

## CHAPTER 1—WHAT IS ECONOMICS?

### MULTIPLE CHOICE

1. The basic problem of economics arises when there are unlimited resources available to fulfill society's limited wants.

- a. True
- b. False

ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Knowledge

2. Economics is the study of choice under conditions of

- a. demand
- b. supply
- c. scarcity
- d. opportunity
- e. abundance

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension

3. The study of economics would be superfluous if \_\_\_\_\_ did *not* exist.

- a. demand
- b. capital
- c. corporations
- d. profit
- e. scarcity

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension

4. Which of the following disciplines is *not* a social science?

- a. psychology
- b. mathematics
- c. economics
- d. political science
- e. sociology

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic  
 STA: DISC: The Study of economics, and definitions in economics  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension

5. What does economics have in common with sociology?

- a. Economics and sociology ask fundamentally the same questions.
- b. Economics and sociology use the same tools to analyze issues.
- c. Both are social sciences.
- d. What and how economists study is very similar to what and how sociologists study.
- e. Explaining something about society is only a secondary purpose in both areas.

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Application

6. Economics is
- exclusively the study of the markets for stocks and bonds
  - the study of choice under conditions of scarcity
  - exclusively the study of business firms
  - fundamentally the same as sociology
  - applicable only when scarcity is not a problem

ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension

7. Economics is
- the narrow study of how to make money in financial markets
  - the broad study of how to allocate unlimited resources to satisfy limited uses
  - the broad study of how to allocate limited resources to satisfy unlimited wants
  - the narrow study of using stocks and bonds to their maximum potential
  - the narrow study of how to be conservative in financial affairs

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension

8. Economics is
- a discipline in the physical sciences
  - a field that deals exclusively with normative issues
  - a field that deals exclusively with positive issues
  - only useful for examining behavior in capitalist economies
  - a discipline that focuses on how choices are made in society

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension

9. Economics is the study of
- how to start a business
  - how to make money in stocks, bonds, and real estate
  - choice under conditions of abundance
  - choice under conditions of scarcity
  - multinational business

ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension

10. People and organizations have to make choices about how to allocate time and money because
- government requires it
  - corporations control our lives
  - time and money are both scarce
  - religious values conflict with economics
  - there are unlimited resources

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
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11. The basic problem addressed in economics is
- scarce resources and unlimited wants
  - scarce wants and unlimited resources
  - cost minimization
  - how to manage a financial portfolio
  - unlimited time and unlimited potential

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Knowledge

12. Individuals must make choices because
- resources are scarce and wants are limited
  - resources and wants are unlimited
  - assets and wealth are distributed unevenly
  - resources are scarce and wants are unlimited
  - inflation usually outpaces income growth

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
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13. Which of the following explains why individuals must make choices?
- competition among firms
  - scarcity of resources
  - inflation
  - changes in the money supply
  - conflict between positive and normative economic statements

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
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14. Economics is the study of
- scarcity under conditions of democracy
  - choice within a system of free speech
  - financial markets
  - the role of government in a market system
  - choice under conditions of scarcity

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
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15. The core problem faced by all economic systems is that
- scarcity forces each of us to make choices
  - the government must intervene to allocate scarce resources
  - of matching people's wants with their needs
  - of allocating unlimited resources
  - it needs to maximize each household's material standard of living

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
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16. In the United States, individuals are forced to make choices
- because time is scarce, though spending power is not
  - because spending power is scarce, though time is not
  - though neither time nor spending power are scarce
  - because both time and spending power are scarce
  - because living standards are low

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
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17. Society's core economic problem is
- the role of government in the economy
  - a scarcity of land, labor, and machinery to produce goods and services
  - the federal budget deficit
  - an unequal distribution of income
  - low living standards

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Comprehension

18. Due to a scarcity of resources,
- governments should decide what should be produced
  - the government must decide how to allocate available resources
  - some members of each society must live in poverty
  - every society must choose among competing uses of available resources
  - resource availability exceeds the possible uses for available resources

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension

19. All the problems studied in economics arise from
- the unequal distribution of income
  - overpopulation
  - the scarcity of resources
  - inappropriate government action
  - war

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
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20. In every economic system, scarcity imposes limitations on
- households, business firms, governments, and the nation as a whole
  - households and business firms, but not the governments
  - local and state governments, but not the federal government
  - households and governments, but not business firms
  - business firms, governments, and the nation as a whole

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
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21. Because of economic scarcity
- there are not enough jobs for everyone
  - people are afraid to become entrepreneurs
  - the government interferes in the economy
  - businesses cannot obtain the resources they need
  - people and organizations have to allocate resources carefully

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
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22. No society can provide its citizens with everything that they want because of
- greedy politicians
  - lazy workers
  - an educational system that does not provide hands on experience
  - firms that strive to maximize profits
  - a scarcity of resources

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
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23. Society has to establish priorities among its goals because of
- lazy politicians
  - manipulative politicians
  - uneducated voters
  - a scarcity of resources
  - too many bosses and not enough workers

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
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24. Because households have limited incomes, they must
- rarely take vacations
  - live below the poverty line
  - allocate their spending carefully
  - gamble in casinos frequently
  - save for the future

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
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25. Even though households may have unlimited wants, they have to allocate their spending carefully because they
- a. do not want their credit card bills to be too high
  - b. worry about their taxes
  - c. have limited intelligence
  - d. have limited incomes
  - e. basically want to become wealthy

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
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26. In examining consumer behavior, one of the constraints faced by consumers is
- a. happiness
  - b. quantities consumed
  - c. tastes and preferences
  - d. entrepreneurial ability
  - e. income

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
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27. All of the following are examples of constraints faced by decision makers, except one. Which is the exception?
- a. income for a consumer
  - b. natural resources for a firm
  - c. time for a laborer
  - d. consumer wants
  - e. wealth for a consumer

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
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28. Due to society's overall scarcity of resources,
- a. only households are constrained by income
  - b. only government agencies are constrained by limited budgets
  - c. only business firms are constrained by the cost of buying their inputs
  - d. households, business firms and government agencies all face constraints
  - e. households and business firms face constraints, but government agencies do not

