

Chapter 01 - Limits, Alternatives, and Choices (+ Appendix)

Chapter 01
Limits, Alternatives, and Choices (+ Appendix)

Multiple Choice Questions

1. For economists, the word "utility" means:
 - A. versatility and flexibility.
 - B. rationality.
 - C. pleasure or satisfaction.
 - D. purposefulness.

2. In economics, the pleasure, happiness, or satisfaction received from a product is called:
 - A. marginal cost.
 - B. rational outcome.
 - C. status fulfillment.
 - D. utility.

3. When economists say that people act rationally in their self interest, they mean that individuals:
 - A. look for and pursue opportunities to increase their utility.
 - B. generally disregard the interests of others.
 - C. are mainly creatures of habit.
 - D. are usually impulsive and unpredictable.

4. According to Emerson: "Want is a growing giant whom the coat of Have was never large enough to cover." According to economists, "Want" exceeds "Have" because:
 - A. people are greedy.
 - B. productive resources are limited.
 - C. human beings are inherently insecure.
 - D. people are irrational.

5. According to economists, economic self-interest:

- A. is a reality that underlies economic behavior.
- B. has the same meaning as selfishness.
- C. is more characteristic of men than of women.
- D. is usually self-defeating.

6. Joe sold gold coins for \$1000 that he bought a year ago for \$1000. He says, "At least I didn't lose any money on my financial investment." His economist friend points out that in effect he did lose money, because he could have received a 3 percent return on the \$1000 if he had bought a bank certificate of deposit instead of the coins. The economist's analysis in this case incorporates the idea of:

- A. opportunity costs.
- B. marginal benefits that exceed marginal costs.
- C. imperfect information.
- D. normative economics.

7. A person should consume more of something when its marginal:

- A. benefit exceeds its marginal cost.
- B. cost exceeds its marginal benefit.
- C. cost equals its marginal benefit.
- D. benefit is still positive.

8. Economics may best be defined as the:

- A. interaction between macro and micro considerations.
- B. social science concerned with how individuals, institutions, and society make optimal choices under conditions of scarcity.
- C. empirical testing of value judgments through the use of logic.
- D. use of policy to refute facts and hypotheses.

9. The study of economics is primarily concerned with:

- A. keeping private businesses from losing money.
- B. demonstrating that capitalistic economies are superior to socialistic economies.
- C. choices that are made in seeking the best use of resources.
- D. determining the most equitable distribution of society's output.

10. The economic perspective entails:

- A. irrational behavior by individuals and institutions.
- B. a comparison of marginal benefits and marginal costs in decision making.
- C. short-term but not long-term thinking.
- D. rejection of the scientific method.

11. Purposeful behavior suggests that:

- A. everyone will make identical choices.
- B. resource availability exceeds economic wants.
- C. individuals may make different choices because of different desired outcomes.
- D. an individual's economic goals cannot involve tradeoffs.

12. Purposeful behavior means that:

- A. people are selfish in their decision-making.
- B. people weigh costs and benefits to make decisions.
- C. people are immune from emotions affecting their decisions.
- D. decision-makers do not make mistakes when weighing costs and benefits.

13. Economics involves marginal analysis because:

- A. most decisions involve changes from the present situation.
- B. marginal benefits always exceed marginal costs.
- C. marginal costs always exceed marginal benefits.
- D. much economic behavior is irrational.

14. You should decide to go to a movie:

- A. if the marginal cost of the movie exceeds its marginal benefit.
- B. if the marginal benefit of the movie exceeds its marginal cost.
- C. if your income will allow you to buy a ticket.
- D. because movies are enjoyable.

15. Marginal costs exist because:

- A. the decision to engage in one activity means forgoing some other activity.
- B. wants are scarce relative to resources.
- C. households and businesses make rational decisions.
- D. most decisions do not involve sacrifices or tradeoffs.

16. The assertion that "There is no free lunch" means that:

- A. there are always tradeoffs between economic goals.
- B. all production involves the use of scarce resources and thus the sacrifice of alternative goods.
- C. marginal analysis is not used in economic reasoning.
- D. choices need not be made if behavior is rational.

17. Consumers spend their incomes to get the maximum benefit or satisfaction from the goods and services they purchase. This is a reflection of:

- A. resource scarcity and the necessity of choice.
- B. purposeful behavior.
- C. marginal costs that exceed marginal benefits.
- D. the tradeoff problem that exists between competing goals.

18. If someone produced too much of a good, this would suggest that:

- A. rational choice cannot be applied to many economic decisions.
- B. the good was produced to the point where its marginal cost exceeded its marginal benefit.
- C. certain goods and services such as education and health care are inherently desirable and should be produced regardless of costs and benefits.
- D. the good was produced to the point where its marginal benefit exceeded its marginal cost.

19. Even though local newspapers are very inexpensive, people rarely buy more than one of them each day. This fact:

- A. is an example of irrational behavior.
- B. implies that reading should be taught through phonics rather than the whole language method.
- C. contradicts the economic perspective.
- D. implies that, for most people, the marginal benefit of reading a second newspaper is less than the marginal cost.

20. In deciding whether to study for an economics quiz or go to a movie, one is confronted by the idea(s) of:

- A. scarcity and opportunity costs.
- B. money and real capital.
- C. complementary economic goals.
- D. full production.

21. Which one of the following expressions best states the idea of opportunity cost?

- A. "A penny saved is a penny earned."
- B. "He who hesitates is lost."
- C. "There is no such thing as a free lunch."
- D. "All that glitters is not gold."

22. Suppose that a university decides to spend \$1 million to upgrade personal computers and scientific equipment for faculty rather than spend \$1 million to expand parking for students.

This example illustrates:

- A. distorted priorities.
- B. opportunity costs.
- C. increasing opportunity costs.
- D. productive efficiency.

23. Which of the following most closely relates to the idea of opportunity costs?

- A. tradeoffs.
- B. economic growth.
- C. technological change.
- D. capitalism.

24. Economists contend that most economic decisions are:

- A. random
- B. chaotic
- C. spontaneous
- D. purposeful

25. Alex sees that his neighbors' lawns all need mowing. He offers to provide the service in exchange for a wage of \$20 per hour. Some neighbors accept Alex's offer and others refuse. Economists would describe Alex's behavior as:

- A. rational self-interest, because he attempting to increase his own income by identifying and satisfying someone else's wants.
- B. greedy, because he is asking for a high wage.
- C. selfish, because he is asking for a wage that is higher than others might charge.
- D. irrational, because some neighbors refused his offer.

26. Kara was out jogging and despite being tired, decided to run one more mile. Based on her actions, economists would conclude that Kara:

- A. must be an avid runner.
- B. decided that the marginal benefit of running one more mile would outweigh the cost of the additional mile.
- C. decided that the marginal cost of running one more mile would outweigh the benefit of the additional mile.
- D. was not very tired, so the marginal cost of the extra mile was very low.

27. An economic hypothesis:

- A. has the same meaning as an economic principle or economic law.
- B. is usually a normative statement.
- C. is a possible explanation of cause and effect.
- D. is a stronger generalization than an economic law.

28. Which of the following terms implies the *least* degree of confidence in an economic generalization?

- A. a hypothesis.
- B. a theory.
- C. a principle.
- D. a law.

29. Which of the following terms implies the *greatest* degree of confidence in an economic generalization?

- A. a hypothesis.
- B. a comparison.
- C. a principle.
- D. an anomaly.

30. A well-tested economic theory is often called:

- A. an hypothesis.
- B. a prototype.
- C. a principle.
- D. an anomaly.

31. The scientific method is:

- A. not applicable to economics, because economics deals with human beings.
- B. also known as the economic perspective.
- C. analysis that moves from broad generalizations called laws to theories and then to hypotheses.
- D. used by economists and other social scientists, as well as by physical scientists and life scientists.

32. The process by which economists test hypotheses against facts to develop theories, principles, and models is called:

- A. the economic perspective.
- B. the scientific method.
- C. policy economics.
- D. microeconomics.

33. Economic theories:

- A. are useless because they are not based on laboratory experimentation.
- B. that are true for individual economic units are never true for the economy as a whole.
- C. are generalizations based on a careful observation of facts.
- D. are abstractions and therefore of no application to real situations.

34. Which of the following is a *correct* statement?

- A. Economic concepts or laws that are valid during depression are necessarily valid during prosperity.
- B. Although they are generalizations, economic laws are useful because they allow us to predict and therefore control or adjust to events.
- C. Economics is as scientific as are physics and chemistry because economic laws are as quantitatively precise as the laws of physics or chemistry.
- D. Because economics is concerned with questions of "ought," it is a branch of applied ethics and not scientific.

35. In constructing models, economists:

- A. make simplifying assumptions.
- B. include all available information.
- C. must use mathematical equations.
- D. attempt to duplicate the real world.

36. The Latin term "ceteris paribus" means:

- A. that if event A precedes event B, A has caused B.
- B. that economics deals with facts, not values.
- C. other things equal.
- D. prosperity inevitably follows recession.

37. The basic purpose of the other-things-equal assumption is to:

- A. allow one to reason about the relationship between variables X and Y without the intrusion of variable Z .
- B. allow one to focus upon micro variables by ignoring macro variables.
- C. allow one to focus upon macro variables by ignoring micro variables.
- D. determine whether X causes Y or vice versa.

38. Suppose an economist says that "Other things equal, the lower the price of bananas, the greater the amount of bananas purchased." This statement indicates that:

- A. the quantity of bananas purchased determines the price of bananas.
- B. all factors other than the price of bananas (for example, consumer tastes and incomes) are assumed to be constant.
- C. economists can conduct controlled laboratory experiments.
- D. one cannot generalize about the relationship between the price of bananas and the quantity purchased.

39. The term "other things equal" means that:

- A. the associated statement is normative.
- B. many variables affect the variable under consideration.
- C. a number of relevant variables are assumed to be constant.
- D. when variable X increases so does related variable Y .

40. Kelly works at an ice cream shop and observes that the number of people buying ice cream varies greatly from day to day. For a couple of weeks she has recorded the number of people at the shop each day, as well as the daily temperature. If Kelly is using the scientific method to better understand ice cream buying habits, her next step is to:

- A. conclude definitively that people buy more ice cream when the temperature rises.
- B. state her findings as a well-tested economic principle.
- C. use the observed data to form an hypothesis about ice cream buying behavior.
- D. throw out the data if it does not show a perfect relationship between buying habits and the other information she has collected.

41. Macroeconomics approaches the study of economics from the viewpoint of:
- A. the entire economy.
 - B. governmental units.
 - C. the operation of specific product and resource markets.
 - D. individual firms.
42. Which of the following is associated with macroeconomics?
- A. an examination of the incomes of Harvard Business School graduates
 - B. an empirical investigation of the general price level and unemployment rates since 1990
 - C. a study of the trend of pecan prices since the Second World War
 - D. a case study of pricing and production in the textbook industry
43. The problems of aggregate inflation and unemployment are:
- A. major topics of macroeconomics.
 - B. not relevant to the U.S. economy.
 - C. major topics of microeconomics.
 - D. peculiar to command economies.
44. Which of the following statements pertains to macroeconomics?
- A. Because the minimum wage was raised, Mrs. Olsen decided to enter the labor force.
 - B. A decline in the price of soybeans caused farmer Wanek to plant more land in wheat.
 - C. National income grew by 2.7 percent last year.
 - D. The Pumpkin Center State Bank increased its interest rate on consumer loans by 1 percentage point.
45. Macroeconomics can best be described as the:
- A. analysis of how a consumer tries to spend income.
 - B. study of the large aggregates of the economy or the economy as a whole.
 - C. analysis of how firms attempt to maximize their profits.
 - D. study of how supply and demand determine prices in individual markets.

46. Microeconomics is concerned with:

- A. the aggregate or total levels of income, employment, and output.
- B. a detailed examination of specific economic units that make up the economic system.
- C. positive economics, but not normative economics.
- D. the establishing of an overall view of the operation of the economic system.

47. Microeconomics:

- A. is the basis for the "after this, therefore because of this" fallacy.
- B. is not concerned with details, but only with the overall big picture of the economy.
- C. is concerned with individual economic units and specific markets.
- D. describes the aggregate flows of output and income.

48. Which of the following is a microeconomic statement?

- A. The real domestic output increased by 2.5 percent last year.
- B. Unemployment was 6.8 percent of the labor force last year.
- C. The price of personal computers declined last year.
- D. The general price level increased by 4 percent last year.

49. Which of the following statements is true?

- A. Microeconomics focuses on specific decision-making units of the economy; macroeconomics examines the economy as a whole.
- B. Macroeconomics focuses on specific decision-making units of the economy; microeconomics examines the economy as a whole.
- C. Every topic in economics is either a microeconomic or a macroeconomic issue; a topic cannot be both.
- D. Topics in microeconomics have public policy implications; topics in macroeconomics do not.

50. A normative statement is one that:

- A. is based on the law of averages.
- B. applies only to microeconomics.
- C. applies only to macroeconomics.
- D. is based on value judgments.

51. A positive statement is one which is:

- A. derived by induction.
- B. derived by deduction.
- C. subjective and is based on a value judgment.
- D. objective and is based on facts.

52. Which of the following is a positive statement?

- A. The humidity is too high today.
- B. It is too hot to jog today.
- C. The temperature is 92 degrees today.
- D. Summer evenings are nice when it cools off.

53. Normative statements are concerned primarily with:

- A. facts and theories.
- B. what ought to be.
- C. what is.
- D. rational choice involving costs and benefits.

54. A positive statement is concerned primarily with:

- A. some goal that is desirable to society.
- B. what should be.
- C. what is.
- D. the formulation of economic policy.

55. "Economics is concerned with how individuals, institutions, and society make optimal choices under conditions of scarcity." This statement is:

- A. positive, but incorrect.
- B. positive and correct.
- C. normative, but incorrect.
- D. normative and correct.

56. Ben says that "An increase in the tax on beer will raise its price." Holly argues that "Taxes should be increased on beer because college students drink too much." We can conclude that:

- A. Ben's statement is normative, but Holly's is positive.
- B. Holly's statement is normative, but Ben's is positive.
- C. Both statements are normative.
- D. Both statements are positive.

57. "Macroeconomics is the part of economics concerned with individual units such as a person, a household, a firm, or an industry." This statement is:

- A. positive, but incorrect.
- B. positive and correct.
- C. normative, but incorrect.
- D. normative and correct.

58. Brinley says that "Gas prices are rising because there aren't enough oil refineries." Katie argues that "Gas prices are rising because of the growing demand for gasoline from China and India." We can conclude that:

- A. Brinley's statement is positive; Katie's statement is normative.
- B. Brinley's statement is normative; Katie's statement is positive.
- C. Both statements are positive.
- D. Both statements are normative.

59. The economizing problem is:

- A. the need to make choices because economic wants exceed economic means.
- B. how to distribute resources equally amongst all members of society.
- C. that people's means often exceed their wants.
- D. that people do not know how to rationally allocate resources.

60. The economizing problem is one of deciding how to make the best use of:

- A. virtually unlimited resources to satisfy virtually unlimited wants.
- B. limited resources to satisfy virtually unlimited wants.
- C. unlimited resources to satisfy limited wants.
- D. limited resources to satisfy limited wants.

61. The scarcity problem:

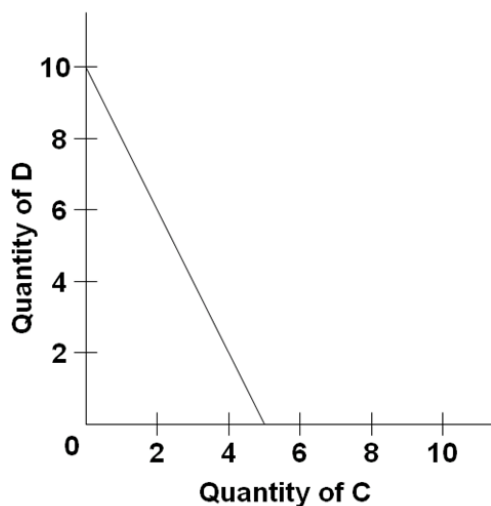
- A. persists only because countries have failed to achieve continuous full employment.
- B. persists because economic wants exceed available productive resources.
- C. has been solved in all industrialized nations.
- D. has been eliminated in affluent societies such as the United States and Canada.

62. The alternative combinations of two goods which a consumer can purchase with a given money income is shown by:

- A. a production possibilities curve.
- B. a demand curve.
- C. consumer expenditure line.
- D. a budget line.

63. The budget line shows:

- A. the amount of product A that a consumer is willing to give up to obtain one more unit of product B.
- B. all possible combinations of two goods that can be purchased, given money income and the prices of the goods.
- C. the minimum amount of two goods that a consumer can purchase with a given money income.
- D. all possible combinations of two goods that yield the same level of utility to the consumer.



64. Refer to the budget line shown in the diagram above. If the consumer's money income is \$20, the:

- A. prices of C and D cannot be determined.
- B. price of C is \$2 and the price of D is \$4.
- C. consumer can obtain a combination of 5 units of both C and D .
- D. price of C is \$4 and the price of D is \$2.

65. Refer to the budget line shown in the diagram above. If the consumer's money income is \$20, which of the following combinations of goods is *unattainable*?

- A. 4 units of C , and 6 units of D .
- B. 5 units of C , and no units of D .
- C. 1 unit of C , and 8 units of D .
- D. 2 units of C , and 6 units of D .

66. Refer to the budget line shown in the diagram above. The absolute value of the slope of the budget line is:

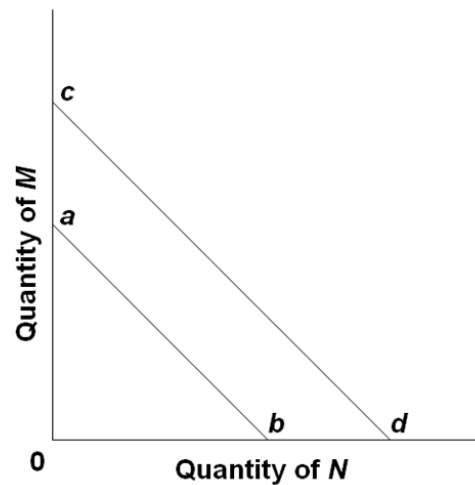
- A. MU_C/MU_D .
- B. one-half.
- C. P_D/P_C .
- D. P_C/P_D .

