fire." Is this a positive or a normative economic statement? Explain your answer.

ANS:

This statement is normative. The key is the phrase "the president . . . needs to do more." This is a value judgment on the speaker's part.

PTS: 1

8. "If the price of wine increases, the quantity purchased will increase." Is this a positive or a normative economic statement? Explain your answer.

ANS:

Since it is a testable proposition, it is a positive economic statement. The statement need not be true, only testable.

PTS: 1

9. Indicate whether each of the following is a positive or normative economic statement:

- I. The imposition of a price ceiling below equilibrium price will lead to a shortage of housing.
- II. The local government should control the rate of increase in rents so that low-income residents are not forced to move from the area.

ANS:

Statement I is a positive economic statement because it is testable.

Statement II is a normative economic statement because it reflects a value judgment.

PTS: 1

10. When economists disagree, it is often over what type of issues?

ANS:

Economists generally disagree on policy issues that require utilizing normative economic analysis. Differences in beliefs or values lead to conflicts as to the best resolution of an economic problem.

PTS: 1

11. How would an economist respond to the following statement: "Wanting more goods makes us greedy"?

ANS:

Economists do not view the unlimited human desire for goods and services to be an indication of "greediness." Economists assume that all individuals want more resources in order to reach greater levels of satisfaction (whether to benefit yourself, your family, or others).

PTS: 1

12. If you were an employer, what are some ways that you might help your employees invest in human capital? How does investment in human capital benefit an employer?

ANS:

An employer might provide on-site training, subsidized daycare, or tuition assistance for post-secondary educational programs. The daycare would help reduce employee absenteeism and provide additional motivation for employee retention. Educational programs can assist employees to improve their skills and abilities and thereby increase worker productivity.

PTS: 1

13. Explain the difference between poverty and scarcity.

ANS:

People living in poverty have access to few resources, which limits the goods and services that can be consumed. When an individual faces scarcity, it means not having enough resources to consume all that is desired (necessitating that choices be made). While not everyone lives in poverty, everyone does face scarcity. Even the rich face scarcity (since as wealth increases, so do human wants).

PTS: 1

14. Explain why each of the following is considered an economic issue:
- whether to spend Saturday evening at a hockey game
 - obtaining tickets to a U2 concert
 - your university considers your application for one of 25 available scholarships

ANS:

Each of the following is an economic issue that illustrates scarcity and the necessity of making choices:

- The decision as to whether to spend Saturday evening at a hockey game involves weighing the marginal benefit versus the marginal cost. There is an opportunity cost associated with going to the hockey game since you could spend the time in other ways, such as studying or working.
- Attending a U2 concert requires a sacrifice of both money and time. Individuals face a trade-off between what could be done with the time and the dollars expended acquiring tickets and attending the concert.
- Since there are a limited number of scholarships and many students who would wish to receive one, the university must decide to whom to allocate these scarce scholarship resources.

PTS: 1

15. Maggie is a potter and she likes to dig her own clay for producing pots, cups, and other ceramic items. She is aware of two places where she can obtain the right clay for her work. The first field is quite close, just at the edge of town. The second field is 15 miles away and (since there are no access roads) requires a half-day of travel just to get there. Compare the opportunity cost of producing pots using clay from each of these fields.

ANS:

The opportunity cost of the clay necessary for her work is higher at the second field. Maggie would have to spend more time travelling, consume more gasoline, and use extra time and energy to dig from the second field.

PTS: 1

16. If race-car driving is dangerous, why would any rational person choose to be a race-car driver?

ANS:

A rational person might choose to drive race cars if, after assessing the potential dangers, he or she believes the expected marginal benefit from racing outweighs the expected marginal cost.

PTS: 1

17. Would it make good sense for a community to seek to reduce its levels of pollution to zero? Why or why not?

ANS:

In general it would not make sense for a community to seek to reduce pollution levels to zero because the costs involved would exceed the benefits received.

PTS: 1

18. Farmer Ed could grow wheat and barley. He could grow 75 bushels of wheat or 125 bushels of barley using the same resources on a hectare of his land. The price of wheat is \$2.00 per bushel and the price of barley \$0.80. Show the benefits to Ed from specialization. What should he specialize in?

ANS:

Farmer Ed could make \$150 if he grew only wheat and just \$100 if he grew only barley. By specializing in wheat production he will be better off. Even though he can produce more bushels of barley than he can bushels of wheat, his opportunity cost of producing wheat (the \$100 income sacrificed) is lower than the opportunity cost of producing barley (\$150 in sacrificed income).

PTS: 1

19. Prices communicate information about the relative value of resources in the marketplace. Which of the following would cause the value and, hence, the price of oranges to rise?

- a. A freeze wipes out half of the Florida citrus groves.
- b. Orange juice is shown to reduce blood cholesterol levels.
- c. The price of grape, cranberry, and pineapple juice falls dramatically.

ANS:

a) and b) would result in higher orange prices. The freeze in some orange groves would cause the price of the remaining oranges to increase. A stronger preference for orange juice would likely result once the cholesterol-reducing health benefits of orange juice become known, increasing the price of orange juice. A reduction in the price of substitute juices would decrease the price of oranges (as consumers switch to alternative fruit sources).

PTS: 1

20. How do price controls undermine the market as a communication device?

ANS:

The imposition of price controls (which restrict prices above or below market clearing prices) sends incorrect signals to both consumers and producers about the true market prices.

PTS: 1

21. What is a time-series graph and what does it show?

ANS:

A time-series graph shows changes over time and is a visual tool that allows us to observe important trends.

PTS: 1

22. How do we measure the slope of a linear curve?

ANS:

A straight-line curve is called a linear curve. The slope of a linear curve between two points measures the relative rates of change of two variables. Specifically, the slope of a linear curve can be defined as the ratio of the change in the Y value to the change in the X value. The slope can also be expressed as the ratio of the rise to the run, where the rise is the change in the Y variable (along the vertical axis) and the run is the change in the X variable (along the horizontal axis).

PTS: 1

23. How do we find the slope of a nonlinear curve?

ANS:

We can find the slope at a given point by drawing a straight-line tangent to that point on the curve (when a straight line just touches the curve without actually crossing it) and calculating the slope of the tangent line.

PTS: 1