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
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29. The economic behavior of government is constrained by
- a. limited budgets
  - b. the absence of prices on most government output
  - c. moral philosophy of the community
  - d. low voter participation rates
  - e. political self interest

ANS: A                      PTS: 1                      DIF: Difficulty: Challenging  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Comprehension

30. The knowledge that students gain while in college is referred to by economists as human capital.

- a. True
- b. False

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Knowledge

31. Land, labor, and money are the three categories of economic resources.

- a. True
- b. False

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Knowledge

32. Society's resources include

- a. land and labor
- b. labor and machinery
- c. land, labor, and capital
- d. land, capital, and money
- e. labor, capital, and money

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Knowledge

33. The four main categories of resources are

- a. labor, money, capital, and inputs
- b. capital, land, raw materials, and entrepreneurship
- c. raw materials, money, labor, and capital
- d. land, capital, labor, natural resources, and entrepreneurship
- e. human capital, physical capital, labor, and natural resources

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Knowledge

34. A physician's knowledge and skills are referred to by economists as

- a. human capital
- b. labor
- c. physical capital
- d. entrepreneurship
- e. intellectual raw materials

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
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35. The term *capital*, as used by economists, refers to

- a. money
- b. the physical space in which production occurs
- c. the time allocated to producing goods and services
- d. financial securities such as stocks and bonds
- e. machinery and equipment that is not used up during the production process

ANS: E                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Knowledge

36. Which of the following is the best example of physical capital used to produce a textbook?
- a. the expertise and writing ability of the author
  - b. the ink used in the printing press
  - c. the printing press
  - d. the property on which the publisher's office is located
  - e. the time spent by editors reviewing the textbook

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Comprehension

37. Suppose you start your own company making T-shirts that commemorate campus sporting events. An example of the resource *capital* would be
- a. the factory you created in a building you are leasing
  - b. your time and effort used to produce T-shirts
  - c. the entire campus, since the demand for T-shirts is obtained from campus students
  - d. the athletic facilities, since the athletic teams generate sporting events advertised on the T-shirts
  - e. your creative designs used to commemorate different sporting events

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Application

38. Physical capital differs from raw materials in the sense that raw materials
- a. have a longer useful life in production
  - b. are considered human capital
  - c. cannot be used to produce goods and services
  - d. are used up in production
  - e. are not a resource used in production

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Comprehension

39. Which of the following is a characteristic of entrepreneurship?
- a. the ability to navigate bodies of water
  - b. it is produced using physical capital
  - c. it is used up quickly in the production process
  - d. it is a pre-existing resource like land
  - e. it is associated with risk taking and innovation

ANS: E                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Knowledge

40. An entrepreneur is best described as
- a. someone that is hired to work in a firm
  - b. someone who creates human capital
  - c. someone with the ability to combine other resources in a productive enterprise
  - d. anyone who owns productive enterprise
  - e. anyone who produces long-lived physical capital



ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Knowledge

41. Macroeconomics focuses on the behavior of economic agents such as the consumer, a business firm, or a specific market.
- a. True
  - b. False

ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Knowledge

42. Macroeconomics focuses on the economy as a whole.
- a. True
  - b. False

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Knowledge

43. Microeconomics analyzes individual parts of the economy rather than broad economic aggregates.
- a. True
  - b. False

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Knowledge

44. Microeconomic topics include the overall unemployment rate in the United States and the rate of inflation.
- a. True
  - b. False

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Knowledge

45. How retail gasoline stations behave in a local market is an example of a macroeconomic issue.
- a. True
  - b. False

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
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TOP: The World of Economics                      KEY: Bloom's: Comprehension

46. Microeconomics
- a. addresses scarcity from a global perspective
  - b. examines how individuals, households, and firms make economic decisions
  - c. is purely theoretical and has little value in explaining real-world phenomena

- d. focuses on what is happening in the economy as a whole
- e. answers the fundamental economic questions of how, when, where, and why

ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
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47. Microeconomics deals with which of the following?
- a. the total output of an economy
  - b. the measurement of a nation's inflation rate
  - c. how producers and consumers interact in individual markets
  - d. how tax policies influence economic growth
  - e. whether wage growth will outpace inflation in the coming year

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic  
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48. A microeconomist might study which of the following?
- a. how inflation changes over time for several countries
  - b. how money supply aggregates are measured
  - c. economic growth in less-developed countries in Africa
  - d. the relationship between aggregate income and aggregate personal consumption
  - e. why wages for females are lower than for males in a particular labor market

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
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49. The study of how consumers and producers interact in individual markets is
- a. macroeconomics
  - b. labor economics
  - c. microeconomics
  - d. econometrics
  - e. development economics

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic  
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50. Macroeconomics is the study of
- a. how wages are determined in a specific labor market
  - b. how to use the fewest natural resources to produce public goods
  - c. what is happening in the economy as a whole
  - d. how consumers and producers interact in individual markets
  - e. the price and the quantity exchanged in a market

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
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51. Suppose that the following headlines appeared in a newspaper. Which would most clearly represent a macroeconomic issue?
- a. "Central Bank Raises Interest Rates"
  - b. "Auto Dealership to Cut Prices"
  - c. "Fanny's Freeze Dried Prunes to Lay Off 50 Workers"
  - d. "United Workers Union to Strike April 15"
  - e. "Brazilian Coffee Bean Crop Falls by 10 Percent"

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
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52. Microeconomics is the branch of economics that concerns
- a. the overall health of the economy
  - b. the behavior of individual households, firms, and governments
  - c. the overall level of trade between nations
  - d. local governments only
  - e. the general level of output

ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic  
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53. Which of the following would be strictly a microeconomic topic?
- a. a general rise in interest rates
  - b. a drop in inflation
  - c. an increase in total production in the United States
  - d. a drop in the nation's unemployment rate
  - e. an increase in the price of the Ford Taurus

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
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54. Macroeconomics is the branch of economics that concerns
- a. the behavior of individual actors in the economy
  - b. output in a specific industry
  - c. the overall health of the economy
  - d. the federal government only
  - e. prices in a specific industry