67. In moving along a given budget line:

- A. the prices of both products and money income are assumed to be constant.
- B. each point on the line will be equally satisfactory to consumers.
- C. money income varies, but the prices of the two goods are constant.
- D. the prices of both products are assumed to vary, but money income is constant.

68. An increase in money income:

- A. shifts the consumer's budget line to the right.
- B. shifts the consumer's budget line to the left.
- C. increases the slope of the budget line.
- D. has no effect on the budget line.



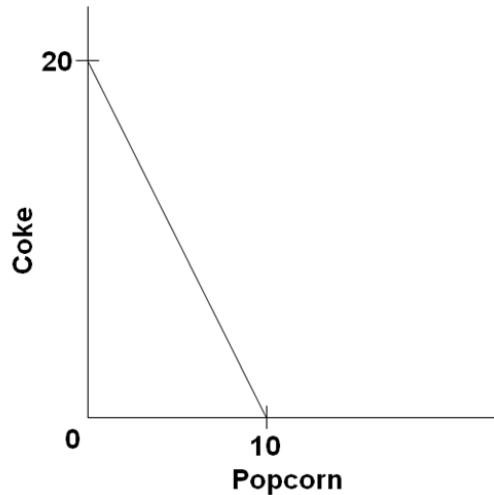
69.

The shift of the budget line from cd to ab in the above figure is consistent with:

- A. decreases in the prices of both M and N .
- B. an increase in the price of M and a decrease in the price of N .
- C. a decrease in money income.
- D. an increase in money income.

70. Any combination of goods lying outside of the budget line:

- A. implies that the consumer is not spending all his income.
- B. yields less utility than any point on the budget line.
- C. yields less utility than any point inside the budget line.
- D. is unattainable, given the consumer's income.



71.

Suppose you have a money income of \$10, all of which you spend on Coke and popcorn. In the above diagram, the prices of Coke and popcorn respectively are:

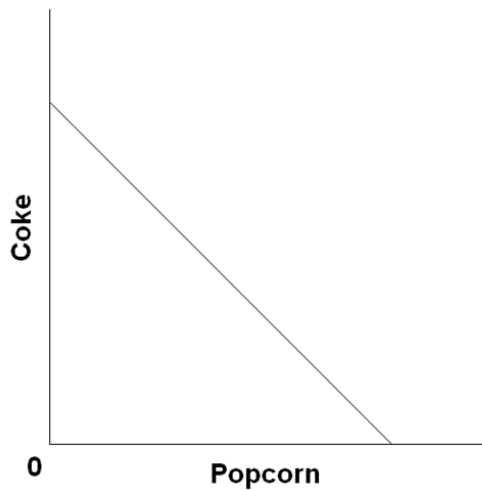
- A. \$.50 and \$1.00.
- B. \$1.00 and \$.50.
- C. \$1.00 and \$2.00.
- D. \$.40 and \$.50.

72. Other things equal, an increase in a consumer's money income:

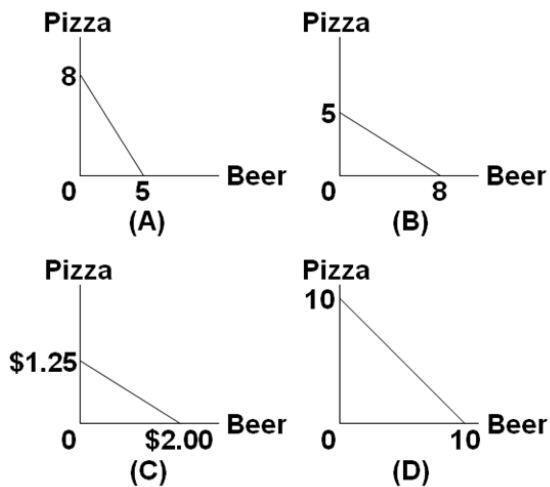
- A. increases the amount of utility a consumer receives from a given quantity of a good.
- B. shifts her budget line rightward because she can now purchase more of both products.
- C. eliminates the individual's economizing problem.
- D. causes the consumer to choose a different combination of goods along a given budget line.

73. The slope of a budget line reflects the:

- A. desirability of the two products.
- B. price ratio of the two products.
- C. amount of the consumer's income.
- D. utility ratio of the two products.



74. Suppose Elroy's budget line is as shown on the above diagram. If his tastes change in favor of Coke and against popcorn, the budget line will:
- A. become steeper.
 - B. become flatter.
 - C. shift rightward.
 - D. be unaffected.
75. Assume the price of product Y (the quantity of which is on the vertical axis) is \$15 and the price of product X (the quantity of which is on the horizontal axis) is \$3. Also assume that money income is \$60. The absolute value of the slope of the resulting budget line:
- A. is 5.
 - B. is $1/5$.
 - C. is 4.
 - D. is 20.



76. Refer to the above graphs. Assume that pizza is measured in slices and beer in pints. In which of the graphs is the opportunity cost of a pint of beer equal to one slice of pizza?

- A. graph A
- B. graph B
- C. graph C
- D. graph D

77. Refer to the above graphs. Assume that pizza is measured in slices and beer in pints. In which of the graphs is the opportunity cost of a pint of beer the lowest?

- A. graph A
- B. graph B
- C. graph C
- D. graph D

78. Suppose that Julia receives a \$20 gift card for the local coffee shop, where she only buys lattes and muffins. If the price of a latte is \$4 and the price of a muffin is \$2, then we can conclude that Julia:

- A. should only buy muffins.
- B. should only buy lattes.
- C. can buy 5 lattes or 10 muffins if she chooses to buy only one of the two goods.
- D. can buy 5 lattes and 10 muffins with her \$20 gift card.

79. Camille is at the candy store with her grandmother, who offers to buy her \$6 worth of candy. If lollipops are \$1 each, and candy bars are \$2 each, what combination of candy can Camille's grandmother buy for her?

- A. Six lollipops and three candy bars
- B. Two lollipops and two candy bars
- C. Three lollipops and two candy bars
- D. One lollipop and three candy bars

80. Which of the following is a labor resource?

- A. a computer programmer
- B. a computer
- C. silicon (sand) used to make computer chips
- D. a piece of software used by a firm

81. Which of the following is a capital resource?

- A. a computer programmer
- B. a corporate bond issued by a computer manufacturer
- C. silicon (sand) used to make computer chips
- D. a piece of software used by a firm

82. The four factors of production are:

- A. land, labor, capital, and money
- B. land, labor, capital, and entrepreneurial ability
- C. labor, capital, technology, and entrepreneurial ability
- D. labor, capital, entrepreneurial ability, and money

83. Which of the following is a land resource?

- A. a farmer
- B. an oil drilling rig
- C. a machine for detecting earthquakes
- D. natural gas

84. Which of the following lists includes only capital resources (and therefore no labor or land resources)?

- A. an ice arena; a professional hockey player; hockey uniforms.
- B. the owner of a new startup firm; a chemistry lab; a researcher.
- C. a hydroelectric dam; water behind the dam; power lines.
- D. autos owned by a car rental firm; computers at the car rental agency; the vans that shuffle rental customers to and from the airport.

85. Money is not an economic resource because:

- A. money, as such, does not produce anything.
- B. idle money balances do not earn interest income.
- C. it is not scarce.
- D. money is not a free gift of nature.

86. Economic resources are also called:

- A. free gifts of nature.
- B. consumption goods.
- C. units of money capital.
- D. factors of production.

87. Which of the following do economists consider to be capital?

- A. a pair of stockings
- B. a construction crane
- C. a savings account
- D. a share of IBM stock

88. The main function of the entrepreneur is to:

- A. make routine pricing decisions.
- B. innovate.
- C. purchase capital.
- D. create market demand.

89. Which of the following is *not* a main function of the entrepreneur?

- A. make routine pricing decisions.
- B. innovate.
- C. assume the risk of economic losses.
- D. make strategic business decisions.

90. The process of producing and accumulating capital goods is called:

- A. money capital.
- B. depreciation.
- C. investment.
- D. consumption.

91. Which of the following is *not* considered by economists to be an economic resource?

- A. money
- B. factory workers
- C. computers at a retail store
- D. a forest

92. Which of the following would *not* be classified as an economic resource by economists?

- A. a professional soccer player
- B. water in a town's reservoir
- C. money in a business checking account
- D. the manager of the local hamburger restaurant

93. The production possibilities curve illustrates the basic principle that:

- A. the production of more of any one good will in time require smaller and smaller sacrifices of other goods.
- B. an economy will automatically obtain full employment of its resources.
- C. if all the resources of an economy are in use, more of one good can be produced only if less of another good is produced.
- D. an economy's capacity to produce increases in proportion to its population size.

94. Which of the following will *not* produce an outward shift of the production possibilities curve?

- A. an upgrading of the quality of a nation's human resources
- B. the reduction of unemployment
- C. an increase in the quantity of a society's labor force
- D. the improvement of a society's technological knowledge

95. Unemployment:

- A. causes the production possibilities curve to shift outward.
- B. can exist at any point on a production possibilities curve.
- C. is illustrated by a point outside the production possibilities curve.
- D. is illustrated by a point inside the production possibilities curve.

96. If the production possibilities curve is a straight line:

- A. the two products will sell at the same market prices.
- B. economic resources are perfectly substitutable between the production of the two products.
- C. the two products are equally important to consumers.
- D. equal quantities of the two products will be produced at each possible point on the curve.

97. A production possibilities curve illustrates:

- A. scarcity.
- B. market prices.
- C. consumer preferences.
- D. the distribution of income.

98. A production possibilities curve shows:

- A. that resources are unlimited.
- B. that people prefer one of the goods more than the other.
- C. the maximum amounts of two goods that can be produced, assuming the full use of available resources.
- D. combinations of capital and labor necessary to produce specific levels of output.

99. A nation's production possibilities curve is bowed out from the origin because:
- A. resources are not generally equally efficient in producing every good.
 - B. the originator of the idea drew it this way and modern economists follow this convention.
 - C. resources are scarce.
 - D. wants are virtually unlimited.

Answer the question on the basis of the data given in the following production possibilities table:

	Production Possibilities (Alternatives)					
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>
Capital Goods	5	4	3	2	1	0
Consumer Goods	0	5	9	12	14	15

100. Refer to the above table. If the economy is producing at production alternative C, the opportunity cost of the tenth unit of consumer goods will be:
- A. 4 units of capital goods.
 - B. 2 units of capital goods.
 - C. 3 units of capital goods.
 - D. $\frac{1}{3}$ of a unit of capital goods.
101. Refer to the above table. As compared to production alternative D, the choice of alternative C would:
- A. tend to generate a more rapid growth rate.
 - B. be unattainable.
 - C. entail unemployment.
 - D. tend to generate a slower growth rate.
102. Refer to the above table. A total output of 3 units of capital goods and 4 units of consumer goods:
- A. is irrelevant because the economy is capable of producing a larger total output.
 - B. will result in the maximum rate of growth available to this economy.
 - C. would involve an inefficient use of the economy's scarce resources.
 - D. is unobtainable in this economy.

103. Refer to the above table. For this economy to produce a total output of 3 units of capital goods and 13 units of consumer goods it must:

- A. achieve economic growth.
- B. use its resources more efficiently than the data in the table now indicate.
- C. allocate its available resources most efficiently among alternative uses.
- D. achieve the full employment of available resources.

104. Refer to the above table. For these data the law of increasing opportunity costs is reflected in the fact that:

- A. the amount of consumer goods that must be sacrificed to get more capital goods diminishes beyond a point.
- B. larger and larger amounts of capital goods must be sacrificed to get additional units of consumer goods.
- C. the production possibilities data would graph as a straight downsloping line.
- D. the economy's resources are presumed to be scarce.

105. When an economy is operating under conditions of full employment, the production of more of commodity A will mean the production of less of commodity B because:

- A. of the law of increasing opportunity costs.
- B. economic wants are insatiable.
- C. resources are limited.
- D. resources are specialized and only imperfectly substitutable.

106. Assume that a change in government policy results in greater production of both consumer goods and investment goods. We can conclude that:

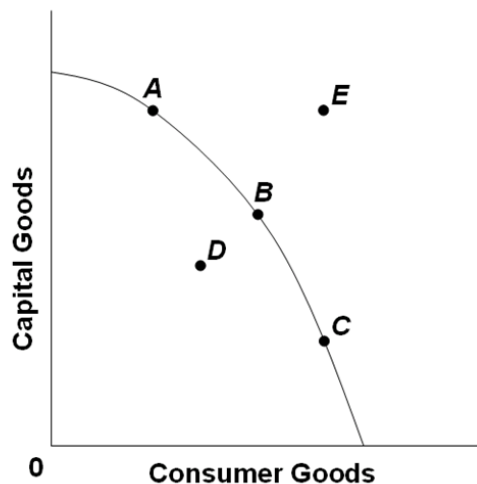
- A. the economy was not employing all of its resources before the policy change.
- B. the economy's production possibilities curve has been shifted to the left as a result of the policy decision.
- C. this economy's production possibilities curve is convex (bowed inward) to the origin.
- D. the law of increasing opportunity costs does not apply in this society.

107. The production possibilities curve:

- A. shows all of those levels of production that are consistent with a stable price level.
- B. indicates that any combination of goods lying outside the curve is economically inefficient.
- C. is a frontier between all combinations of two goods that can be produced and those combinations that cannot be produced.
- D. shows all of those combinations of two goods that are most preferred by society.

108. Any point inside the production possibilities curve indicates:

- A. the presence of technological change.
- B. that resources are imperfectly substitutable among alternative uses.
- C. the presence of inflationary pressures.
- D. that more output could be produced with available resources.



109. Refer to the above diagram. Other things equal, this economy will achieve the most rapid rate of growth if:

- A. the ratio of capital to consumer goods is minimized.
- B. it chooses point C.
- C. it chooses point B.
- D. it chooses point A.

110. Refer to the above diagram. This economy will experience unemployment if it produces at point:

- A. *A*.
- B. *B*.
- C. *C*.
- D. *D*.

111. Which of the following is assumed in constructing a typical production possibilities curve?

- A. the economy is using its resources inefficiently.
- B. resources are perfectly shiftable among alternative uses.
- C. production technology is fixed.
- D. the economy is engaging in international trade.

112. The typical production possibilities curve is:

- A. an upsloping line that is bowed out from the origin.
- B. a downsloping line that is bowed in toward the origin.
- C. a downsloping line that is bowed out from the origin.
- D. a straight upsloping line.

113. The slope of the typical production possibilities curve:

- A. is positive.
- B. increases as one moves southeast along the curve.
- C. is constant as one moves down the curve.
- D. decreases as one moves southeast along the curve.

114. Assume an economy is incurring unemployment. The effect of resolving this problem will be to:

- A. move the level of actual output on to the economy's production possibilities curve.
- B. create a less equal distribution of income.
- C. shift its production possibilities curve to the left.
- D. shift its production possibilities curve to the right.

<u>Duckistan Production Possibilities</u>					
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>
Civilian Goods	20	18	14	8	0
Military Goods	0	1	2	3	4

<u>Herbania Production Possibilities</u>					
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>
Civilian Goods	40	36	26	14	0
Military Goods	0	1	2	3	4

115. Refer to the above tables. Suppose that the amount and quality of resources are the same in both countries. We can conclude that:

- A. Duckistan is technologically better than Herbania at producing military goods.
- B. Herbania is technologically better than Herbania at producing both military goods and civilian goods.
- C. the total opportunity cost of producing 4 units of military goods is the same in both countries.
- D. Herbania is technologically superior to Duckistan in producing civilian goods.

116. Refer to the above tables. Suppose that technology and the quality of resources are the same in both countries. We can conclude that:

- A. Duckistan has more resources than Herbania.
- B. Herbania has more resources than Duckistan.
- C. Duckistan has greater opportunity costs than Herbania.
- D. Prices are twice as high in Herbania as in Duckistan.

117. Refer to the above tables. Opportunity costs of producing military goods are:

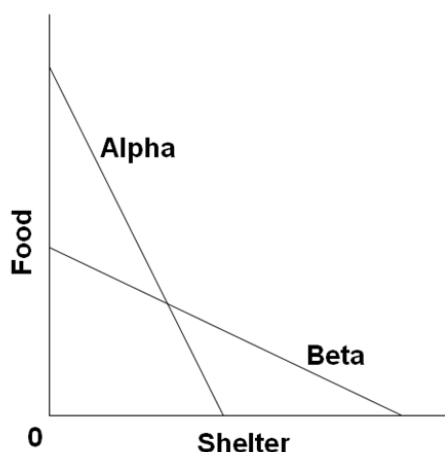
- A. increasing in Duckistan but constant in Herbania.
- B. constant in both Duckistan and Herbania.
- C. larger in Duckistan than in Herbania.
- D. smaller in Duckistan than Herbania.

118. Refer to the above tables. Opportunity costs are:

- A. constant in both Duckistan and Herbania.
- B. larger in Duckistan than in Herbania.
- C. increasing in both Duckistan and Herbania.
- D. increasing in Duckistan and constant in Herbania.

119. Refer to the above tables. Suppose that Duckistan and Herbania are each producing 14 units of civilian goods and 2 unit of military goods. Then:

- A. Duckistan is fully employing its resources but Herbania is not.
- B. both Duckistan and Herbania are fully employing their resources.
- C. Herbania is fully employing its resources but Duckistan is not.
- D. neither Duckistan nor Herbania are fully employing their resources.

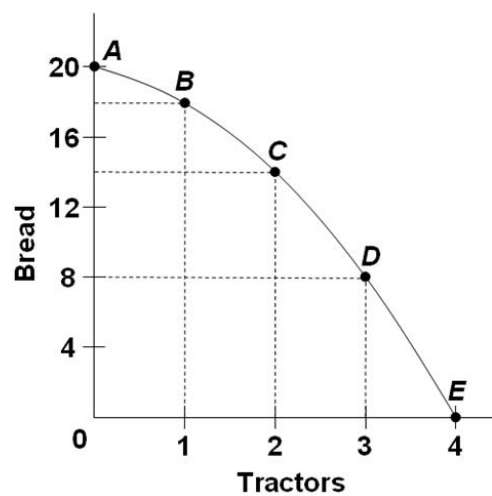


120.