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
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55. Which of the following would be studied in macroeconomics?
- a. a drop in the price of personal computers
  - b. an individual household's decision on how to allocate its spending power
  - c. a rise in employment in movie theaters across the nation
  - d. total output in the nation
  - e. a local bank's increase in the interest rate offered on savings deposits

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
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56. Macroeconomics studies the determination of
- total output, total employment, the general price level, and the general level of interest rates
  - total output and the general level of interest rates only
  - total employment and the general level of prices only
  - the interaction of individual economic actors in specific markets and industries
  - the levels of employment and prices in specific markets and industries

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
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57. Microeconomics is the study of
- government decisions
  - the federal government's budget
  - the economic behavior of entire nations
  - the economic behavior of individual decision makers
  - the overall economy

ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
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58. Macroeconomics is the study of
- how the price of gasoline is determined
  - large objects
  - the economic behavior of individual decision makers
  - the behavior of the economy as a whole
  - the economic behavior of individual firms

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
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59. The overall performance of the economic system as a whole is the focus of
- international finance
  - labor economics
  - microeconomics
  - macroeconomics
  - public economics

ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

60. The study of how firms interact in a market is a
- a. waste of time
  - b. normative subject
  - c. microeconomic topic
  - d. topic in political science
  - e. macroeconomic topic

ANS: C                      PTS: 1                      DIF: Difficulty: Challenging  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

61. The unemployment rate for the economy as a whole is a(n)
- a. normative value judgment
  - b. positive value judgment
  - c. microeconomic statistic
  - d. macroeconomic statistic
  - e. example of an economic model

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

62. The inflation rate for the economy as a whole is a
- a. normative value judgment
  - b. positive value judgment
  - c. macroeconomic statistic
  - d. microeconomic statistic
  - e. critical assumption

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

63. Microeconomic models focus on the behavior of
- a. all households, businesses, and government sectors at the same time
  - b. the household sector as a whole
  - c. individual households and business firms
  - d. individual households, business firms, and government agencies
  - e. the business and government sectors

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

64. Macroeconomic models focus on the behavior of
- a. individual households, business firms, and government agencies
  - b. individual nations in the foreign trade sector
  - c. the entire economy
  - d. large industrial sectors, such as manufacturing
  - e. individual business firms and government agencies

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

65. The price of apples in Denver, Colorado is
- a normative value judgment
  - an example of a factor of production
  - a microeconomic variable
  - a macroeconomic variable
  - not the sort of thing that economists would try to explain

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Application

66. The price that a firm's only competitor charges would be a
- topic in microeconomics
  - topic in finance
  - macroeconomic topic
  - topic in public finance
  - normative issue

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

67. If the president of Chile commented that "the crime rate in Chile is currently too high," this would be an example of a normative statement.
- True
  - False

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

68. Economists disagree about many things. When those disagreements are about which model best explains the economy, these disagreements are primarily over "positive" statements.
- True
  - False

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

69. Positive economic statements are usually easier to refute with data than normative economic statements are.
- True
  - False

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic

STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics KEY: Bloom's: Knowledge

70. Positive economics deals with
- value judgments
  - how the economy does work
  - how the economy should work
  - how the federal government should operate
  - what the price level should be

ANS: B PTS: 1 DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics KEY: Bloom's: Knowledge

71. Which of the following is the study of economic policy recommendations?
- positive economics
  - law and economics
  - microeconomics
  - development economics
  - normative economics

ANS: E PTS: 1 DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics KEY: Bloom's: Comprehension

72. An economist claims that "the evidence suggests that high rates of inflation are associated with slow long-term economic growth." This is an example of
- positive economics
  - normative economics
  - negative economics
  - a simplifying assumption
  - microeconomic analysis

ANS: A PTS: 1 DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics KEY: Bloom's: Comprehension

73. The distinction between positive and normative economics
- is that positive economics applies only to microeconomic problems
  - is that normative economics applies only to microeconomic problems
  - is the difference between an assumption and a conclusion
  - helps us understand why economists sometimes disagree with one another
  - explains why economics is not a social science

ANS: D PTS: 1 DIF: Difficulty: Challenging  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics KEY: Bloom's: Comprehension

74. Suppose two economists disagree about who would be helped or hurt by certain legislation. These disagreements
- a. are positive in nature
  - b. are minor and rarely lead to different policies or conclusions
  - c. are normative in nature
  - d. occur as the result of a mistake made by an economist
  - e. occur because economic models are more complex, and subject to error, than the real world

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

75. Suppose two economists agree about who would be helped or hurt by certain legislation, but disagree about whether the legislation would be a good idea. These disagreements
- a. are positive in nature
  - b. are minor and rarely lead to different policies or conclusions
  - c. are normative in nature
  - d. occur as the result of a mistake made by an economist
  - e. occur because economic models are more complex, and subject to error, than the real world

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

76. When economists disagree about whether legislation is a good idea, even when they agree about its impacts, the disagreements are usually over
- a. normative issues
  - b. positive issues
  - c. the mathematical calculations in an economic model
  - d. whether microeconomics or macroeconomics is more important
  - e. whether economic theory is useful in explaining the behavior of actors in the economy

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

77. Economists disagree about whether increasing the minimum wage is a good idea, because they put different weight on the importance that the negative impacts have relative to the positive impacts. As such, the disagreements are usually over
- a. normative issues
  - b. positive issues
  - c. the mathematical calculations in an economic model
  - d. whether microeconomics or macroeconomics is more important
  - e. whether economic theory is useful in explaining the behavior of actors in the economy

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension



78. The Congressional Budget Office and the Office of Management and Budget each produce deficit forecasts for a fiscal year. They use models that are mostly similar but have notable differences. As such, the disagreements are likely usually over
- normative issues
  - positive issues
  - the mathematical calculations in an economic model
  - whether microeconomics or macroeconomics is more important
  - whether economic theory is useful in explaining the behavior of actors in the economy

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Application

79. "The Consumer Price Index increased by 4.2 percent in the first quarter of this year." What type of statement is this?
- normative
  - negative
  - positive
  - subjective
  - biased

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Application

80. Understanding the distinction between positive and normative economic statements is important because it
- enables us to derive better forecasts of macroeconomic aggregates such as GDP
  - explains why economics is not a physical science
  - is the primary distinction between macroeconomics and microeconomics
  - provides a framework for understanding differences among economists
  - enables us to see the rationale behind economic models

ANS: D                      PTS: 1                      DIF: Difficulty: Challenging  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

81. Which of the following is a positive statement?
- Driving speeds should be lowered so that fewer accidents will occur.
  - When per capita income falls, fewer meals are consumed at restaurants.
  - The minimum wage is too low; college students deserve a raise.
  - Cigarette sales should be made illegal in order to reduce the incidence of cancer.
  - Social Security is a good program for U.S. workers.