In the figure above are two linear production possibilities curves for countries Alpha and Beta. We can conclude that:

- A. different value systems make it impossible to compare opportunity costs in the two countries.
- B. the opportunity cost of shelter is greater in Beta than it is in Alpha.
- C. the opportunity cost of food is greater in Alpha than it is in Beta.
- D. the opportunity cost of shelter is greater in Alpha than it is in Beta.

121. Which of the following is *not* correct? A typical production possibilities curve:
- A. indicates how much of two products a society can produce.
 - B. reveals how much each additional unit of one product will cost in terms of the other product.
 - C. specifies how much of each product society should produce.
 - D. indicates that to produce more of one product society must forgo larger and larger amounts of the other product.



122. Refer to the above diagram. This production possibilities curve is constructed so that:
- A. resources are presumed to be perfectly shiftable between bread and tractors.
 - B. the opportunity cost of bread diminishes as more bread is produced.
 - C. the opportunity cost of tractors increases as more bread is produced.
 - D. the opportunity cost of both bread and tractors increases as more of each is produced.

123. Refer to the above diagram. Which of the following is a normative statement?

- A. Point *C* is superior to point *B* because it is important to enhance the future of society.
- B. If society is initially at point *C*, it must sacrifice 6 units of bread to obtain one more unit of tractors.
- C. If society produces 2 units of tractors and 12 units of bread, it is not using its available resources with maximum efficiency.
- D. Other things equal, the combination of outputs represented by point *D* will result in more rapid economic growth than will the combination represented by point *C*.

124. Refer to the above diagram. Which of the following is a positive statement?

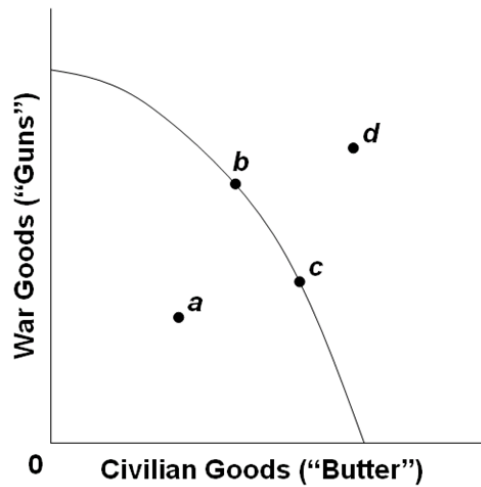
- A. A point inside the production possibilities curve is superior to a point on the curve because the former requires less work effort.
- B. Because any society should stress economic growth as its major goal, point *D* is superior to point *C*.
- C. Point *B* is preferable to point *C* because the ultimate goal of economic activity is to maximize consumption.
- D. Given its resources and technology, this society is incapable of simultaneously producing 3 units of tractors and 15 units of bread.

125. Refer to the above diagram. Starting at point *A*, the opportunity cost of producing each successive unit of tractors is:

- A. a constant 2 units of bread.
- B. 2, 4, 6, and 8 units of bread.
- C. 8, 6, 4, and 2 units of bread.
- D. the reciprocal of the output of tractors.

126. Refer to the above diagram. Starting at point *E*, the production of successive units of bread will cost:

- A. a constant 8 units of tractors.
- B. a constant 6 units of tractors.
- C. $\frac{1}{8}$, $\frac{1}{6}$, $\frac{1}{4}$, and $\frac{1}{2}$ units of tractors.
- D. $\frac{1}{2}$, $\frac{1}{4}$, $\frac{1}{6}$, and $\frac{1}{8}$ units of tractors.



127. Refer to the above production possibilities curve. At the onset of the Second World War the United States had large amounts of idle human and property resources. Its economic adjustment from peacetime to wartime can best be described by the movement from point:

- A. *c* to point *b*.
- B. *b* to point *c*.
- C. *a* to point *b*.
- D. *c* to point *d*.

128. Refer to the above production possibilities curve. At the onset of the Second World War the Soviet Union was already at full employment. Its economic adjustment from peacetime to wartime can best be described by the movement from point:

- A. *c* to point *b*.
- B. *b* to point *c*.
- C. *a* to point *b*.
- D. *c* to point *d*.

129. The production possibilities curve shows:

- A. the various combinations of two goods that can be produced when society employs all of its scarce resources.
- B. the minimum outputs of two goods that will sustain a society.
- C. the various combinations of two goods that can be produced when some resources are unemployed.
- D. the ideal, but unattainable, combinations of two goods that would maximize consumer satisfactions.

130. The negative slope of the production possibilities curve is a graphical way of indicating that:

- A. any economy "can have its cake and eat it too."
- B. to produce more of one product we must do with less of another.
- C. the principle of increasing opportunity costs applies to only parts of the economy.
- D. consumers buy more when prices are low than when prices are high.

131. If an economy is operating *on* its production possibilities curve for consumer goods and capital goods, this means that:

- A. it is impossible to produce more consumer goods.
- B. resources cannot be reallocated between the two goods.
- C. it is impossible to produce more capital goods.
- D. more consumer goods can only be produced at the cost of fewer capital goods.

132. The construction of a production possibilities curve assumes:

- A. the quantities of all resources are unlimited.
- B. technology is fixed.
- C. some resources are unemployed.
- D. there is no inflation in the economy.

133. A typical concave (bowed out from the origin) production possibilities curve implies:

- A. that economic resources are unlimited.
- B. that society must choose among various attainable combinations of goods.
- C. decreasing opportunity costs.
- D. that society is using a market system to allocate resources.

134. The production possibilities curve tells us:

- A. the specific combination of two products that is most desired by society.
- B. that costs do not change as society varies its output.
- C. costs are irrelevant in a society that has fixed resources.
- D. the combinations of two goods that can be produced with society's available resources.

135. The production possibilities curve has:

- A. a positive slope that increases as we move along it from left to right.
- B. a negative slope that increases as we move along it from left to right.
- C. a negative slope that decreases as we move along it from left to right.
- D. a negative slope that is constant as we move along it from left to right.

Answer the question on the basis of the following production possibilities tables for two countries, North Cantina and South Cantina:

North Cantina Production Possibilities						
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>
Capital Goods	5	4	3	2	1	0
Consumer Goods	0	10	18	24	28	30

South Cantina Production Possibilities						
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>
Capital Goods	5	4	3	2	1	0
Consumer Goods	0	8	15	21	25	27

136. Refer to the above tables. If South Cantina is producing at production alternative D, the opportunity cost of the third unit of capital goods will be:

- A. 3 units of consumer goods.
- B. 4 units of consumer goods.
- C. 5 units of consumer goods.
- D. 6 units of consumer goods.

137. Refer to the above tables. If North Cantina is producing at production alternative B, the opportunity cost of the eleventh unit of consumer goods will be:

- A. 10 units of capital goods.
- B. $\frac{1}{4}$ of a unit of capital goods.
- C. 8 units of capital goods.
- D. $\frac{1}{8}$ of a unit of capital goods.

138. Refer to the above tables. Suppose that North Cantina is producing 2 units of capital goods and 17 units of consumer goods while South Cantina is producing 2 units of capital goods and 21 units of consumer goods. We can conclude that:

- A. North Cantina is fully and efficiently using its resources, but South Cantina is not.
- B. South Cantina is fully and efficiently using its resources, but North Cantina is not.
- C. neither South Cantina nor North Cantina are fully and efficiently using their resources.
- D. both South Cantina and North Cantina are fully and efficiently using their resources.

139. Refer to the above tables. Suppose that resources in North Cantina and South Cantina are identical in quantity and quality. We can conclude that:

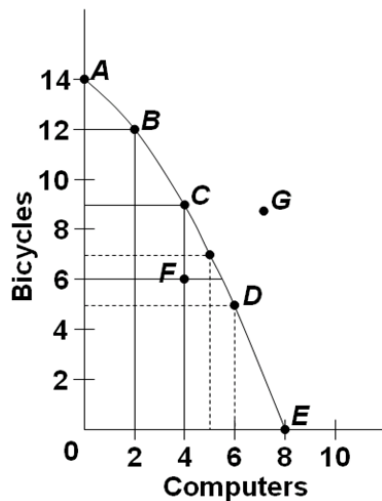
- A. South Cantina has better technology than North Cantina in producing both capital and consumer goods.
- B. North Cantina has better technology than South Cantina in producing both capital and consumer goods.
- C. North Cantina is growing more rapidly than South Cantina.
- D. North Cantina has better technology than South Cantina in producing consumer goods, but not capital goods.

140. Refer to the above tables. The opportunity cost of the fifth unit of capital goods:

- A. is higher in North Cantina than in South Cantina.
- B. is the same in North Cantina and South Cantina.
- C. is lower in North Cantina than in South Cantina.
- D. cannot be determined from the information provided.

141. If an economy is operating inside its production possibilities curve for consumer goods and capital goods, it:

- A. can only produce more consumer goods by producing fewer capital goods.
- B. can only produce more capital goods by producing fewer consumer goods.
- C. can produce more of both consumer goods and capital goods by using resources that are currently idle.
- D. must improve its technology to produce more output.



142. Refer to the above diagram. Points A, B, C, D, and E show:

- A. that the opportunity cost of bicycles increases, while that of computers is constant.
- B. combinations of bicycles and computers that society can produce by using its resources efficiently.
- C. that the opportunity cost of computers increases, while that of bicycles is constant.
- D. that society's demand for computers is greater than its demand for bicycles.

143. Refer to the above diagram. If society is currently producing 9 units of bicycles and 4 units of computers and it now decides to increase computer output to 6, the cost:

- A. will be 4 units of bicycles.
- B. will be 2 units of bicycles.
- C. will be zero because unemployed resources are available.
- D. of doing so cannot be determined from the information given.

144. Refer to the above diagram. The combination of computers and bicycles shown by point *G* is:

- A. attainable, but too costly.
- B. unattainable, given currently available resources and technology.
- C. attainable, but involves unemployment.
- D. irrelevant because it is inconsistent with consumer preferences.

145. Refer to the above diagram. If society is currently producing the combination of bicycles and computers shown by point *D*, the production of 2 more units of bicycles:

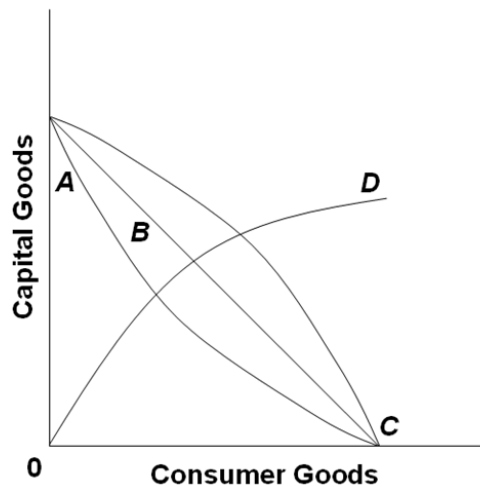
- A. cannot be achieved because resources are fully employed.
- B. will cost 1 unit of computers.
- C. will cost 2 units of computers.
- D. will cause some resources to become unemployed.

146. Refer to the above diagram. The combination of computers and bicycles shown by point *F*:

- A. is unattainable, given currently available resources and technology.
- B. is attainable, but implies that the economy is not using all its resources.
- C. is irrelevant because it is inconsistent with consumer preferences.
- D. suggests that opportunity costs are constant.

147. Refer to the above diagram. The movement down the production possibilities curve from point *A* to point *E* suggests that the production of:

- A. computers, but not bicycles, is subject to increasing opportunity costs.
- B. bicycles, but not computers, is subject to increasing opportunity costs.
- C. both bicycles and computers are subject to constant opportunity costs.
- D. both bicycles and computers are subject to increasing opportunity costs.



148. Refer to the above diagram. As it relates to production possibilities analysis, the law of increasing opportunity cost is reflected in curve:

- A. *A*
- B. *B*
- C. *C*
- D. *D*

149. Refer to the above diagram. Curve B is a:

- A. production possibilities curve indicating constant opportunity costs.
- B. production possibilities curve indicating increasing opportunity costs.
- C. demand curve indicating that the quantity of consumer goods demanded increases as the price of capital falls.
- D. technology frontier curve.

150. Refer to the above diagram. All other things equal, curve C

- A. reflects increasing opportunity costs because the slope of the curve becomes less steep as one moves down along the curve.
- B. is a less desirable production possibilities curve for an economy than curve B.
- C. is a more desirable production possibilities curve for an economy than curve A.
- D. has a steeper slope throughout than curve B.

151. The fact that the slope of the production possibilities curve becomes steeper as we move down along the curve indicates that:

- A. the principle of increasing opportunity costs is relevant.
- B. society's resources are limited.
- C. the opportunity cost of producing each product is constant.
- D. resources are perfectly shiftable between alternative uses.

152. The law of increasing opportunity costs states that:

- A. if society wants to produce more of a particular good, it must sacrifice larger and larger amounts of another good to do so.
- B. the sum of the costs of producing a particular good cannot rise above the current market price of that good.
- C. if the sum of the costs of producing a particular good rises by a specified percent, the price of that good must rise by a greater relative amount.
- D. if the prices of all the resources used to produce goods increase, the cost of producing any particular good will increase at the same rate.

153. The concept of opportunity cost:

- A. is irrelevant in socialistic economies because of central planning.
- B. suggests that the use of resources in any particular line of production means that alternative outputs must be forgone.
- C. is irrelevant if the production possibilities curve is shifting to the right.
- D. suggests that insatiable wants can be fulfilled.

154. The law of increasing opportunity costs is reflected in a production possibilities curve that is:

- A. an upsloping straight line.
- B. a downsloping straight line.
- C. bowed out from the origin.
- D. bowed in toward the origin.

155. The point on the production possibilities curve that is most desirable can be found by:

- A. estimating the marginal costs of both products in real or physical terms.
- B. comparing marginal benefits and marginal costs.
- C. determining where least-cost production occurs.
- D. calculating where economic growth will be greatest.

156. The optimal point on a production possibilities curve is achieved where:

- A. the smallest physical amounts of inputs are used to produce each good.
- B. each good is produced at a level where marginal benefits equal marginal costs.
- C. large amounts of capital goods are produced relative to consumer goods.
- D. large amounts of consumer goods are produced relative to capital goods.

157. The marginal benefit curve is:

- A. upsloping because of increasing marginal opportunity costs.
- B. upsloping because successive units of a specific product yield less and less extra benefit.
- C. downsloping because of increasing marginal opportunity costs.
- D. downsloping because successive units of a specific product yield less and less extra benefit.

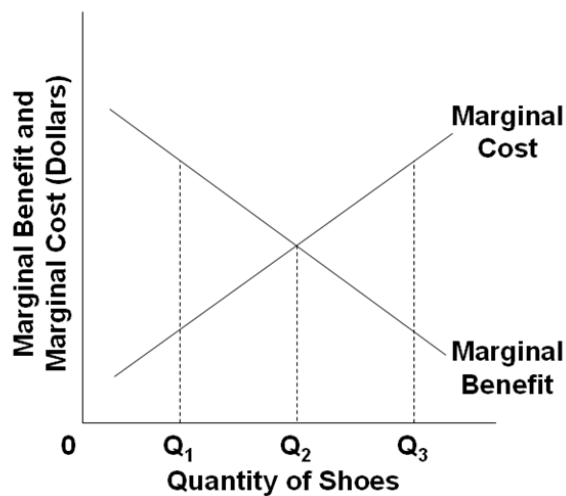
158. The marginal cost curve is:

- A. upsloping because of increasing marginal opportunity costs.
- B. upsloping because successive units of a specific product yield less and less extra utility.
- C. downsloping because of increasing marginal opportunity costs.
- D. downsloping because successive units of a specific product yield less and less extra utility.

159. The output of MP3 players should be:

- A. reduced if marginal benefits exceed marginal costs.
- B. reduced if marginal costs exceed marginal benefits.
- C. increased if marginal costs exceed marginal benefits.
- D. reduced to zero if their unit costs exceed the unit costs of alternative products.

160. If the output of product X is such that marginal benefit equals marginal cost:
- A. the correct amount of resources is being allocated to X's production.
 - B. the value of producing X exceeds the value of producing alternative products with the available resources.
 - C. there can be a net gain to society by allocating either more or less resources to producing X.
 - D. resources are overallocated to the production of X.



161. Refer to the above diagram for athletic shoes. The optimal output of shoes is:
- A. Q_1 .
 - B. Q_2 .
 - C. Q_3 .
 - D. greater than Q_3 .
162. Refer to the above diagram for athletic shoes. If the current output of shoes is Q_1 , then:
- A. society would consider additional units of shoes to be more valuable than alternative uses of those resources.
 - B. society would consider additional units of shoes to be less valuable than alternative uses of those resources.
 - C. society would experience a net loss by producing more shoes.
 - D. resources are being allocated efficiently to the production of shoes.

163. Refer to the above diagram for athletic shoes. If the current output of shoes is Q_3 , then:

- A. resources are being allocated efficiently to the production of shoes.
- B. society would consider additional units of shoes to be more valuable than alternative products.
- C. society would consider additional units of shoes to be less valuable than alternative products.
- D. society would experience a net gain by producing more shoes.

164. Refer to the above diagram for athletic shoes. If the current output of shoes is Q_3 , then:

- A. society should produce fewer shoes to achieve the optimal allocation of resources.
- B. society should produce more shoes to achieve the optimal allocation of resources.
- C. resources are being allocated efficiently to the production of shoes.
- D. shoes are more valuable to society than alternative products.

165. Suppose that a fully-employed economy produces only two goods, hamburgers and flat-panel TVs. If the economy is currently producing more than the optimal quantity of hamburgers, then to attain the optimal allocation of resources it should:

- A. produce more hamburgers and fewer TVs.
- B. produce more TVs and fewer hamburgers.
- C. produce more of both goods.
- D. produce fewer of both goods.

166. Suppose that an economy is producing on its production possibilities curve, but is not producing quantities of each good where the marginal benefit equals the marginal cost for each good. This economy:

- A. should not change its production because it cannot improve its allocation by shifting resources.
- B. can improve its allocation by lowering the unemployment rate.
- C. can improve its allocation by producing more of one good and less of the other.
- D. can improve its allocation by producing more of both goods.

167. The optimal allocation of resources is found:

- A. where $MB = MC$.
- B. at every point along a production possibilities curve.
- C. where the marginal benefit is at its greatest.
- D. where the marginal cost is at its lowest.



168. Refer to the above diagram. Technological advance in producing both capital goods and consumer goods is shown by the shift of the production possibilities curve from AB to:

- A. CD.
- B. EB.
- C. AF.
- D. GH.

169. Refer to the above diagram. Technological advance that improves the ability to produce capital goods but not consumer goods is shown by the shift of the production possibilities curve from AB to:

- A. CD.
- B. BE.
- C. AF.
- D. GH.

170. Refer to the above diagram. Technological advance that is useful in producing consumer goods but not in producing capital goods is shown by the shift of the production possibilities curve from AB to:

- A. CD.
- B. EB.
- C. AF.
- D. GH.

171. The basic difference between consumer goods and capital goods is that

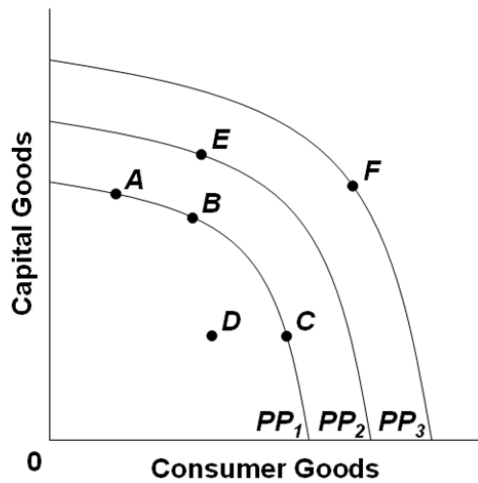
- A. consumer goods are produced in the private sector and capital goods are produced in the public sector.
- B. an economy that commits a relatively large proportion of its resources to capital goods must accept a lower growth rate.
- C. the production of capital goods is not subject to the law of increasing opportunity costs.
- D. consumer goods satisfy wants directly while capital goods satisfy wants indirectly.

172. Which of the following will shift the production possibilities curve to the right?

- A. an increase in the unemployment rate from 6 to 8 percent
- B. a decline in the efficiency with which the present labor force is allocated
- C. a decrease in the unemployment rate from 8 to 6 percent
- D. a technological advance that allows farmers to produce more output from given inputs

173. Other things equal, which of the following would shift an economy's production possibilities curve to the left?

- A. the discovery of a low-cost means of generating and storing solar energy
- B. the entrance of more women into the labor force
- C. a law requiring mandatory retirement from the labor force at age 55
- D. an increase in the proportion of total output that consists of capital or investment goods



174. Refer to the above diagram. The concave shape of each production possibilities curve indicates that:

- A. resources are perfectly substitutable.
- B. wants are virtually unlimited.
- C. prices are constant.
- D. resources are not equally suited for alternative uses.

175. Refer to the above diagram. The concept of opportunity cost is best represented by the:

- A. shift of the production possibilities curve from PP_1 to PP_2 .
- B. move from B on PP_1 to E on PP_2 .
- C. move from B on PP_1 to C on PP_1 .
- D. move from D inside PP_1 to B on PP_1 .

176. Refer to the above diagram. Other things equal, which of the following positions relative to PP_1 would be the most likely to result in a future production possibilities curve of PP_3 , rather than PP_2 ?

- A. A .
- B. B .
- C. C .
- D. D .

177. Refer to the above diagram. An improvement in technology will:

- A. shift the production possibilities curve from PP_1 to PP_2 .
- B. shift the production possibilities curve from PP_2 to PP_1 .
- C. move the economy from A to C along PP_1 .
- D. move the economy from A , B , or C on PP_1 to D .

178. Refer to the above diagram. Which one of the following would shift the production possibilities curve from PP_1 to PP_2 ?

- A. worsening of the AIDS epidemic
- B. immigration of skilled workers into the economy
- C. an increase in consumer prices
- D. a reduction in hourly wages

179. Which of the following statements, if any, is correct for a nation that is producing only consumer and capital goods?

- A. Other things equal, the more consumer goods a nation produces, the greater will be its future growth rate.
- B. Other things equal, the more capital goods a nation produces, the greater will be its future growth rate.
- C. There is no general relationship between the current division of output between consumer and capital goods and the future growth rate.
- D. None of these statements is correct.

180. All of the following could immediately or eventually lead to an inward shift of a nation's production possibilities curve, *except*:

- A. emigration of skilled workers from the nation.
- B. a decline in the birth rate.
- C. an increase in the average skill level of all occupational groups.
- D. depletion and reduced availability of major energy resources.

181. A nation's production possibilities curve might shift to the left (inward) as a result of:

- A. technological advance.
- B. increases in the size of the labor force.
- C. the depletion of its soil fertility due to overplanting and overgrazing.
- D. investing in more capital goods.

182. Which of the following will enable a nation to obtain a combination of consumer goods and capital goods outside its production possibilities curve?

- A. full employment.
- B. international specialization and trade.
- C. full production.
- D. productive efficiency.

183. Suppose that Scoobania, which has full employment, can obtain 1 unit of capital goods by sacrificing 2 units of consumer goods domestically, but can obtain 1 unit of capital goods from another country by trading 1 unit of consumer goods for it. This reality illustrates:

- A. a rightward (outward) shift of the production possibilities curve.
- B. increasing opportunity costs.
- C. achieving points beyond the production possibilities curve through international specialization and trade.
- D. productive efficiency.

184. Through specialization and international trade a nation:

- A. can attain some combination of goods lying outside its production possibilities curve.
- B. can move from a high consumption-low investment to a high investment-low consumption point on its production possibilities curve.
- C. will only attain some combination of goods lying within its production possibilities curve.
- D. will cause its production possibilities curve to shift leftward.

185. Some agricultural sub-Saharan nations of Africa have overfarmed and overgrazed their land to the extent that significant portions of it have turned into desert. This suggests that:

- A. the production possibilities curves of such nations are more bowed out from the origin.
- B. the production possibilities curves of such nations have shifted inward.
- C. the production possibilities curves of such nations have shifted outward.
- D. these nations are operating at some point outside of their production possibilities curves.

186. If all discrimination in the United States were eliminated, the economy would:

- A. have a less concave production possibilities curve.
- B. produce at some point closer to its production possibilities curve.
- C. be able to produce at some point outside of its production possibilities curve.
- D. produce more consumer goods and fewer investment goods.

187. A country can achieve some combination of goods outside its production possibilities curve by:

- A. idling some of its resources.
- B. specializing and engaging in international trade.
- C. buying the debt (bonds and stocks) of foreign nations.
- D. producing more capital goods and fewer consumer goods.

188. In recent years the economy of Japan has grown, despite the fact that the population of Japan has declined. Which of the following would best explain Japan's economic growth despite having a smaller population?

- A. Immigration of new workers into Japan.
- B. Advancements in technology that make labor more productive.
- C. Reduced employment of capital because fewer workers are available to use it.
- D. Greater consumption of goods imported from other countries.

189. (Consider This) Free products offered by firms:

- A. may or may not be free to society, but are never free to individuals.
- B. may or may not be free to individuals, but are never free to society.
- C. are produced and distributed at no cost to society.
- D. usually are items nobody wants.

190. (Consider This) The assertion by economists that "there is no free lunch":

- A. is contradicted by the presence of free goods offered by firms.
- B. applies to goods that have prices, not to goods given away free by firms.
- C. remains true even for goods given away free by firms.
- D. applies to agricultural goods, but not to manufactured goods.

191. (Consider This) The economic perspective used in customer decision making at fast-food restaurants is reflected in:

- A. customers selecting the shortest line.
- B. decisions for which marginal costs exceed marginal benefits.
- C. all customer lines tending to be of different length.
- D. irrational purchasing of high-fat-content food.

192. (Consider This) At fast-food restaurants:

- A. consumers enjoy complete and accurate information.
- B. decisions are usually made by trial and error.
- C. decisions entail comparisons of marginal costs and marginal benefits.
- D. benefits always exceed costs.

193. (Consider This) Consumers might leave a fast-food restaurant without being served because:

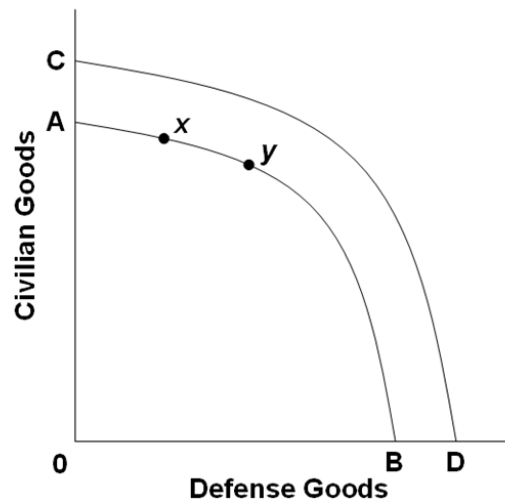
- A. they are misinformed about the marginal cost and marginal benefits of the food being served.
- B. they conclude that the marginal cost (monetary plus time costs) exceeds the marginal benefit.
- C. the environment is not conducive to a rational choice.
- D. the lines waiting for service are not of equal length.

194. (Consider This) A direct cost of going to college is:

- A. tuition, while an indirect cost (opportunity cost) is books and other supplies.
- B. forgone income while in college, while an indirect cost (opportunity cost) is tuition.
- C. tuition, while an indirect cost (opportunity cost) is forgone income while in college.
- D. books and supplies, while an indirect cost (opportunity cost) is food and housing.

195. (Consider This) An exception to the advice "go to college, stay in college, and earn a degree" occurs when:

- A. tuition expenses are high and rising.
- B. the opportunity cost of attending college is extraordinarily high.
- C. the price of textbooks is high and rising.
- D. the economy is growing rapidly and jobs are plentiful.



196. (Consider This) Refer to the above diagram. The direct economic impact of the destruction and loss of lives caused by the terrorist attacks of September 11, 2001 is illustrated by the:

- A. shift of the production possibilities curve from CD to AB.
- B. shift of the production possibilities curve from AB to CD.
- C. move from x to y on production possibilities curve AB.
- D. move from y to x on production possibilities curve AB.

197. (Consider This) Refer to the above diagram. The U.S. response to the events of September 11, 2001, is illustrated by the:

- A. shift of the production possibilities curve from CD to AB.
- B. shift of the production possibilities curve from AB to CD.
- C. move from x to y on production possibilities curve AB.
- D. move from y to x on production possibilities curve AB.

198. (Consider This) Refer to the above diagram. Suppose that point y represents the optimal combination of civilian goods and defense goods. We can conclude that at y the marginal benefit of defense goods:

- A. exceeds the marginal cost of defense goods.
- B. equals the marginal cost of defense goods.
- C. is zero.
- D. is negative.

199. (Consider This) In response to the terrorist attacks of September 11, 2001, the government decided to allocate more resources toward defense goods. The government's decision reflects their assessment that:

- A. the marginal benefits of additional defense goods outweighed the marginal cost.
- B. the marginal cost of additional defense goods outweighed the marginal benefit.
- C. there cannot be too many defense goods.
- D. civilian goods are not worth producing.

200. (Last Word) The fallacy of composition states that:

- A. because economic systems are composed of so many diverse economic units, economic laws are necessarily inexact.
- B. the anticipation of a particular event can affect the composition of that event when it occurs.
- C. what is true for the individual must necessarily be true for the group.
- D. because event A precedes event B, A is necessarily the cause of B.

201. (Last Word) The "after this, therefore because of this" fallacy states that:

- A. because event A precedes event B, A is necessarily the cause of B.
- B. the very attempt to accomplish a certain objective may create conditions that prohibit the achievement of that goal.
- C. events may drastically alter plans; one's intentions and actual accomplishments may differ considerably.
- D. generalizations that are accurate at the level of microeconomics may be inaccurate at the level of macroeconomics.

202. (Last Word) The safest way for an individual to leave a burning theater is to run for the nearest exit; it is therefore also the best means of escape for a large audience. This assertion illustrates the:

- A. "after this, therefore because of this" fallacy.
- B. correlation fallacy.
- C. fallacy of composition.
- D. fallacy of limited decisions.

203. (Last Word) The *post hoc, ergo propter hoc* fallacy suggests that:

- A. positive statements are always followed by normative judgments.
- B. positive statements can never be proven true or false.
- C. if one acts on one's expectations, those expectations will always be fulfilled.
- D. cause and effect can be determined merely by observing the sequence of events.

204. (Last Word) Which of the following has to do with the problem of distinguishing cause and effect in economic reasoning?

- A. the law of large numbers.
- B. the law of averages.
- C. the *post hoc, ergo propter hoc* fallacy.
- D. the fallacy of composition.

205. (Last Word) Which of the following best illustrates the *post hoc, ergo propter hoc* fallacy?

- A. Because it was 90 degrees today, I worked up a sweat playing tennis.
- B. I took the day off work to go to the beach and that's why it rained.
- C. Because it rained at the football game, my new sweater got wet.
- D. Because I have studied diligently this semester, my grade average has improved.

206. (Last Word) The fallacy of composition is essentially the error of:

- A. omitting relevant variables in constructing a model.
- B. reasoning from the general to the particular.
- C. confusing cause and effect in economic relationships.
- D. generalizing from the particular to the general.

207. (Last Word) The *post hoc* fallacy and the correlation problem both relate to:

- A. the calculation of marginal costs and marginal benefits of any economic activity.
- B. the issue of determining causation.
- C. the frequent inability of households and businesses to behave rationally.
- D. the tradeoff problem associated with competing goals.

208. (Last Word) If variables *X* and *Y* are positively correlated, this means that:

- A. *X* is the cause of *Y*.
- B. *Y* is the cause of *X*.
- C. causation necessarily exists, but we don't know whether *X* or *Y* is the cause.
- D. causation may or may not exist between *X* and *Y*.

209. (Last Word) "The government deregulated the electricity industry in California and a shortage of electricity soon occurred. It is clear that the deregulation caused the shortage."

This statement needs careful analysis because it may reflect the:

- A. the fallacy of composition.
- B. *post hoc, ergo propter hoc* fallacy.
- C. use of loaded terminology.
- D. the law of averages.

210. (Last Word) A caller to a radio talk show states that oil companies are "greedy price gougers." This is an example of:

- A. loaded terminology.
- B. the "after this, therefore because of this fallacy."
- C. the fallacy of composition.
- D. the economic perspective.

211. (Last Word) A caller to a radio talk show states that protesters against globalization are a collection of "anarchist punks, naïve college students, and trade union radicals." This is an example of:

- A. the fallacy of composition.
- B. the economic perspective.
- C. loaded terminology.
- D. marginal analysis.

212. (Last Word) A study found that the incidence of skin cancer increases along with the amount of time people work under fluorescent light, leading some people to conclude that fluorescent lighting is a cause of skin cancer. But further analysis found that people who work in offices, where fluorescent light is common, suffer more sunburn on their vacations than other workers. The sunburns, not the fluorescent light, were the cause of the higher incidence of skin cancer. The original conclusion illustrates:

- A. the fallacy of composition.
- B. confusion of correlation and causation.
- C. identifying marginal costs and marginal benefits.
- D. biases and loaded terminology.

True / False Questions

213. An economic model is an ideal or utopian type of economy that society should strive to obtain through economic policy.

True False

214. Because economic generalizations are simplifications from reality, they are impractical and useless.

True False

215. If economic theories are solidly based on relevant facts, then appropriate economic policy becomes obvious and uncontroversial.

True False

216. Normative statements are expressions of facts.

True False

217. Positive statements are expressions of value judgments.

True False

218. Macroeconomics explains the behavior of individual households and business firms; microeconomics is concerned with the behavior of aggregates or the economy as a whole.

True False

219. Purposeful behavior implies that everyone will make identical choices.

True False

220. Marginal analysis means that decision-makers compare the extra benefits with the extra costs of a specific choice.

True False

221. Rational individuals may make different choices because their preferences and circumstances differ.

True False

222. Choices entail marginal costs because resources are scarce.

True False

223. The production possibilities curve shows various combinations of two products that an economy can produce when achieving full employment.

True False

224. The entrepreneur's sole function is to combine other resources (land, labor, and capital) in the production of some good or service.

True False

225. Products and services are scarce because resources are scarce.

True False

226. An economy cannot produce at a point outside of its production possibilities curve because human economic wants are insatiable.

True False

227. The process by which capital goods are accumulated is known as investment.

True False

228. The present choice of position on the production possibilities curve will not influence the future location of the curve.

True False

229. Although sleeping in on a work day or school day has an opportunity cost, sleeping late on the weekend does not.

True False



230. Refer to the above diagram. Given production possibilities curve (a), the combination of civilian and war goods indicated by point X is unattainable to this economy.

True False

231. Refer to the above diagram. Given production possibilities curve (a), point *Y* indicates that society is failing to use available resources efficiently.

True False

232. Refer to the above diagram. The movement from curve (a) to curve (b) could be explained by an increase in the quantity and/or quality of society's productive resources.

True False

233. Refer to the above diagram. The movement from curve (a) to curve (c) suggests an improvement in civilian goods technology but not in war goods technology.

True False

234. An economy will always operate at some point on its production possibilities curve.

True False

235. In drawing a particular budget line, money income and the prices of the two products are fixed.

True False

236. The lower the consumer's income, the higher his or her budget line.

True False

Multiple Choice Questions

237. If we say that two variables are directly related, this means that:

- A. the relationship between the two is purely random.
- B. an increase in one variable is associated with a decrease in the other variable.
- C. an increase in one variable is associated with an increase in the other variable.
- D. the two graph as a downsloping line.