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Application

82. Which of the following is a normative statement?
- Fifteen percent of Americans go without health insurance in a year.
  - The Consumer Price Index rose three-tenths of one percent in May.

- c. An increase in the minimum wage will increase teenage unemployment.
- d. Americans would be better served by single-payer health care system.
- e. The French trade deficit reached an all-time high last year.

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic  
 STA: DISC: The Study of economics, and definitions in economics  
 TOP: The World of Economics                      KEY: Bloom's: Comprehension

83. Which of the following explains why economists may disagree over normative issues?
- a. They have different beliefs and values.
  - b. They examine the same data to draw their conclusions.
  - c. They need to disagree in order to publish their research findings.
  - d. They often employ different statistical techniques when examining data.
  - e. Some work only on microeconomic issues, while others focus exclusively on macroeconomic issues.

ANS: A                      PTS: 1                      DIF: Difficulty: Challenging  
 NAT: BUSPROG: Analytic  
 STA: DISC: The Study of economics, and definitions in economics  
 TOP: The World of Economics                      KEY: Bloom's: Comprehension

84. Which of the following explains why economists may disagree over positive issues?
- a. They have different beliefs and values.
  - b. They examine the same data to draw their conclusions.
  - c. They need to disagree in order to publish their research findings.
  - d. They often employ different models and statistical techniques when examining data.
  - e. Some work only on microeconomic issues, while others focus exclusively on macroeconomic issues.

ANS: D                      PTS: 1                      DIF: Difficulty: Challenging  
 NAT: BUSPROG: Analytic  
 STA: DISC: The Study of economics, and definitions in economics  
 TOP: The World of Economics                      KEY: Bloom's: Comprehension

85. "Senior citizens deserve an income that will allow them to live in comfort for their remaining years." This is
- a. neither a normative nor a positive statement
  - b. both a positive and a normative statement
  - c. strictly a macroeconomic issue
  - d. a positive statement
  - e. a normative statement

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic  
 STA: DISC: The Study of economics, and definitions in economics  
 TOP: The World of Economics                      KEY: Bloom's: Comprehension

86. A newspaper headline announces that "more college graduates than ever are in the labor force." This is an example of
- a. microeconomic analysis
  - b. an abstraction
  - c. a value judgment
  - d. a positive statement
  - e. macroeconomic analysis

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

87. Which of the following is most closely associated with positive economics?
- a. determining the impact of government spending on the actual level of total employment
  - b. determining the *best* level of immigration into the country
  - c. determining whether too many luxury goods are being produced
  - d. determining whether the government should reduce poverty
  - e. determining whether the government should alter income taxes in order to increase total employment

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

88. Normative economics deals with
- a. how the economy actually works
  - b. how a change in government budgets affects the price level
  - c. how prices are determined in specific markets
  - d. value judgments
  - e. the historical growth of an economy

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Knowledge

89. Which of the following would be a concern of normative economics?
- a. measuring the actual distribution of income in the economy
  - b. recommending a change in government policy to make the distribution of income more equitable
  - c. determining the impact of higher income taxes on the distribution of income
  - d. determining the impact of a lower federal budget deficit on the distribution of income
  - e. measuring the change in the nation's income distribution since 1960

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

90. If two economists disagree about the magnitude of employment effects of a proposed change in government policy, the difference in opinion
- a. must be positive in nature
  - b. must be normative in nature
  - c. is more likely to be normative than positive
  - d. is more likely to be positive than normative
  - e. would be neither positive nor normative in nature

ANS: D                      PTS: 1                      DIF: Difficulty: Challenging  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Application

91. If two economists completely agree about the magnitude of employment effects of a proposed change in government policy, but disagree about whether the change is a good idea. The difference in opinion
- must be normative in nature
  - is both positive and normative in nature
  - is more likely to be normative than positive
  - is more likely to be positive than normative
  - would be neither positive nor normative in nature

ANS: A                      PTS: 1                      DIF: Difficulty: Challenging

NAT: BUSPROG: Analytic

STA: DISC: The Study of economics, and definitions in economics

TOP: The World of Economics                      KEY: Bloom's: Application

92. Positive economics deals with
- theories about improving people's self-esteem
  - practical ways of improving people's self-esteem by making money
  - opinions that affirm economists' theories
  - statements about the way things ought to be
  - statements of fact

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

STA: DISC: The Study of economics, and definitions in economics

TOP: The World of Economics                      KEY: Bloom's: Knowledge

93. A statement of fact that can be verified by observation is
- an abstraction
  - a positive statement
  - a normative statement
  - a philosophical conundrum
  - the basis of an assumption

ANS: B                      PTS: 1                      DIF: Difficulty: Challenging

NAT: BUSPROG: Analytic

STA: DISC: The Study of economics, and definitions in economics

TOP: The World of Economics                      KEY: Bloom's: Knowledge

94. Normative economics deals with
- social norms and customs that influence economic behavior
  - norms of behavior that can be taken as facts
  - statements of fact
  - statements about the value of a proposed policy
  - government rules and regulations that drag down the economy

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

STA: DISC: The Study of economics, and definitions in economics

TOP: The World of Economics                      KEY: Bloom's: Knowledge

95. A statement of opinion about which model best explains the economy is
- an abstraction
  - a positive statement
  - a normative statement
  - a philosophical conundrum
  - empirically verifiable