238. If we say that two variables are inversely related, this means that:

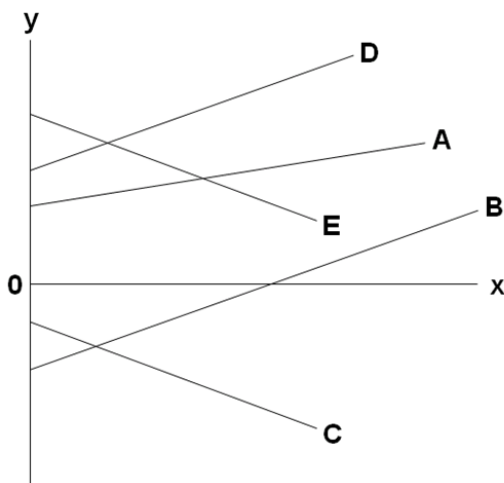
- A. the two graph as an upsloping line.
- B. an increase in one variable is associated with a decrease in the other.
- C. an increase in one variable is associated with an increase in the other.
- D. the resulting relationship can be portrayed by a straight line parallel to the horizontal axis.

239. Economists:

- A. always put the independent variable on the horizontal axis and the dependent variable on the vertical axis.
- B. always put the dependent variable on the horizontal axis and the independent variable on the vertical axis.
- C. are somewhat arbitrary in assigning independent and dependent variables to the horizontal and vertical axes.
- D. measure the slope of a line differently than do mathematicians.

240. Which of the following statements is correct?

- A. The value of the independent variable is determined by the value of the dependent variable.
- B. The value of the dependent variable is determined by the value of the independent variable.
- C. The dependent variable designates the "cause" and the independent variable the "effect."
- D. Dependent variables graph as upsloping lines; independent variables graph as downsloping lines.



241. Refer to the above diagram. Which line(s) show(s) a positive relationship between x and y ?

- A. A only.
- B. A and D only.
- C. C , A , B , and D .
- D. both C and E .

242. Refer to the above diagram. Which line(s) show(s) a negative relationship between x and y ?

- A. A only.
- B. both A and D .
- C. A , B , and D .
- D. both C and E .

243. Refer to the above diagram. Which line(s) show(s) a positive vertical intercept?

- A. A and D only.
- B. B and C only.
- C. A , D , and E .
- D. A , D , and B .

244. Refer to the above diagram. Which line(s) show(s) a negative vertical intercept?

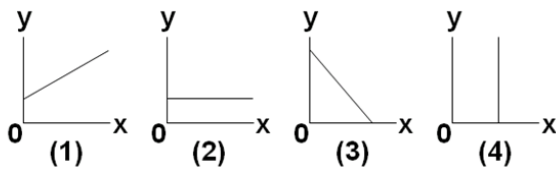
- A. C only.
- B. both C and E .
- C. B , C , and E .
- D. both B and C .

245. If two variables are inversely related, then as the value of one variable:

- A. increases, the value of the other may either increase or decrease.
- B. decreases, the value of the other decreases.
- C. increases, the value of the other decreases.
- D. increases, the value of the other increases.

246. If a positive relationship exists between x and y :

- A. an increase in x will cause y to decrease.
- B. a decrease in x will cause y to increase.
- C. the relationship will graph as an upsloping line.
- D. the vertical intercept must be positive.



247. Answer on the basis of the relationships shown in the above four figures. The amount of Y is directly related to the amount of X in:

- A. both 1 and 3.
- B. both 1 and 2.
- C. 2 only.
- D. 1 only.

248. Answer on the basis of the relationships shown in the above four figures. The amount of Y is inversely related to the amount of X in:

- A. 2 only.
- B. both 1 and 3.
- C. 3 only.
- D. 1 only.

249. If price (P) and quantity (Q) are directly related, this means that:

- A. a change in Q will alter P , but a change in P will not alter Q .
- B. if P increases, Q will decrease.
- C. if P increases, Q will also increase.
- D. an increase in P will cause Q to change, but the direction in which Q changes cannot be predicted.

Answer the question on the basis of the following information. Assume that if the interest rate that businesses must pay to borrow funds were 20 percent, it would be unprofitable for businesses to invest in new machinery and equipment, so investment would be zero. But if the interest rate were 16 percent, businesses would find it profitable to invest \$10 billion. If the interest rate were 12 percent, \$20 billion would be invested. Assume that total investment continues to increase by \$10 billion for each successive 4 percentage point decline in the interest rate.

250. Refer to the above information. Which of the following is an accurate verbal statement of the described relationship?

- A. There is no regular or dependable relationship between business investment and the interest rate.
- B. The amount of business investment is unaffected by changes in the interest rate.
- C. Investment spending by businesses varies inversely with the interest rate.
- D. Investment spending by businesses varies directly with the interest rate.

251. Refer to the above information. Using i and I to indicate the interest rate and investment (in billions of dollars) respectively, which of the following is the correct tabular presentation of the described relationship?

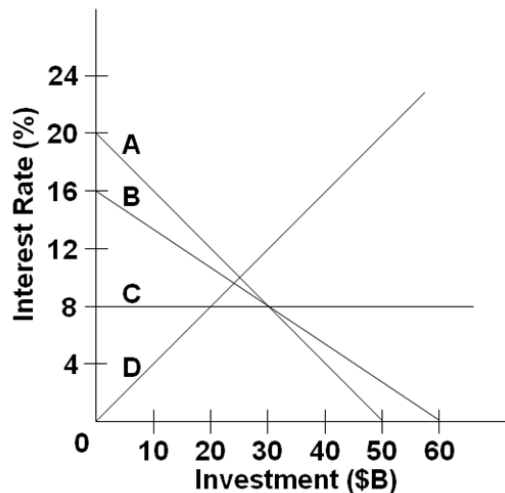
A)	i	I	B)	i	I
	20	\$50		24	\$10
	16	40		20	20
	12	30		16	30
	8	20		12	40
	4	10		8	50
	0	0		4	60

C)	i	I	D)	i	I
	20	\$0		20	\$10
	16	10		16	20
	12	20		12	30
	8	30		8	40
	4	40		4	50
	0	50		0	60

- A. Option A
- B. Option B
- C. Option C
- D. Option D

252. Refer to the above information. Which of the following correctly expresses the indicated relationship as an equation?

- A. $i = 20 - 4I$.
- B. $i = 20 - .4I$.
- C. $i = 24 - .4I$.
- D. $i = 20 - 10I$.



253.

Assume that if the interest rate that businesses must pay to borrow funds were 20 percent, it would be unprofitable for businesses to invest in new machinery and equipment, so investment would be zero. But if the interest rate were 16 percent, businesses would find it profitable to invest \$10 billion. If the interest rate were 12 percent, \$20 billion would be invested. Assume that total investment continues to increase by \$10 billion for each successive 4 percentage point decline in the interest rate. Refer to the above graph. Which of the following is the correct graphical presentation of the indicated relationship?

- A. line D
- B. line C
- C. line B
- D. line A

Answer the question on the basis of the following data:

<u>After-Tax Income</u>	<u>Consumption</u>
\$1,000	\$900
2,000	1,800
3,000	2,700
4,000	3,600
5,000	4,500

254. The above data suggest that:

- A. consumption varies inversely with after-tax income.
- B. consumption varies directly with after-tax income.
- C. consumption and after-tax income are unrelated.
- D. a tax increase will increase consumption.

255. The above data indicate that:

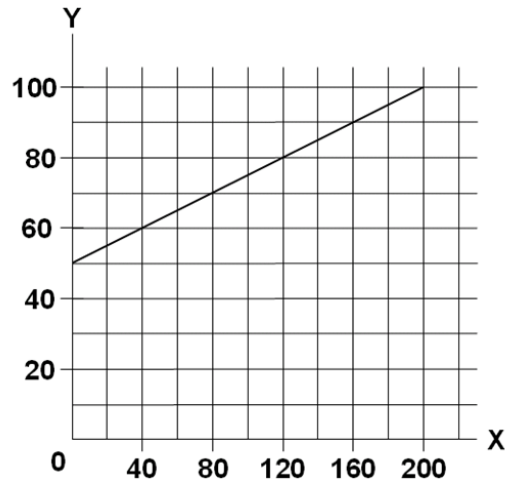
- A. consumers spend 80 percent of their after-tax incomes.
- B. consumers spend 90 percent of their after-tax incomes.
- C. a tax reduction will reduce consumption.
- D. the relationship between consumption and after-tax income is random.

256. The above data suggest that:

- A. a policy of tax reduction will increase consumption.
- B. a policy of tax increases will increase consumption.
- C. tax changes will have no impact on consumption.
- D. after-tax income should be lowered to increase consumption.

257. The slope of a straight line can be determined by:

- A. comparing the absolute horizontal change to the absolute vertical change between two points on the line.
- B. comparing the absolute vertical change to the absolute horizontal change between two points on the line.
- C. taking the reciprocal of the vertical intercept.
- D. comparing the percentage vertical change to the percentage horizontal change between two points on the line.



258. Refer to the above diagram. The variables X and Y are:

- A. inversely related.
- B. directly related.
- C. unrelated.
- D. negatively related.

259. Refer to the above diagram. The vertical intercept:

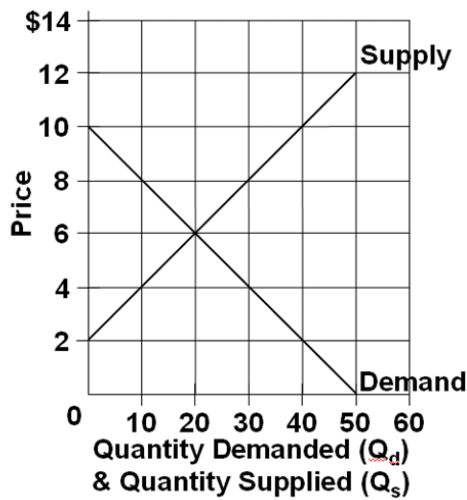
- A. is 40.
- B. is 50.
- C. is 60.
- D. cannot be determined from the information given.

260. Refer to the above diagram. The slope of the line:

- A. is $-\frac{1}{4}$.
- B. is $+\frac{1}{4}$.
- C. is .40.
- D. cannot be determined from the information given.

261. Refer to the above diagram. The equation that shows the relationship between Y and X is:

- A. $Y = 50 + \frac{1}{4} X$.
- B. $X = \frac{1}{4} Y$.
- C. $Y = .4X$.
- D. $Y = \frac{1}{4} X - 50$.



262. Refer to the above graph. Which of the following statements is correct?

- A. Quantity demanded and quantity supplied are independent of price.
- B. Price and quantity demanded are directly related.
- C. Price and quantity supplied are directly related.
- D. Price and quantity supplied are inversely related.

263. Refer to the above graph. Which of the following schedules correctly reflects "demand"?

A)	P	Qd	B)	P	Qd
	\$12	0		\$14	0
	10	0		12	0
	8	10		10	20
	6	20		8	40
	4	30		6	60
	2	40		4	80

C)	P	Qd	D)	P	Qd
	\$14	60		\$12	0
	12	50		10	10
	10	40		8	20
	8	30		6	30
	6	20		4	40
	4	10		2	50

- A. Option A
- B. Option B
- C. Option C
- D. Option D

264. Refer to the above graph. Which of the following schedules correctly reflects "supply"?

A)	P	Qs	B)	P	Qs
	\$12	50		\$14	50
	10	30		12	40
	8	10		10	30
	6	0		8	20
	4	0		6	10
	2	0		4	0

C)	P	Qs	D)	P	Qs
	\$12	50		\$12	0
	10	40		10	0
	8	30		8	10
	6	20		6	20
	4	10		4	30
	2	0		2	40

- A. Option A
- B. Option B
- C. Option C
- D. Option D

265. Refer to the above graph. Using Q_d for quantity demanded and P for price, which of the following equations correctly states the demand for this product?

- A. $P = Q_d/10$.
- B. $P = 50 - P/2$.
- C. $P = 10 - .2Q_d$.
- D. $P = 10 - 2Q_d$.

266. Refer to the above graph. Using Q_s for quantity supplied and P for price, which of the following equations correctly states the supply of this product?

- A. $P = 4 + .2Q_s$.
- B. $P = 60/Q_s$.
- C. $P = 10Q_s - 2P$.
- D. $P = 2 + .2Q_s$.

267. Assume a household would consume \$100 worth of goods and services per week if its weekly income were zero and would spend an additional \$80 per week for each \$100 of additional income. Letting C represent consumption and Y represent income, the equation that summarizes this relationship is:

- A. $C = 80 + 100Y$.
- B. $C = 100 + .8Y$.
- C. $C = 100 + 80Y$.
- D. $C = 80 + .1Y$.

Answer the question on the basis of the following five data sets wherein it is assumed that the variable shown on the left is the independent variable and the one on the right is the dependent variable. Assume in graphing these data that the independent variable is shown on the horizontal axis and the dependent variable on the vertical axis.

(1)		(2)		(3)		(4)		(5)	
J	K	L	M	N	P	R	T	U	V
0	10	0	-15	100	40	0	-15	0	0
40	20	30	-5	80	50	20	-25	5	10
80	30	60	5	60	60	40	-35	10	20
120	40	90	15	40	70	60	-45	15	30
160	50	120	25	20	80	80	-55	20	40
200	60	150	35	0	90	100	-65	25	50

268. Refer to the above data sets. The variables are directly related in:

- A. all five data sets.
- B. in none of the data sets.
- C. in data sets 1, 2, and 3 only.
- D. in data sets 1, 2, and 5 only.

269. Refer to the above data sets. The vertical intercept is positive for:

- A. all five data sets.
- B. data sets 1 and 3 only.
- C. data sets 1, 3, and 5 only.
- D. data set 2 only.

270. Refer to the above data sets. The vertical intercept is negative for:

- A. none of the data sets.
- B. data sets 1 and 3 only.
- C. data sets 2 and 4 only.
- D. data sets 1 and 5 only.

271. Refer to the above data sets. The equation for data set 3 is:

- A. $P = 90 - .5N$.
- B. $P = 90 + .5N$.
- C. $P = .5N$.
- D. $P = 40 + .5N$.

272. Refer to the above data sets. For which data set(s) is the vertical intercept zero?

- A. data set 4.
- B. data set 5.
- C. data sets 2 and 3.
- D. data set 1.

273. Refer to the above data sets. The equation for data set 5 is:

- A. $V = .5Y$.
- B. $U = -.5V$.
- C. $U = V$.
- D. $V = 2U$.

274. Refer to the above data sets. Which of the data sets would graph as an upsloping line?

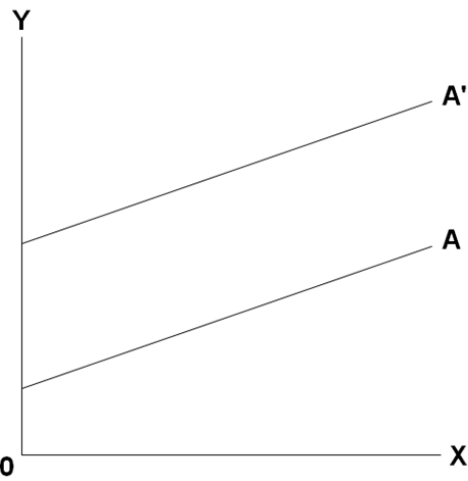
- A. 1 only.
- B. 1, 2, and 3 only.
- C. 4 and 5 only.
- D. 1, 2, and 5 only.

275. If the equation $y = 15 - 4x$ was plotted, the:

- A. vertical intercept would be -4.
- B. vertical intercept would be +4.
- C. vertical intercept would be +9.
- D. slope would be -4.

276. If the equation $y = -10 + 2.5x$ was plotted:

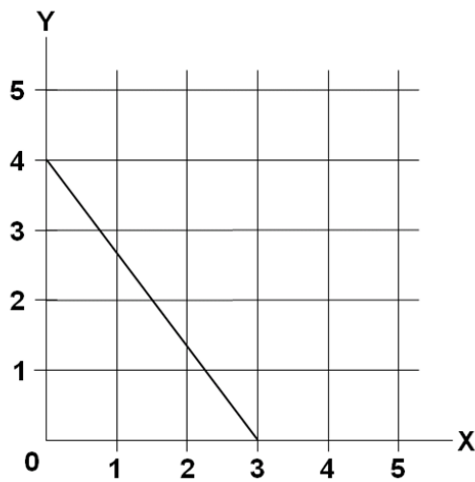
- A. the vertical intercept would be -10.
- B. the slope would be -7.5.
- C. it would graph as a downsloping line.
- D. the slope would be -10.



277.

The movement from line A to line A' represents a change in:

- A. the slope only.
- B. the intercept only.
- C. both the slope and the intercept.
- D. neither the slope nor the intercept.



278. In the above diagram variables x and y are:

- A. both dependent variables.
- B. directly related.
- C. inversely related.
- D. unrelated.

279. In the above diagram the vertical intercept and slope are:

- A. 4 and $-1\frac{1}{3}$ respectively.
- B. 3 and $-1\frac{1}{3}$ respectively.
- C. 3 and $+\frac{3}{4}$ respectively.
- D. 4 and $+\frac{3}{4}$ respectively.

280. In the above diagram the equation for this line is:

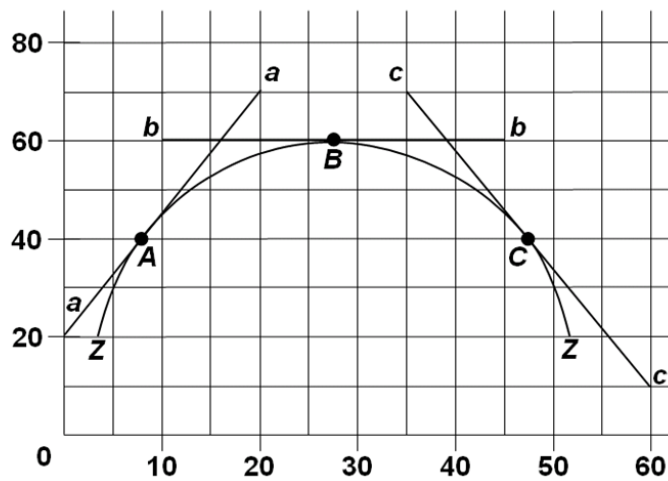
- A. $y = 4 - 1\frac{1}{3}x$.
- B. $y = 3 + \frac{3}{4}x$.
- C. $y = 4 - \frac{3}{4}x$.
- D. $y = 4 + 1\frac{1}{3}x$.