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

96. A statement of opinion about which policy is best for America is
- an abstraction
  - a positive statement
  - a normative statement
  - a philosophical conundrum
  - empirically verifiable

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

97. The statement "The unemployment rate in the U.S. was 5 percent last month" is
- a value judgment
  - an economic opinion
  - a normative statement
  - a positive statement
  - totally beyond anything that should be permitted by modern society

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Application

98. The statement that "IBM's stock closed at \$85" is
- a normative statement
  - a positive statement
  - a macroeconomic observation
  - financial manipulation
  - a sign that the market may be undervalued

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Application

99. The statement "The unemployment rate in the U.S. is 5 percent" is
- a statement of opinion
  - a positive statement that can be falsified
  - lacking proper microeconomic foundations
  - a statistical anomaly
  - a philosophical difference of opinions regarding the nature and significance of statistical inference

ANS: B                      PTS: 1                      DIF: Difficulty: Challenging  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Application

100. Suppose that the Council of Economic Advisers tells the President that "the unemployment rate is 4 percent." The President responds, "That rate is still too high." The President's statement is
- a normative statement
  - a positive statement
  - empirically verifiable by checking economic data
  - an indisputable statistical fact
  - an incorrect positive statement

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

STA: DISC: The Study of economics, and definitions in economics

TOP: The World of Economics                      KEY: Bloom's: Application

101. The statement that "at 10 percent, the interest rate is too high for families to buy the home they deserve," is a(n)
- positive statement
  - normative statement
  - morally ambiguous philosophical position
  - affront to the American dream
  - value judgment

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

STA: DISC: The Study of economics, and definitions in economics

TOP: The World of Economics                      KEY: Bloom's: Comprehension

102. The statement that "at 10 percent, the interest rate is too high for families to buy a home they could have afforded when the interest rate was below 7 percent ," is a(n)
- positive statement
  - normative statement
  - morally ambiguous philosophical position
  - affront to the American dream
  - value judgment

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

STA: DISC: The Study of economics, and definitions in economics

TOP: The World of Economics                      KEY: Bloom's: Comprehension

103. Even if economic theory is based on positive analysis, economists may still disagree with each other because
- economists tend to have excessive self-interest
  - they ignore politics
  - they are opinionated
  - they may have different values, like everyone else
  - they try to be right all the time

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

STA: DISC: The Study of economics, and definitions in economics

TOP: The World of Economics                      KEY: Bloom's: Comprehension

104. Because economists have different values, like everyone else, they
- tend to be self centered, so positive economics is impossible
  - ignore politics

- c. use abstraction to be realistic
- d. may disagree, even though economic theory is based on positive statements
- e. try to be right all the time

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: The World of Economics                      KEY: Bloom's: Comprehension

105. Reasons for studying economics include
- a. all of the following
  - b. to better understand world issues by applying the tools of economic analysis
  - c. to help design more effective solutions to society's problems
  - d. to help prepare for careers in fields such as law and politics
  - e. to better understand the impact of world events on an individual's life

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: Why Study Economics?                      KEY: Bloom's: Knowledge

106. Using economic analysis to help understand world issues
- a. assumes that all decision makers use detailed economic analysis
  - b. highlights the role of choice when resources are scarce
  - c. has unlimited application
  - d. is not appropriate because reality is too complex for economic modeling
  - e. typically enables one nation to gain only when another nation loses

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: The Study of economics, and definitions in economics  
TOP: Why Study Economics?                      KEY: Bloom's: Comprehension

107. Economic models do not have to completely describe every aspect of the economy in order to be useful.
- a. True
  - b. False

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models                      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

108. Simplifying assumptions always affect the conclusions derived from an economic model.
- a. True
  - b. False

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models                      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

109. Economic models typically assume that decision makers face constraints because of scarce resources.
- a. True
  - b. False

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

110. An economic model can be described as
- an abstract representation of reality
  - a detailed description of some economic phenomenon
  - something that is often more complex than the real-world phenomenon it represents
  - a vehicle for making positive economic statements
  - a vehicle for making normative economic statements

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

111. An economic model
- uses equations to understand normative economic phenomena
  - often omits crucial elements
  - simplifies reality in order to focus on crucial elements
  - tries to make simple concepts more complex
  - cannot be proven wrong

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

112. One guideline that should be used whenever possible in developing a model is to
- keep the model as simple as possible
  - make the model as complex as possible so that it will be more accurate than other models
  - rely on as many assumptions as possible
  - not be concerned about including unnecessary details
  - make certain that the model is an accurate, complete depiction of reality

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

113. Economic models are used primarily to
- predict behavior under specific circumstances
  - make an exact reproduction of one facet of the economy
  - increase the mathematical complexity and rigor of economics
  - provide simple answers to simple questions
  - give accurate forecasts of the future

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge



114. Economic models come in the form of
- a. three-dimensional objects
  - b. all of the following
  - c. words
  - d. diagrams
  - e. mathematical equations

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

115. A good economic model
- a. is as simple as possible, including only necessary details
  - b. is as complex as possible, including many details
  - c. represents reality as concretely as possible
  - d. tries to be as detailed as the reality it is describing
  - e. is very detailed regardless of its purpose

ANS: A                      PTS: 1                      DIF: Difficulty: Challenging  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

116. The level of detail in an economic model
- a. is as close as possible to the level of detail in reality
  - b. depends on the purpose of the model
  - c. is as complex as possible
  - d. is the same regardless of the purpose of the model
  - e. is as complex as possible to accomplish its purpose

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

117. An economic model is
- a. a concrete representation of reality
  - b. as close to reality as possible
  - c. too abstract to be useful when assumptions are involved
  - d. unrelated to reality
  - e. an abstract representation of reality

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

118. A simplifying assumption
- a. affects the important conclusions of an economic model
  - b. increases the level of detail in an economic model
  - c. makes an economic model a more concrete representation of reality
  - d. eliminates unnecessary details from an economic model
  - e. limits the validity of an economic model's conclusions

ANS: D                      PTS: 1                      DIF: Difficulty: Challenging  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

119. If an economic model includes an assumption that there are only two nations in the world, this would be an example of
- a critical assumption
  - an implicit assumption
  - a simplifying assumption
  - a concrete assumption
  - a detail assumption

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Application

120. A critical assumption
- makes an economic model a more concrete representation of reality
  - eliminates unnecessary details from an economic model
  - has an important impact on the conclusions of an economic model
  - is usually implicit in an economic model
  - increases the level of abstraction of an economic model

ANS: C                      PTS: 1                      DIF: Difficulty: Challenging  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

121. Consider an economic model designed to analyze the behavior of business firms. An assumption that the goal of the firms is to maximize profit would be
- a simplifying assumption
  - a critical assumption
  - an abstraction from reality
  - an unnecessary detail
  - irrelevant to the conclusions of the model

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Application

122. Consider an economic model designed to analyze the purchasing decisions of households. An assumption that a household chooses between only two goods would be an example of a
- simplifying assumption
  - critical assumption
  - macroeconomic assumption
  - financial assumption
  - positive assumption

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Application

123. In order to eliminate unnecessary details and highlight the essential features of an economic model, an economist makes
- critical assumptions
  - macroeconomic assumptions
  - normative assumptions
  - positive assumptions
  - simplifying assumptions

ANS: E PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

STA: DISC: Understanding and Applying Economic Models TOP: The Methods of Economics

KEY: Bloom's: Knowledge

124. The ultimate purpose of an economic model is to
- explain reality as completely as possible
  - establish assumptions that closely resemble reality
  - help us understand economic behavior
  - determine what each decision maker wants to maximize
  - guide government policy decisions

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

STA: DISC: Understanding and Applying Economic Models TOP: The Methods of Economics

KEY: Bloom's: Knowledge

125. A critical assumption made by all economic models is that
- few economic decision makers face constraints under capitalism
  - few economic decision makers face constraints under communism
  - every economic decision maker, except the extremely wealthy, faces constraints
  - every economic decision maker, except the federal government, faces constraints
  - every economic decision maker faces constraints under every economic system

ANS: E PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

STA: DISC: Understanding and Applying Economic Models TOP: The Methods of Economics

KEY: Bloom's: Knowledge

126. An economic model is a(n)
- philosophical inquiry
  - set of numbers that describe a firm (e.g., profits and assets)
  - abstract representation of reality
  - concrete representation of reality
  - ideal to which economic entities are compared

ANS: C PTS: 1 DIF: Difficulty: Moderate

NAT: BUSPROG: Analytic

STA: DISC: Understanding and Applying Economic Models TOP: The Methods of Economics

KEY: Bloom's: Knowledge

127. An assumption that makes an economic model simpler without affecting its conclusions in important ways is
- an indication of a positive assumption
  - an efficient assumption
  - useful in disguising the valid conclusions
  - a simplifying assumption
  - a critical assumption

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

128. A critical assumption is one
- that affects a model in important ways
  - that is understood only by economists
  - that makes a model simpler without affecting any of its important conclusions
  - with negative implications for a process or outcome
  - that is critically unreasonable

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

129. An assumption that affects a model in important ways is
- a key step
  - a simplifying assumption
  - a bad assumption, one that should be avoided in economic theory
  - a critical assumption
  - one that should be replaced with empirical evidence

ANS: D                      PTS: 1                      DIF: Difficulty: Challenging  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

130. The ultimate purpose of building an economic model is to
- challenge college students
  - constrain economic agents
  - predict behavior
  - change behavior
  - prevent behavior

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

131. A critical assumption differs from a simplifying assumption in that a critical assumption
- is a means of getting rid of extraneous details in the model
  - cannot affect the conclusions of the model
  - can affect the conclusions of the model
  - is rarely used in economic models
  - is never a fundamental assumption

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

132. Which of the following is assumed in virtually every economic model?
- a. Inefficiency exists in the economy.
  - b. Decision makers operate in the face of unlimited resources.
  - c. All decision makers face constraints.
  - d. Normative economic statements are derived from mathematical equations.
  - e. Positive statements are derived from normative statements.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

133. The best economic theory is the one
- a. whose assumptions most closely match reality
  - b. that yields the most accurate predictions
  - c. that most simply represents reality
  - d. that most closely matches the conscious behavior of economic decision makers
  - e. that includes the most details

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

134. The objective of an economic model is to
- a. be an accurate description of reality
  - b. yield better understanding of important relationships
  - c. use simplifying assumptions to make positive economic statements
  - d. use basic principles of economics to derive fundamental assumptions about human behavior
  - e. predict real-world occurrences with complete accuracy

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic  
STA: DISC: Understanding and Applying Economic Models      TOP: The Methods of Economics  
KEY: Bloom's: Knowledge

135. The opportunity cost of a particular activity is the sum of the benefits that could have been received from all foregone activities.
- a. True
  - b. False

ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice      KEY: Bloom's: Knowledge

136. If Sally purchases a particular compact disk, it is because the opportunity cost is higher than it would be for any other compact disk.
- a. True
  - b. False

ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice      KEY: Bloom's: Comprehension

137. Suppose your friends take you out for dinner on your birthday and you have a much better time than you would have had doing anything else. There is still an opportunity cost, even though they will not let you pay for anything.
- True
  - False
- ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension
138. Opportunity costs arise because of resource scarcity.
- True
  - False
- ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Knowledge
139. The opportunity cost of any activity can be measured by the
- value of the best alternative to that activity
  - price (or monetary costs) of the activity
  - level of technology
  - time needed to select among various alternatives
  - fringe benefits associated with the activity
- ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Knowledge
140. Opportunity costs exist because
- there is a price attached to virtually every good or service
  - technology is not fixed in the economy
  - people have different tastes and preferences
  - limited resources cannot satisfy all of the wants in society
  - the production possibilities frontier is bowed in with respect to the origin
- ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Knowledge
141. The opportunity cost of a particular activity
- is the same for everyone pursuing this activity
  - may include both monetary costs and forgone income
  - always decreases as more of that activity is pursued
  - usually is known with certainty
  - measures the direct benefits of that activity
- ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension
142. After graduating from high school, Steve had the following three choices for his immediate future, listed in order of preference: (1) attend our campus, (2) work in a printed circuit board factory, or (3) attend a rival college. His opportunity cost of going to college here includes which of the following?
- The cost of books and supplies at the rival college