281. If we are considering the relationship between two variables and release one of the other-things-equal assumptions, we would expect:

- A. the relationship to change from direct to inverse.
- B. the line representing that relationship on a graph to shift.
- C. the data points to have a tighter fit to the line representing the relationship.
- D. the relationship to change from inverse to direct.

282. The amount of pizzas that consumers want to buy per week is reflected in the equation $P = 15 - .02Q_d$, where Q_d is the amount of pizzas purchased per week and P is the price of pizzas. On the basis of this information we can say that:

- A. if pizzas were free, people would consume 800 per week.
- B. more pizzas will be purchased at a high price than at a low price.
- C. if the price of pizzas is \$6, then 150 will be purchased.
- D. 50 fewer pizzas will be purchased per week for every \$1 increase in price.



283. Refer to the above diagram. The slope of curve ZZ at point A is approximately:

- A. +2.
- B. $+2\frac{1}{2}$.
- C. $-2\frac{1}{2}$.
- D. +4.

284. Refer to the above diagram. The slope of curve ZZ at point B is:

- A. infinity.
- B. zero.
- C. +1.
- D. -1.

285. Refer to the above diagram. The slope of curve ZZ at point C is approximately:

- A. -4.
- B. -2.
- C. $-2\frac{2}{5}$.
- D. +3.

286. The slope of a line parallel to the vertical axis is:

- A. zero.
- B. one.
- C. infinite.
- D. one-half.

287. The slope of a line parallel to the horizontal axis is:

- A. zero.
- B. one.
- C. infinite.
- D. one-half.

288. Slopes of lines are especially important in economics because:

- A. they measure marginal changes.
- B. they always tell us something about profits.
- C. positive slopes are always preferred to negative slopes.
- D. they always relate to resource and output scarcity.

Chapter 01 Limits, Alternatives, and Choices (+ Appendix) **Answer Key**

Multiple Choice Questions

1. For economists, the word "utility" means:

- A. versatility and flexibility.
- B. rationality.
- C.** pleasure or satisfaction.
- D. purposefulness.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

2. In economics, the pleasure, happiness, or satisfaction received from a product is called:

- A. marginal cost.
- B. rational outcome.
- C. status fulfillment.
- D.** utility.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

3. When economists say that people act rationally in their self interest, they mean that individuals:

- A. look for and pursue opportunities to increase their utility.
- B. generally disregard the interests of others.
- C. are mainly creatures of habit.
- D. are usually impulsive and unpredictable.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

4. According to Emerson: "Want is a growing giant whom the coat of Have was never large enough to cover." According to economists, "Want" exceeds "Have" because:

- A. people are greedy.
- B. productive resources are limited.
- C. human beings are inherently insecure.
- D. people are irrational.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

5. According to economists, economic self-interest:

- A. is a reality that underlies economic behavior.
- B. has the same meaning as selfishness.
- C. is more characteristic of men than of women.
- D. is usually self-defeating.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

6. Joe sold gold coins for \$1000 that he bought a year ago for \$1000. He says, "At least I didn't lose any money on my financial investment." His economist friend points out that in effect he did lose money, because he could have received a 3 percent return on the \$1000 if he had bought a bank certificate of deposit instead of the coins. The economist's analysis in this case incorporates the idea of:

- A. opportunity costs.
- B. marginal benefits that exceed marginal costs.
- C. imperfect information.
- D. normative economics.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

7. A person should consume more of something when its marginal:

- A. benefit exceeds its marginal cost.
- B. cost exceeds its marginal benefit.
- C. cost equals its marginal benefit.
- D. benefit is still positive.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

8. Economics may best be defined as the:

- A. interaction between macro and micro considerations.
- B. social science concerned with how individuals, institutions, and society make optimal choices under conditions of scarcity.
- C. empirical testing of value judgments through the use of logic.
- D. use of policy to refute facts and hypotheses.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

9. The study of economics is primarily concerned with:

- A. keeping private businesses from losing money.
- B. demonstrating that capitalistic economies are superior to socialistic economies.
- C. choices that are made in seeking the best use of resources.
- D. determining the most equitable distribution of society's output.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

10. The economic perspective entails:

- A. irrational behavior by individuals and institutions.
- B. a comparison of marginal benefits and marginal costs in decision making.
- C. short-term but not long-term thinking.
- D. rejection of the scientific method.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

11. Purposeful behavior suggests that:

- A. everyone will make identical choices.
- B. resource availability exceeds economic wants.
- C. individuals may make different choices because of different desired outcomes.
- D. an individual's economic goals cannot involve tradeoffs.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

12. Purposeful behavior means that:

- A. people are selfish in their decision-making.
- B. people weigh costs and benefits to make decisions.**
- C. people are immune from emotions affecting their decisions.
- D. decision-makers do not make mistakes when weighing costs and benefits.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

13. Economics involves marginal analysis because:

- A. most decisions involve changes from the present situation.**
- B. marginal benefits always exceed marginal costs.
- C. marginal costs always exceed marginal benefits.
- D. much economic behavior is irrational.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

14. You should decide to go to a movie:

- A. if the marginal cost of the movie exceeds its marginal benefit.
- B. if the marginal benefit of the movie exceeds its marginal cost.**
- C. if your income will allow you to buy a ticket.
- D. because movies are enjoyable.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

15. Marginal costs exist because:

- A.** the decision to engage in one activity means forgoing some other activity.
- B. wants are scarce relative to resources.
- C. households and businesses make rational decisions.
- D. most decisions do not involve sacrifices or tradeoffs.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

16. The assertion that "There is no free lunch" means that:

- A. there are always tradeoffs between economic goals.
- B.** all production involves the use of scarce resources and thus the sacrifice of alternative goods.
- C. marginal analysis is not used in economic reasoning.
- D. choices need not be made if behavior is rational.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

17. Consumers spend their incomes to get the maximum benefit or satisfaction from the goods and services they purchase. This is a reflection of:

- A. resource scarcity and the necessity of choice.
- B.** purposeful behavior.
- C. marginal costs that exceed marginal benefits.
- D. the tradeoff problem that exists between competing goals.

AACSB: Reflective Thinking

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

18. If someone produced too much of a good, this would suggest that:

- A. rational choice cannot be applied to many economic decisions.
- B.** the good was produced to the point where its marginal cost exceeded its marginal benefit.
- C. certain goods and services such as education and health care are inherently desirable and should be produced regardless of costs and benefits.
- D. the good was produced to the point where its marginal benefit exceeded its marginal cost.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

19. Even though local newspapers are very inexpensive, people rarely buy more than one of them each day. This fact:

- A. is an example of irrational behavior.
- B. implies that reading should be taught through phonics rather than the whole language method.
- C. contradicts the economic perspective.
- D.** implies that, for most people, the marginal benefit of reading a second newspaper is less than the marginal cost.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

20. In deciding whether to study for an economics quiz or go to a movie, one is confronted by the idea(s) of:

- A.** scarcity and opportunity costs.
- B. money and real capital.
- C. complementary economic goals.
- D. full production.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

21. Which one of the following expressions best states the idea of opportunity cost?

- A. "A penny saved is a penny earned."
- B. "He who hesitates is lost."
- C. "There is no such thing as a free lunch."**
- D. "All that glitters is not gold."

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

22. Suppose that a university decides to spend \$1 million to upgrade personal computers and scientific equipment for faculty rather than spend \$1 million to expand parking for students.

This example illustrates:

- A. distorted priorities.
- B. opportunity costs.**
- C. increasing opportunity costs.
- D. productive efficiency.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

23. Which of the following most closely relates to the idea of opportunity costs?

- A. tradeoffs.**
- B. economic growth.
- C. technological change.
- D. capitalism.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

24. Economists contend that most economic decisions are:

- A. random
- B. chaotic
- C. spontaneous
- D. purposeful**

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

25. Alex sees that his neighbors' lawns all need mowing. He offers to provide the service in exchange for a wage of \$20 per hour. Some neighbors accept Alex's offer and others refuse. Economists would describe Alex's behavior as:

- A. rational self-interest, because he attempting to increase his own income by identifying and satisfying someone else's wants.**
- B. greedy, because he is asking for a high wage.
- C. selfish, because he is asking for a wage that is higher than others might charge.
- D. irrational, because some neighbors refused his offer.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

26. Kara was out jogging and despite being tired, decided to run one more mile. Based on her actions, economists would conclude that Kara:

- A. must be an avid runner.
- B. decided that the marginal benefit of running one more mile would outweigh the cost of the additional mile.**
- C. decided that the marginal cost of running one more mile would outweigh the benefit of the additional mile.
- D. was not very tired, so the marginal cost of the extra mile was very low.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

27. An economic hypothesis:

- A. has the same meaning as an economic principle or economic law.
- B. is usually a normative statement.
- C. is a possible explanation of cause and effect.
- D. is a stronger generalization than an economic law.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

28. Which of the following terms implies the *least* degree of confidence in an economic generalization?

- A. a hypothesis.
- B. a theory.
- C. a principle.
- D. a law.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

29. Which of the following terms implies the *greatest* degree of confidence in an economic generalization?

- A. a hypothesis.
- B. a comparison.
- C. a principle.
- D. an anomaly.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

30. A well-tested economic theory is often called:

- A. an hypothesis.
- B. a prototype.
- C. a principle.**
- D. an anomaly.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

31. The scientific method is:

- A. not applicable to economics, because economics deals with human beings.
- B. also known as the economic perspective.
- C. analysis that moves from broad generalizations called laws to theories and then to hypotheses.
- D. used by economists and other social scientists, as well as by physical scientists and life scientists.**

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

32. The process by which economists test hypotheses against facts to develop theories, principles, and models is called:

- A. the economic perspective.
- B. the scientific method.**
- C. policy economics.
- D. microeconomics.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

33. Economic theories:

- A. are useless because they are not based on laboratory experimentation.
- B. that are true for individual economic units are never true for the economy as a whole.
- C. are generalizations based on a careful observation of facts.
- D. are abstractions and therefore of no application to real situations.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

34. Which of the following is a *correct* statement?

- A. Economic concepts or laws that are valid during depression are necessarily valid during prosperity.
- B. Although they are generalizations, economic laws are useful because they allow us to predict and therefore control or adjust to events.
- C. Economics is as scientific as are physics and chemistry because economic laws are as quantitatively precise as the laws of physics or chemistry.
- D. Because economics is concerned with questions of "ought," it is a branch of applied ethics and not scientific.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

35. In constructing models, economists:

- A. make simplifying assumptions.
- B. include all available information.
- C. must use mathematical equations.
- D. attempt to duplicate the real world.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

36. The Latin term "ceteris paribus" means:
- A. that if event A precedes event B, A has caused B.
 - B. that economics deals with facts, not values.
 - C. other things equal.**
 - D. prosperity inevitably follows recession.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

37. The basic purpose of the other-things-equal assumption is to:
- A. allow one to reason about the relationship between variables X and Y without the intrusion of variable Z .**
 - B. allow one to focus upon micro variables by ignoring macro variables.
 - C. allow one to focus upon macro variables by ignoring micro variables.
 - D. determine whether X causes Y or vice versa.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

38. Suppose an economist says that "Other things equal, the lower the price of bananas, the greater the amount of bananas purchased." This statement indicates that:
- A. the quantity of bananas purchased determines the price of bananas.
 - B. all factors other than the price of bananas (for example, consumer tastes and incomes) are assumed to be constant.**
 - C. economists can conduct controlled laboratory experiments.
 - D. one cannot generalize about the relationship between the price of bananas and the quantity purchased.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

39. The term "other things equal" means that:
- A. the associated statement is normative.
 - B. many variables affect the variable under consideration.
 - C. a number of relevant variables are assumed to be constant.
 - D. when variable X increases so does related variable Y.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

40. Kelly works at an ice cream shop and observes that the number of people buying ice cream varies greatly from day to day. For a couple of weeks she has recorded the number of people at the shop each day, as well as the daily temperature. If Kelly is using the scientific method to better understand ice cream buying habits, her next step is to:
- A. conclude definitively that people buy more ice cream when the temperature rises.
 - B. state her findings as a well-tested economic principle.
 - C. use the observed data to form an hypothesis about ice cream buying behavior.
 - D. throw out the data if it does not show a perfect relationship between buying habits and the other information she has collected.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

41. Macroeconomics approaches the study of economics from the viewpoint of:
- A. the entire economy.
 - B. governmental units.
 - C. the operation of specific product and resource markets.
 - D. individual firms.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Microeconomics and macroeconomics

42. Which of the following is associated with macroeconomics?

- A. an examination of the incomes of Harvard Business School graduates
- B. an empirical investigation of the general price level and unemployment rates since 1990**
- C. a study of the trend of pecan prices since the Second World War
- D. a case study of pricing and production in the textbook industry

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Microeconomics and macroeconomics

43. The problems of aggregate inflation and unemployment are:

- A. major topics of macroeconomics.**
- B. not relevant to the U.S. economy.
- C. major topics of microeconomics.
- D. peculiar to command economies.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Microeconomics and macroeconomics

44. Which of the following statements pertains to macroeconomics?

- A. Because the minimum wage was raised, Mrs. Olsen decided to enter the labor force.
- B. A decline in the price of soybeans caused farmer Wanek to plant more land in wheat.
- C. National income grew by 2.7 percent last year.**
- D. The Pumpkin Center State Bank increased its interest rate on consumer loans by 1 percentage point.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Microeconomics and macroeconomics

45. Macroeconomics can best be described as the:

- A. analysis of how a consumer tries to spend income.
- B.** study of the large aggregates of the economy or the economy as a whole.
- C. analysis of how firms attempt to maximize their profits.
- D. study of how supply and demand determine prices in individual markets.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Microeconomics and macroeconomics

46. Microeconomics is concerned with:

- A. the aggregate or total levels of income, employment, and output.
- B.** a detailed examination of specific economic units that make up the economic system.
- C. positive economics, but not normative economics.
- D. the establishing of an overall view of the operation of the economic system.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Microeconomics and macroeconomics

47. Microeconomics:

- A. is the basis for the "after this, therefore because of this" fallacy.
- B. is not concerned with details, but only with the overall big picture of the economy.
- C.** is concerned with individual economic units and specific markets.
- D. describes the aggregate flows of output and income.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Microeconomics and macroeconomics

48. Which of the following is a microeconomic statement?

- A. The real domestic output increased by 2.5 percent last year.
- B. Unemployment was 6.8 percent of the labor force last year.
- C. The price of personal computers declined last year.
- D. The general price level increased by 4 percent last year.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Microeconomics and macroeconomics

49. Which of the following statements is true?

- A. Microeconomics focuses on specific decision-making units of the economy; macroeconomics examines the economy as a whole.
- B. Macroeconomics focuses on specific decision-making units of the economy; microeconomics examines the economy as a whole.
- C. Every topic in economics is either a microeconomic or a macroeconomic issue; a topic cannot be both.
- D. Topics in microeconomics have public policy implications; topics in macroeconomics do not.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Microeconomics and macroeconomics

50. A normative statement is one that:

- A. is based on the law of averages.
- B. applies only to microeconomics.
- C. applies only to macroeconomics.
- D. is based on value judgments.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Positive and normative statements

51. A positive statement is one which is:

- A. derived by induction.
- B. derived by deduction.
- C. subjective and is based on a value judgment.
- D.** objective and is based on facts.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Positive and normative statements

52. Which of the following is a positive statement?

- A. The humidity is too high today.
- B. It is too hot to jog today.
- C.** The temperature is 92 degrees today.
- D. Summer evenings are nice when it cools off.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Positive and normative statements

53. Normative statements are concerned primarily with:

- A. facts and theories.
- B.** what ought to be.
- C. what is.
- D. rational choice involving costs and benefits.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Positive and normative statements

54. A positive statement is concerned primarily with:

- A. some goal that is desirable to society.
- B. what should be.
- C. what is.**
- D. the formulation of economic policy.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Positive and normative statements

55. "Economics is concerned with how individuals, institutions, and society make optimal choices under conditions of scarcity." This statement is:

- A. positive, but incorrect.
- B. positive and correct.**
- C. normative, but incorrect.
- D. normative and correct.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Positive and normative statements

56. Ben says that "An increase in the tax on beer will raise its price." Holly argues that "Taxes should be increased on beer because college students drink too much." We can conclude that:

- A. Ben's statement is normative, but Holly's is positive.
- B. Holly's statement is normative, but Ben's is positive.**
- C. Both statements are normative.
- D. Both statements are positive.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Positive and normative statements

57. "Macroeconomics is the part of economics concerned with individual units such as a person, a household, a firm, or an industry." This statement is:

- A. positive, but incorrect.
- B. positive and correct.
- C. normative, but incorrect.
- D. normative and correct.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Positive and normative statements

58. Brinley says that "Gas prices are rising because there aren't enough oil refineries." Katie argues that "Gas prices are rising because of the growing demand for gasoline from China and India." We can conclude that:

- A. Brinley's statement is positive; Katie's statement is normative.
- B. Brinley's statement is normative; Katie's statement is positive.
- C. Both statements are positive.
- D. Both statements are normative.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Positive and normative statements

59. The economizing problem is:

- A. the need to make choices because economic wants exceed economic means.
- B. how to distribute resources equally amongst all members of society.
- C. that people's means often exceed their wants.
- D. that people do not know how to rationally allocate resources.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

60. The economizing problem is one of deciding how to make the best use of:

- A. virtually unlimited resources to satisfy virtually unlimited wants.
- B. limited resources to satisfy virtually unlimited wants.**
- C. unlimited resources to satisfy limited wants.
- D. limited resources to satisfy limited wants.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

61. The scarcity problem:

- A. persists only because countries have failed to achieve continuous full employment.
- B. persists because economic wants exceed available productive resources.**
- C. has been solved in all industrialized nations.
- D. has been eliminated in affluent societies such as the United States and Canada.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

62. The alternative combinations of two goods which a consumer can purchase with a given money income is shown by:

- A. a production possibilities curve.
- B. a demand curve.
- C. consumer expenditure line.
- D. a budget line.**

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

63. The budget line shows:

- A. the amount of product A that a consumer is willing to give up to obtain one more unit of product B.
- B. all possible combinations of two goods that can be purchased, given money income and the prices of the goods.**
- C. the minimum amount of two goods that a consumer can purchase with a given money income.
- D. all possible combinations of two goods that yield the same level of utility to the consumer.