- b. The income he could have earned at the printed circuit board factory plus the direct cost of attending college here (tuition, textbooks, etc.)
- c. The benefits he could have received from going to the rival college
- d. Only the tuition and fees paid for taking classes here
- e. Cannot be determined from the information given

ANS: B                      PTS: 1                      DIF: Difficulty: Challenging  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Application

143. A professional basketball players' union negotiates a contract that dramatically increases all players' salaries. How would this influence the opportunity cost for a player who was considering giving up basketball to pursue a career in broadcasting?
- a. It would not affect the opportunity cost of playing basketball or of broadcasting.
  - b. It would increase the opportunity cost of continuing to play professional basketball.
  - c. It would cause the production possibilities frontier to become convex.
  - d. It would increase the opportunity cost of becoming a broadcaster.
  - e. It should have no bearing on the player's decision from an economic standpoint.

ANS: D                      PTS: 1                      DIF: Difficulty: Challenging  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Application

144. A particular music store, Discs-R-Us, sells over 3,000 different compact disks. Pat's opportunity cost of choosing to purchase a compact disk by Pearl Jam
- a. is zero if he does not like any other compact disk
  - b. is how much he would have enjoyed his second-favorite compact disk
  - c. depends on the compact disks not sold by the store
  - d. is negative
  - e. is how much he would have enjoyed a compact disk by Vanilla Ice

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Application

145. For an individual, opportunity costs
- a. decrease as consumption increases.
  - b. include only the monetary costs of goods and services.
  - c. reflect resource scarcity.
  - d. reflect the fact that wants are unlimited.
  - e. reflect the fundamental assumption that "more is better."

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Knowledge

<b>Figure 1-1</b>		
Hours Studying	Physics Score	Geology Score
0	40	30
1	50	60
2	60	80
3	85	90
4	90	100

146. Grant has four hours of time to divide between studying for a physics exam and a geology exam. **Figure 1-1** shows his estimates of the grades (on a scale of 0 to 100) that he could earn from studying a particular number of hours on each subject. If he plans on spending two hours studying each subject, what would be his opportunity cost of an additional hour studying physics?
- a. 10 points on his geology exam
  - b. 20 points on his geology exam
  - c. 80 points on his geology exam
  - d. 25 points on his physics exam
  - e. 85 points on his physics exam

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Application

147. Grant has four hours of time to divide between studying for a physics exam and a geology exam. **Figure 1-1** shows his estimates of the grades (on a scale of 0 to 100) that he could earn from studying a particular number of hours on each subject. If he plans on spending three hours studying physics, what would be his opportunity cost of an additional hour studying physics?
- a. 10 points on his geology exam
  - b. 20 points on his geology exam
  - c. 30 points on his geology exam
  - d. 25 points on his physics exam
  - e. 85 points on his physics exam

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Application

148. Due to resource scarcity,
- a. some economic activities have an opportunity cost
  - b. all economic activities have an opportunity cost
  - c. no economic activities have an opportunity cost
  - d. economic activities have opportunity costs equal to their market prices
  - e. economic activities have opportunity costs generally lower than their market prices

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Knowledge

149. Suppose a new freshman enters State U with the objective of having lots of fun while getting good grades. Suppose that Friday and Saturday night offer the best/most efficient times for having fun and the day time offers the best time for studying. She should
- a. study every single waking hour.
  - b. party every single waking hour.
  - c. assume there is no tradeoff between fun and grades.
  - d. assume there is a constant tradeoff between fun and grades.
  - e. assume there is a tradeoff between fun and grades that reflects increasing opportunity cost.

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Application

150. The money we pay for a good or service
- a. generally exceeds its opportunity cost.
  - b. generally equals its opportunity cost.



- c. has no part in determining its opportunity cost.
- d. generally equals two-thirds of its opportunity cost.
- e. generally is only part of its opportunity cost.

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension

151. What an economic decision maker must give up when choosing one economic activity over others is known as the
- a. alternative cost
  - b. decision cost
  - c. foregone cost
  - d. opportunity cost
  - e. accounting cost

ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Knowledge

152. Assume that Kelly's various possible activities are mutually exclusive. The opportunity cost from choosing one activity equals the
- a. summed value of all her alternative activities
  - b. summed value of all her alternative activities minus the value of the chosen activity
  - c. value of the next most valuable alternative activity
  - d. value of the next most valuable alternative activity minus the value of the chosen activity
  - e. summed value of all her alternative activities minus the value of the next most valuable alternative activity

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension

153. Carl is considering attending a concert with a ticket price of \$35. He estimates that the cost of driving to the concert and parking there will total an additional \$20. In order to attend the concert, Carl will have to take time off from his part-time job. He estimates that he will lose 5 hours at work, at a wage of \$6 per hour. Carl's opportunity cost of attending the concert equals
- a. \$35
  - b. \$55
  - c. \$30
  - d. \$65
  - e. \$85

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Analysis

154. Carl is considering attending a concert with a ticket price of \$35. He estimates that the cost of driving to the concert and parking there will total an additional \$20. In order to attend the concert, Carl will have to take time off from his part-time job and forgo studying for an exam scheduled for the next morning. He estimates that he will lose 3 hours at work, at a wage of \$6 per hour, plus 2 hours of study time. Carl's opportunity cost of attending the concert equals
- a. \$73 plus the value of the higher exam grade he could earn by studying longer
  - b. \$73
  - c. \$35 plus the value of the higher exam grade he could earn by studying longer

- d. \$35
- e. \$55 plus the value of the higher exam grade he could earn by studying longer

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Analysis

155. Carl is considering attending a concert with a ticket price of \$35. He estimates that the cost of driving to the concert and parking there will total an additional \$20. In order to attend the concert, Carl will have to take time off from his part-time job or forgo studying for an exam scheduled for the next morning. He estimates that he will lose 5 hours at work, at a wage of \$6 per hour, or 5 hours of study time. If Carl considers studying the best alternative use of his time, his opportunity cost of attending the concert equals

- a. \$55
- b. \$55 plus the value of the higher exam grade he could earn by studying for 5 hours
- c. \$85 plus the value of the higher exam grade he could earn by studying for 5 hours
- d. \$85 minus the value of the higher exam grade he could earn by studying for 5 hours
- e. \$55 minus the value of the higher exam grade he could earn by studying for 5 hours

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Analysis

156. The opportunity cost of a particular economic activity
- a. is the same for each individual considering the activity
  - b. can differ among different individuals considering the activity
  - c. excludes the monetary cost of the activity
  - d. equals the money cost of the activity minus its time cost
  - e. has the same time cost for each individual considering the activity

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension

157. The opportunity cost of any action is
- a. irrelevant to economic theory
  - b. limited to the out-of-pocket cost incurred
  - c. the sunk cost plus the markup on materials and labor
  - d. what we gain in the process of consumption
  - e. what is sacrificed to pursue that action

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Knowledge

158. Individuals face opportunity costs because
- a. the minimum wage is too low
  - b. technology is improving too quickly
  - c. time and funds are scarce
  - d. government cutbacks are widespread, except possibly among society's most affluent households
  - e. welfare gives individuals an incentive to stay at home

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
 NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Scarcity and Individual Choice                      KEY: Bloom's: Knowledge

159. The opportunity cost of an economic action is
- the value of the *next best* alternative that must be sacrificed
  - an issue in normative economic theory
  - the expense for the resources used plus the firm's profit
  - the out-of-pocket cost
  - the option to pay a reduced fee for the action

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Knowledge

160. High-income people will sometimes pay higher prices at convenience stores for goods that are available at discount stores. They do this because
- they are irrational
  - their opportunity cost of time is low
  - crowded and understaffed discount stores impose higher time costs
  - they like to be seen paying more money
  - they do not mind wasting time

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension

161. A consultant who earns \$100 per hour takes four hours off work to go to the movies. The out-of-pocket cost for the cab and the movie ticket are \$12. The total cost of the movie to the consultant is
- \$12
  - \$412
  - \$400
  - \$388
  - \$112

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Application

162. Kate takes a part-time job and the sacrifice of study time causes her grade point average to fall from 3.5 to 2.9. Assume that the grade point average would have stayed at 3.5 if study time had not been reduced. The opportunity cost of having taken the job is the
- cost of tuition
  - 3.5 grade point average
  - 0.6 decrease in the grade point average
  - 2.9 grade point average
  - money earned from the part-time job

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Application

163. For society as a whole, producing more of one good or service has an opportunity cost because
- human wants are limited and resources are unlimited
  - both human wants and resources are unlimited
  - resources are limited; human wants are irrelevant
  - human wants are unlimited and resources are limited
  - both human wants and resources are limited

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Knowledge

164. Society as a whole faces opportunity costs because
- there is not enough money to go around
  - politicians are greedy
  - workers shirk their responsibilities and management is unable to compensate for this
  - resources are abundant
  - resources are scarce

ANS: E                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Knowledge

165. Opportunity costs arise in production because
- resources are unlimited
  - resources must be shifted away from producing one good in order to produce another
  - wants are limited in society
  - monetary costs of inputs usually outweigh non-monetary costs
  - the monetary costs of only a few resources are zero

ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Knowledge

166. The idea of opportunity cost suggests that the cost of a particular choice should be measured by the
- price of the good chosen
  - price of the good divided by income
  - value of the best alternative sacrificed
  - amount of the good consumed
  - sum of the costs of all foregone opportunities

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Knowledge

167. When measuring the opportunity cost of taking a vacation to Europe, the money spent on the flight, hotels, and meals is
- generally less than the opportunity cost of the vacation
  - generally greater than the opportunity cost of the vacation
  - generally equal to the total opportunity cost of the vacation
  - equal to the total opportunity cost of the vacation only if the vacation was planned well in advance
  - equal to the total opportunity cost of the vacation only if there was little advanced planning

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension

168. All production involves an opportunity cost because
- to produce costs money
  - costs of production are sky rocketing
  - to produce more of one thing, we must produce more of everything

- d. to produce more of one thing, we must produce less of something else
- e. when an individual obtains more of a good, he may not be fully satisfied

ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Knowledge

169. Because resources are scarce, if society produces more of one commodity, it has to sacrifice some amount of another commodity. The amount sacrificed is
- a. a normative problem
  - b. the out-of-pocket cost
  - c. the opportunity cost
  - d. the lost profit
  - e. the total factor productivity

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Social Choice                      KEY: Bloom's: Knowledge

170. In one hour, George can fix 4 flat tires or type 200 words. His opportunity cost of fixing a flat tire is
- a. 200 words
  - b. 4 flat tires
  - c. 1 word
  - d. 50 words
  - e. 800 words

ANS: D                      PTS: 1                      DIF: Difficulty: Challenging  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Application

171. In one year, a weapons plant can manufacture either 1,000 more guns or 50 more tanks. The plant's opportunity cost of an extra tank is approximately
- a. 20 guns
  - b. 50 guns
  - c. 50 tanks
  - d. 1/50 of a tank
  - e. 1/50 of a gun

ANS: A                      PTS: 1                      DIF: Difficulty: Challenging  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension

172. In one year, a weapons plant can manufacture either 1,000 more guns or 50 more tanks. The plant's opportunity cost of an extra gun is approximately
- a. 50 tanks
  - b. 20 guns
  - c. 20 tanks
  - d. 1/20 of a tank
  - e. 1/50 of a tank

ANS: D                      PTS: 1                      DIF: Difficulty: Challenging  
NAT: BUSPROG: Analytic                      STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Scarcity and Individual Choice                      KEY: Bloom's: Comprehension