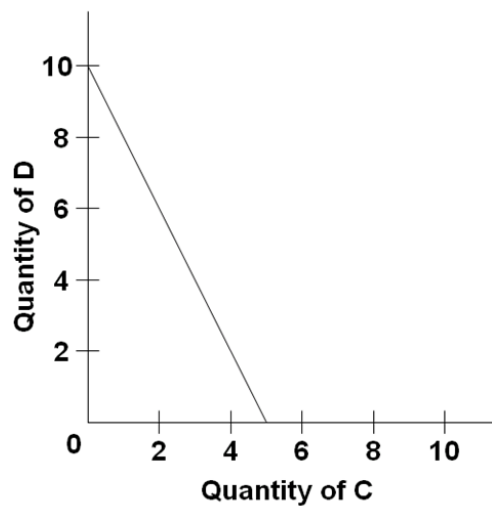
AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines



64. Refer to the budget line shown in the diagram above. If the consumer's money income is \$20, the:

- A. prices of C and D cannot be determined.
- B. price of C is \$2 and the price of D is \$4.
- C. consumer can obtain a combination of 5 units of both C and D .
- D.** price of C is \$4 and the price of D is \$2.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

Type: Graph

65. Refer to the budget line shown in the diagram above. If the consumer's money income is \$20, which of the following combinations of goods is *unattainable*?

- A.** 4 units of C , and 6 units of D .
- B. 5 units of C , and no units of D .
- C. 1 unit of C , and 8 units of D .
- D. 2 units of C , and 6 units of D .

AACSB: Analytic

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

Type: Graph

66. Refer to the budget line shown in the diagram above. The absolute value of the slope of the budget line is:

- A. MU_C/MU_D .
- B. one-half.
- C. P_D/P_C .
- D.** P_C/P_D .

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

Type: Graph

67. In moving along a given budget line:

- A. the prices of both products and money income are assumed to be constant.
- B. each point on the line will be equally satisfactory to consumers.
- C. money income varies, but the prices of the two goods are constant.
- D. the prices of both products are assumed to vary, but money income is constant.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

68. An increase in money income:

- A. shifts the consumer's budget line to the right.
- B. shifts the consumer's budget line to the left.
- C. increases the slope of the budget line.
- D. has no effect on the budget line.

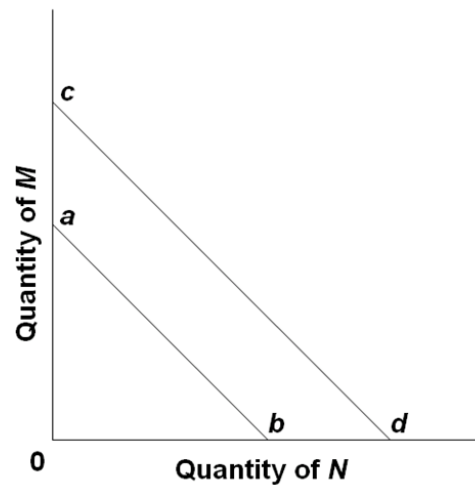
AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines



69.

The shift of the budget line from cd to ab in the above figure is consistent with:

- A. decreases in the prices of both M and N .
- B. an increase in the price of M and a decrease in the price of N .
- C. a decrease in money income.
- D. an increase in money income.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

Type: Graph

70. Any combination of goods lying outside of the budget line:

- A. implies that the consumer is not spending all his income.
- B. yields less utility than any point on the budget line.
- C. yields less utility than any point inside the budget line.
- D. is unattainable, given the consumer's income.

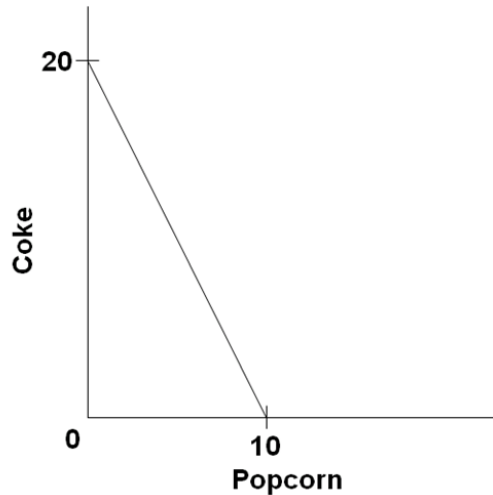
AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines



71.

Suppose you have a money income of \$10, all of which you spend on Coke and popcorn. In the above diagram, the prices of Coke and popcorn respectively are:

- A. \$.50 and \$1.00.
- B. \$1.00 and \$.50.
- C. \$1.00 and \$2.00.
- D. \$.40 and \$.50.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

Type: Graph

72. Other things equal, an increase in a consumer's money income:

- A. increases the amount of utility a consumer receives from a given quantity of a good.
- B. shifts her budget line rightward because she can now purchase more of both products.
- C. eliminates the individual's economizing problem.
- D. causes the consumer to choose a different combination of goods along a given budget line.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

73. The slope of a budget line reflects the:

- A. desirability of the two products.
- B. price ratio of the two products.**
- C. amount of the consumer's income.
- D. utility ratio of the two products.

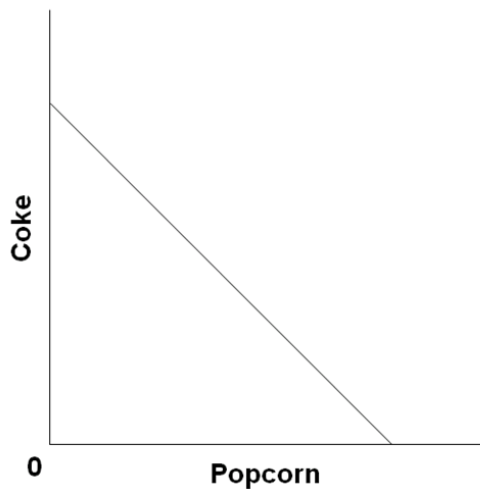
AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines



74.

Suppose Elroy's budget line is as shown on the above diagram. If his tastes change in favor of Coke and against popcorn, the budget line will:

- A. become steeper.
- B. become flatter.
- C. shift rightward.
- D. be unaffected.**

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

Type: Graph

75. Assume the price of product Y (the quantity of which is on the vertical axis) is \$15 and the price of product X (the quantity of which is on the horizontal axis) is \$3. Also assume that money income is \$60. The absolute value of the slope of the resulting budget line:

- A. is 5.
- B. is 1/5.**
- C. is 4.
- D. is 20.

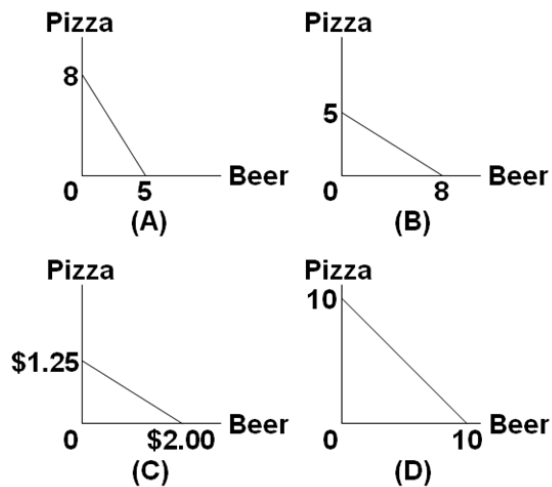
AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines



76. Refer to the above graphs. Assume that pizza is measured in slices and beer in pints. In which of the graphs is the opportunity cost of a pint of beer equal to one slice of pizza?

- A. graph A
- B. graph B
- C. graph C
- D.** graph D

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

Type: Graph

77. Refer to the above graphs. Assume that pizza is measured in slices and beer in pints. In which of the graphs is the opportunity cost of a pint of beer the lowest?

- A. graph A
- B.** graph B
- C. graph C
- D. graph D

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

Type: Graph

78. Suppose that Julia receives a \$20 gift card for the local coffee shop, where she only buys lattes and muffins. If the price of a latte is \$4 and the price of a muffin is \$2, then we can conclude that Julia:

- A. should only buy muffins.
- B. should only buy lattes.
- C.** can buy 5 lattes or 10 muffins if she chooses to buy only one of the two goods.
- D. can buy 5 lattes and 10 muffins with her \$20 gift card.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

79. Camille is at the candy store with her grandmother, who offers to buy her \$6 worth of candy. If lollipops are \$1 each, and candy bars are \$2 each, what combination of candy can Camille's grandmother buy for her?

- A. Six lollipops and three candy bars
- B. Two lollipops and two candy bars**
- C. Three lollipops and two candy bars
- D. One lollipop and three candy bars

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

80. Which of the following is a labor resource?

- A. a computer programmer**
- B. a computer
- C. silicon (sand) used to make computer chips
- D. a piece of software used by a firm

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Society's economizing problem

81. Which of the following is a capital resource?

- A. a computer programmer
- B. a corporate bond issued by a computer manufacturer
- C. silicon (sand) used to make computer chips
- D. a piece of software used by a firm**

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Society's economizing problem

82. The four factors of production are:

- A. land, labor, capital, and money
- B. land, labor, capital, and entrepreneurial ability**
- C. labor, capital, technology, and entrepreneurial ability
- D. labor, capital, entrepreneurial ability, and money

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Society's economizing problem

83. Which of the following is a land resource?

- A. a farmer
- B. an oil drilling rig
- C. a machine for detecting earthquakes
- D. natural gas**

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Society's economizing problem

84. Which of the following lists includes only capital resources (and therefore no labor or land resources)?

- A. an ice arena; a professional hockey player; hockey uniforms.
- B. the owner of a new startup firm; a chemistry lab; a researcher.
- C. a hydroelectric dam; water behind the dam; power lines.
- D. autos owned by a car rental firm; computers at the car rental agency; the vans that shuffle rental customers to and from the airport.**

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Society's economizing problem

85. Money is not an economic resource because:

- A. money, as such, does not produce anything.
- B. idle money balances do not earn interest income.
- C. it is not scarce.
- D. money is not a free gift of nature.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Society's economizing problem

86. Economic resources are also called:

- A. free gifts of nature.
- B. consumption goods.
- C. units of money capital.
- D. factors of production.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Society's economizing problem

87. Which of the following do economists consider to be capital?

- A. a pair of stockings
- B. a construction crane
- C. a savings account
- D. a share of IBM stock

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Society's economizing problem

88. The main function of the entrepreneur is to:

- A. make routine pricing decisions.
- B. innovate.**
- C. purchase capital.
- D. create market demand.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Society's economizing problem

89. Which of the following is *not* a main function of the entrepreneur?

- A. make routine pricing decisions.**
- B. innovate.
- C. assume the risk of economic losses.
- D. make strategic business decisions.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Society's economizing problem

90. The process of producing and accumulating capital goods is called:

- A. money capital.
- B. depreciation.
- C. investment.**
- D. consumption.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Society's economizing problem

91. Which of the following is *not* considered by economists to be an economic resource?

- A. money
- B. factory workers
- C. computers at a retail store
- D. a forest

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Society's economizing problem

92. Which of the following would *not* be classified as an economic resource by economists?

- A. a professional soccer player
- B. water in a town's reservoir
- C. money in a business checking account
- D. the manager of the local hamburger restaurant

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Society's economizing problem

93. The production possibilities curve illustrates the basic principle that:

- A. the production of more of any one good will in time require smaller and smaller sacrifices of other goods.
- B. an economy will automatically obtain full employment of its resources.
- C. if all the resources of an economy are in use, more of one good can be produced only if less of another good is produced.
- D. an economy's capacity to produce increases in proportion to its population size.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

94. Which of the following will *not* produce an outward shift of the production possibilities curve?

- A. an upgrading of the quality of a nation's human resources
- B. the reduction of unemployment**
- C. an increase in the quantity of a society's labor force
- D. the improvement of a society's technological knowledge

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

95. Unemployment:

- A. causes the production possibilities curve to shift outward.
- B. can exist at any point on a production possibilities curve.
- C. is illustrated by a point outside the production possibilities curve.
- D. is illustrated by a point inside the production possibilities curve.**

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

96. If the production possibilities curve is a straight line:

- A. the two products will sell at the same market prices.
- B. economic resources are perfectly substitutable between the production of the two products.**
- C. the two products are equally important to consumers.
- D. equal quantities of the two products will be produced at each possible point on the curve.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

97. A production possibilities curve illustrates:

- A. scarcity.
- B. market prices.
- C. consumer preferences.
- D. the distribution of income.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

98. A production possibilities curve shows:

- A. that resources are unlimited.
- B. that people prefer one of the goods more than the other.
- C. the maximum amounts of two goods that can be produced, assuming the full use of available resources.
- D. combinations of capital and labor necessary to produce specific levels of output.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

99. A nation's production possibilities curve is bowed out from the origin because:

- A. resources are not generally equally efficient in producing every good.
- B. the originator of the idea drew it this way and modern economists follow this convention.
- C. resources are scarce.
- D. wants are virtually unlimited.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Answer the question on the basis of the data given in the following production possibilities table:

		Production Possibilities (Alternatives)					
		<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>
Capital Goods		5	4	3	2	1	0
Consumer Goods		0	5	9	12	14	15

100. Refer to the above table. If the economy is producing at production alternative C, the opportunity cost of the tenth unit of consumer goods will be:

- A. 4 units of capital goods.
- B. 2 units of capital goods.
- C. 3 units of capital goods.
- D. $\frac{1}{3}$ of a unit of capital goods.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Table

101. Refer to the above table. As compared to production alternative D, the choice of alternative C would:

- A. tend to generate a more rapid growth rate.
- B. be unattainable.
- C. entail unemployment.
- D. tend to generate a slower growth rate.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Table

102. Refer to the above table. A total output of 3 units of capital goods and 4 units of consumer goods:

- A. is irrelevant because the economy is capable of producing a larger total output.
- B. will result in the maximum rate of growth available to this economy.
- C.** would involve an inefficient use of the economy's scarce resources.
- D. is unobtainable in this economy.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Table

103. Refer to the above table. For this economy to produce a total output of 3 units of capital goods and 13 units of consumer goods it must:

- A.** achieve economic growth.
- B. use its resources more efficiently than the data in the table now indicate.
- C. allocate its available resources most efficiently among alternative uses.
- D. achieve the full employment of available resources.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Table

104. Refer to the above table. For these data the law of increasing opportunity costs is reflected in the fact that:

- A. the amount of consumer goods that must be sacrificed to get more capital goods diminishes beyond a point.
- B.** larger and larger amounts of capital goods must be sacrificed to get additional units of consumer goods.
- C. the production possibilities data would graph as a straight downsloping line.
- D. the economy's resources are presumed to be scarce.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Table

105. When an economy is operating under conditions of full employment, the production of more of commodity A will mean the production of less of commodity B because:

- A. of the law of increasing opportunity costs.
- B. economic wants are insatiable.
- C. resources are limited.**
- D. resources are specialized and only imperfectly substitutable.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

106. Assume that a change in government policy results in greater production of both consumer goods and investment goods. We can conclude that:

- A. the economy was not employing all of its resources before the policy change.**
- B. the economy's production possibilities curve has been shifted to the left as a result of the policy decision.
- C. this economy's production possibilities curve is convex (bowed inward) to the origin.
- D. the law of increasing opportunity costs does not apply in this society.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

107. The production possibilities curve:

- A. shows all of those levels of production that are consistent with a stable price level.
- B. indicates that any combination of goods lying outside the curve is economically inefficient.
- C. is a frontier between all combinations of two goods that can be produced and those combinations that cannot be produced.**
- D. shows all of those combinations of two goods that are most preferred by society.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

108. Any point inside the production possibilities curve indicates:

- A. the presence of technological change.
- B. that resources are imperfectly substitutable among alternative uses.
- C. the presence of inflationary pressures.
- D.** that more output could be produced with available resources.

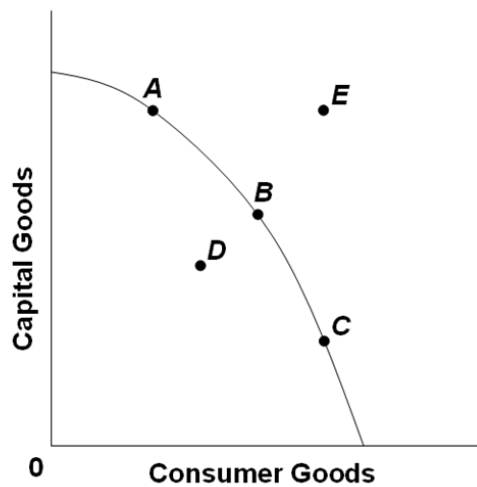
AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model



109. Refer to the above diagram. Other things equal, this economy will achieve the most rapid rate of growth if:

- A. the ratio of capital to consumer goods is minimized.
- B. it chooses point C.
- C. it chooses point B.
- D.** it chooses point A.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

110. Refer to the above diagram. This economy will experience unemployment if it produces at point:

- A. *A*.
- B. *B*.
- C. *C*.
- D.** *D*.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

111. Which of the following is assumed in constructing a typical production possibilities curve?

- A. the economy is using its resources inefficiently.
- B. resources are perfectly shiftable among alternative uses.
- C.** production technology is fixed.
- D. the economy is engaging in international trade.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

112. The typical production possibilities curve is:

- A. an upsloping line that is bowed out from the origin.
- B. a downsloping line that is bowed in toward the origin.
- C.** a downsloping line that is bowed out from the origin.
- D. a straight upsloping line.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

113. The slope of the typical production possibilities curve:

- A. is positive.
- B. increases as one moves southeast along the curve.**
- C. is constant as one moves down the curve.
- D. decreases as one moves southeast along the curve.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

114. Assume an economy is incurring unemployment. The effect of resolving this problem will be to:

- A. move the level of actual output on to the economy's production possibilities curve.**
- B. create a less equal distribution of income.
- C. shift its production possibilities curve to the left.
- D. shift its production possibilities curve to the right.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Duckistan Production Possibilities

	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>
Civilian Goods	20	18	14	8	0
Military Goods	0	1	2	3	4

Herbania Production Possibilities

	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>
Civilian Goods	40	36	26	14	0
Military Goods	0	1	2	3	4

115. Refer to the above tables. Suppose that the amount and quality of resources are the same in both countries. We can conclude that:

- A. Duckistan is technologically better than Herbania at producing military goods.
- B. Herbania is technologically better than Herbania at producing both military goods and civilian goods.
- C. the total opportunity cost of producing 4 units of military goods is the same in both countries.
- D.** Herbania is technologically superior to Duckistan in producing civilian goods.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Table

116. Refer to the above tables. Suppose that technology and the quality of resources are the same in both countries. We can conclude that:

- A. Duckistan has more resources than Herbania.
- B.** Herbania has more resources than Duckistan.
- C. Duckistan has greater opportunity costs than Herbania.
- D. Prices are twice as high in Herbania as in Duckistan.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Table

117. Refer to the above tables. Opportunity costs of producing military goods are:

- A. increasing in Duckistan but constant in Herbania.
- B. constant in both Duckistan and Herbania.
- C. larger in Duckistan than in Herbania.
- D.** smaller in Duckistan than Herbania.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Table

118. Refer to the above tables. Opportunity costs are:

- A. constant in both Duckistan and Herbania.
- B. larger in Duckistan than in Herbania.
- C. increasing in both Duckistan and Herbania.
- D. increasing in Duckistan and constant in Herbania.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Table

119. Refer to the above tables. Suppose that Duckistan and Herbania are each producing 14 units of civilian goods and 2 unit of military goods. Then:

- A. Duckistan is fully employing its resources but Herbania is not.
- B. both Duckistan and Herbania are fully employing their resources.
- C. Herbania is fully employing its resources but Duckistan is not.
- D. neither Duckistan nor Herbania are fully employing their resources.

AACSB: Reflective Thinking

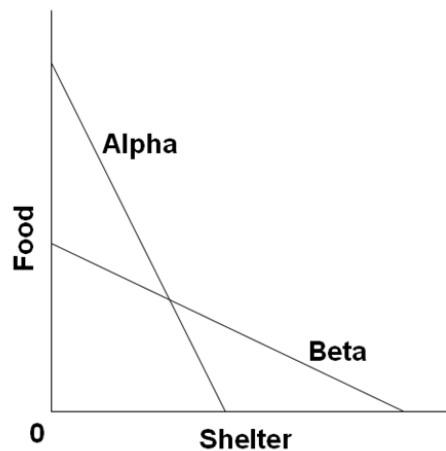
Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Table



120.

In the figure above are two linear production possibilities curves for countries Alpha and Beta. We can conclude that:

- A. different value systems make it impossible to compare opportunity costs in the two countries.
- B. the opportunity cost of shelter is greater in Beta than it is in Alpha.
- C. the opportunity cost of food is greater in Alpha than it is in Beta.
- D.** the opportunity cost of shelter is greater in Alpha than it is in Beta.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

121. Which of the following is *not* correct? A typical production possibilities curve:

- A. indicates how much of two products a society can produce.
- B. reveals how much each additional unit of one product will cost in terms of the other product.
- C.** specifies how much of each product society should produce.
- D. indicates that to produce more of one product society must forgo larger and larger amounts of the other product.

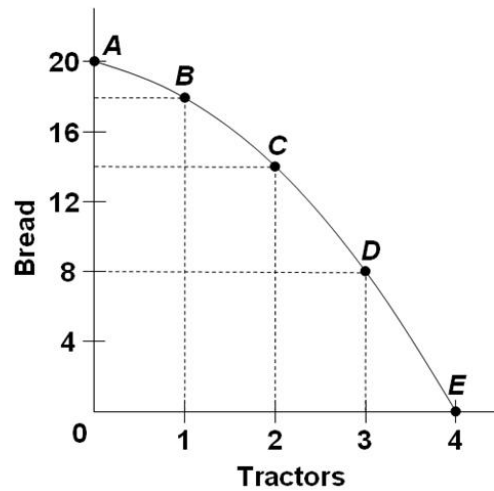
AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model



122. Refer to the above diagram. This production possibilities curve is constructed so that:

- A. resources are presumed to be perfectly shiftable between bread and tractors.
- B. the opportunity cost of bread diminishes as more bread is produced.
- C. the opportunity cost of tractors increases as more bread is produced.
- D.** the opportunity cost of both bread and tractors increases as more of each is produced.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

123. Refer to the above diagram. Which of the following is a normative statement?

- A. Point *C* is superior to point *B* because it is important to enhance the future of society.
- B. If society is initially at point *C*, it must sacrifice 6 units of bread to obtain one more unit of tractors.
- C. If society produces 2 units of tractors and 12 units of bread, it is not using its available resources with maximum efficiency.
- D. Other things equal, the combination of outputs represented by point *D* will result in more rapid economic growth than will the combination represented by point *C*.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model; positive and normative economics

Type: Graph

124. Refer to the above diagram. Which of the following is a positive statement?

- A. A point inside the production possibilities curve is superior to a point on the curve because the former requires less work effort.
- B. Because any society should stress economic growth as its major goal, point *D* is superior to point *C*.
- C. Point *B* is preferable to point *C* because the ultimate goal of economic activity is to maximize consumption.
- D. Given its resources and technology, this society is incapable of simultaneously producing 3 units of tractors and 15 units of bread.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model; positive and normative economics

Type: Graph

125. Refer to the above diagram. Starting at point *A*, the opportunity cost of producing each successive unit of tractors is:

- A. a constant 2 units of bread.
- B. 2, 4, 6, and 8 units of bread.**
- C. 8, 6, 4, and 2 units of bread.
- D. the reciprocal of the output of tractors.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

126. Refer to the above diagram. Starting at point *E*, the production of successive units of bread will cost:

- A. a constant 8 units of tractors.
- B. a constant 6 units of tractors.
- C. $\frac{1}{8}$, $\frac{1}{6}$, $\frac{1}{4}$, and $\frac{1}{2}$ units of tractors.**
- D. $\frac{1}{2}$, $\frac{1}{4}$, $\frac{1}{6}$, and $\frac{1}{8}$ units of tractors.

AACSB: Reflective Thinking

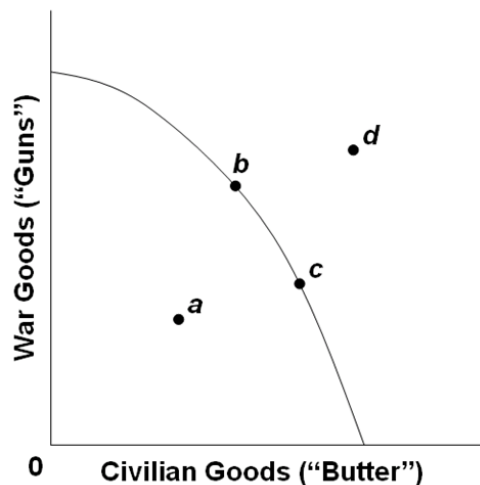
Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph



127. Refer to the above production possibilities curve. At the onset of the Second World War the United States had large amounts of idle human and property resources. Its economic adjustment from peacetime to wartime can best be described by the movement from point:

- A. *c* to point *b*.
- B. *b* to point *c*.
- C. *a* to point *b*.**
- D. *c* to point *d*.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

128. Refer to the above production possibilities curve. At the onset of the Second World War the Soviet Union was already at full employment. Its economic adjustment from peacetime to wartime can best be described by the movement from point:

- A. *c* to point *b*.**
- B. *b* to point *c*.
- C. *a* to point *b*.
- D. *c* to point *d*.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

129. The production possibilities curve shows:

- A. the various combinations of two goods that can be produced when society employs all of its scarce resources.
- B. the minimum outputs of two goods that will sustain a society.
- C. the various combinations of two goods that can be produced when some resources are unemployed.
- D. the ideal, but unattainable, combinations of two goods that would maximize consumer satisfactions.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

130. The negative slope of the production possibilities curve is a graphical way of indicating that:

- A. any economy "can have its cake and eat it too."
- B. to produce more of one product we must do with less of another.
- C. the principle of increasing opportunity costs applies to only parts of the economy.
- D. consumers buy more when prices are low than when prices are high.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

131. If an economy is operating *on* its production possibilities curve for consumer goods and capital goods, this means that:

- A. it is impossible to produce more consumer goods.
- B. resources cannot be reallocated between the two goods.
- C. it is impossible to produce more capital goods.
- D. more consumer goods can only be produced at the cost of fewer capital goods.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

132. The construction of a production possibilities curve assumes:

- A. the quantities of all resources are unlimited.
- B. technology is fixed.**
- C. some resources are unemployed.
- D. there is no inflation in the economy.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

133. A typical concave (bowed out from the origin) production possibilities curve implies:

- A. that economic resources are unlimited.
- B. that society must choose among various attainable combinations of goods.**
- C. decreasing opportunity costs.
- D. that society is using a market system to allocate resources.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

134. The production possibilities curve tells us:

- A. the specific combination of two products that is most desired by society.
- B. that costs do not change as society varies its output.
- C. costs are irrelevant in a society that has fixed resources.
- D. the combinations of two goods that can be produced with society's available resources.**

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

135. The production possibilities curve has:

- A. a positive slope that increases as we move along it from left to right.
- B. a negative slope that increases as we move along it from left to right.**
- C. a negative slope that decreases as we move along it from left to right.
- D. a negative slope that is constant as we move along it from left to right.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Answer the question on the basis of the following production possibilities tables for two countries, North Cantina and South Cantina:

North Cantina Production Possibilities						
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>
Capital Goods	5	4	3	2	1	0
Consumer Goods	0	10	18	24	28	30

South Cantina Production Possibilities						
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>
Capital Goods	5	4	3	2	1	0
Consumer Goods	0	8	15	21	25	27

136. Refer to the above tables. If South Cantina is producing at production alternative D, the opportunity cost of the third unit of capital goods will be:

- A. 3 units of consumer goods.
- B. 4 units of consumer goods.
- C. 5 units of consumer goods.
- D. 6 units of consumer goods.**

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Table

137. Refer to the above tables. If North Cantina is producing at production alternative B, the opportunity cost of the eleventh unit of consumer goods will be:

- A. 10 units of capital goods.
- B. $\frac{1}{4}$ of a unit of capital goods.
- C. 8 units of capital goods.
- D.** $\frac{1}{8}$ of a unit of capital goods.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Table

138. Refer to the above tables. Suppose that North Cantina is producing 2 units of capital goods and 17 units of consumer goods while South Cantina is producing 2 units of capital goods and 21 units of consumer goods. We can conclude that:

- A. North Cantina is fully and efficiently using its resources, but South Cantina is not.
- B.** South Cantina is fully and efficiently using its resources, but North Cantina is not.
- C. neither South Cantina nor North Cantina are fully and efficiently using their resources.
- D. both South Cantina and North Cantina are fully and efficiently using their resources.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Table

139. Refer to the above tables. Suppose that resources in North Cantina and South Cantina are identical in quantity and quality. We can conclude that:

- A. South Cantina has better technology than North Cantina in producing both capital and consumer goods.
- B. North Cantina has better technology than South Cantina in producing both capital and consumer goods.
- C. North Cantina is growing more rapidly than South Cantina.
- D.** North Cantina has better technology than South Cantina in producing consumer goods, but not capital goods.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Table

140. Refer to the above tables. The opportunity cost of the fifth unit of capital goods:

- A.** is higher in North Cantina than in South Cantina.
- B. is the same in North Cantina and South Cantina.
- C. is lower in North Cantina than in South Cantina.
- D. cannot be determined from the information provided.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Table

141. If an economy is operating inside its production possibilities curve for consumer goods and capital goods, it:

- A. can only produce more consumer goods by producing fewer capital goods.
- B. can only produce more capital goods by producing fewer consumer goods.
- C.** can produce more of both consumer goods and capital goods by using resources that are currently idle.
- D. must improve its technology to produce more output.

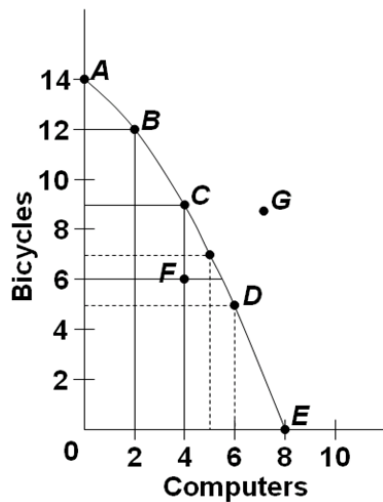
AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model



142. Refer to the above diagram. Points A, B, C, D, and E show:

- A. that the opportunity cost of bicycles increases, while that of computers is constant.
- B.** combinations of bicycles and computers that society can produce by using its resources efficiently.
- C. that the opportunity cost of computers increases, while that of bicycles is constant.
- D. that society's demand for computers is greater than its demand for bicycles.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

143. Refer to the above diagram. If society is currently producing 9 units of bicycles and 4 units of computers and it now decides to increase computer output to 6, the cost:

- A.** will be 4 units of bicycles.
- B. will be 2 units of bicycles.
- C. will be zero because unemployed resources are available.
- D. of doing so cannot be determined from the information given.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

144. Refer to the above diagram. The combination of computers and bicycles shown by point *G* is:

- A. attainable, but too costly.
- B. unattainable, given currently available resources and technology.**
- C. attainable, but involves unemployment.
- D. irrelevant because it is inconsistent with consumer preferences.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

145. Refer to the above diagram. If society is currently producing the combination of bicycles and computers shown by point *D*, the production of 2 more units of bicycles:

- A. cannot be achieved because resources are fully employed.
- B. will cost 1 unit of computers.**
- C. will cost 2 units of computers.
- D. will cause some resources to become unemployed.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

146. Refer to the above diagram. The combination of computers and bicycles shown by point *F*:

- A. is unattainable, given currently available resources and technology.
- B. is attainable, but implies that the economy is not using all its resources.**
- C. is irrelevant because it is inconsistent with consumer preferences.
- D. suggests that opportunity costs are constant.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

147. Refer to the above diagram. The movement down the production possibilities curve from point *A* to point *E* suggests that the production of:

- A. computers, but not bicycles, is subject to increasing opportunity costs.
- B. bicycles, but not computers, is subject to increasing opportunity costs.
- C. both bicycles and computers are subject to constant opportunity costs.
- D.** both bicycles and computers are subject to increasing opportunity costs.

AACSB: Reflective Thinking

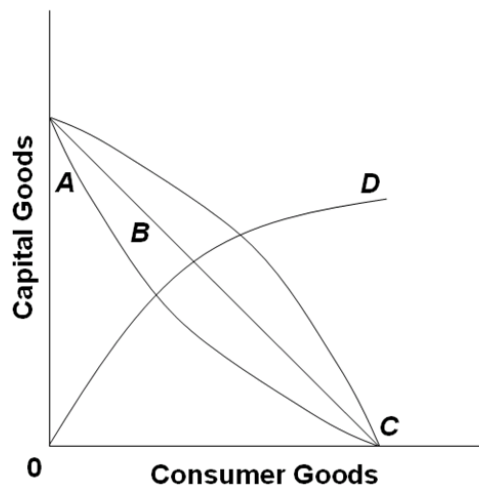
Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph



148. Refer to the above diagram. As it relates to production possibilities analysis, the law of increasing opportunity cost is reflected in curve:

- A. *A*
- B. *B*
- C.** *C*
- D. *D*

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

149. Refer to the above diagram. Curve B is a:

- A. production possibilities curve indicating constant opportunity costs.
- B. production possibilities curve indicating increasing opportunity costs.
- C. demand curve indicating that the quantity of consumer goods demanded increases as the price of capital falls.
- D. technology frontier curve.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

150. Refer to the above diagram. All other things equal, curve C

- A. reflects increasing opportunity costs because the slope of the curve becomes less steep as one moves down along the curve.
- B. is a less desirable production possibilities curve for an economy than curve B.
- C. is a more desirable production possibilities curve for an economy than curve A.
- D. has a steeper slope throughout than curve B.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

151. The fact that the slope of the production possibilities curve becomes steeper as we move down along the curve indicates that:

- A. the principle of increasing opportunity costs is relevant.
- B. society's resources are limited.
- C. the opportunity cost of producing each product is constant.
- D. resources are perfectly shiftable between alternative uses.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

152. The law of increasing opportunity costs states that:

- A. if society wants to produce more of a particular good, it must sacrifice larger and larger amounts of another good to do so.
- B. the sum of the costs of producing a particular good cannot rise above the current market price of that good.
- C. if the sum of the costs of producing a particular good rises by a specified percent, the price of that good must rise by a greater relative amount.
- D. if the prices of all the resources used to produce goods increase, the cost of producing any particular good will increase at the same rate.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

153. The concept of opportunity cost:

- A. is irrelevant in socialistic economies because of central planning.
- B. suggests that the use of resources in any particular line of production means that alternative outputs must be forgone.
- C. is irrelevant if the production possibilities curve is shifting to the right.
- D. suggests that insatiable wants can be fulfilled.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

154. The law of increasing opportunity costs is reflected in a production possibilities curve that is:

- A. an upsloping straight line.
- B. a downsloping straight line.
- C. bowed out from the origin.
- D. bowed in toward the origin.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Status: New

Topic: Production possibilities model

155. The point on the production possibilities curve that is most desirable can be found by:
- A. estimating the marginal costs of both products in real or physical terms.
 - B. comparing marginal benefits and marginal costs.**
 - C. determining where least-cost production occurs.
 - D. calculating where economic growth will be greatest.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

156. The optimal point on a production possibilities curve is achieved where:
- A. the smallest physical amounts of inputs are used to produce each good.
 - B. each good is produced at a level where marginal benefits equal marginal costs.**
 - C. large amounts of capital goods are produced relative to consumer goods.
 - D. large amounts of consumer goods are produced relative to capital goods.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

157. The marginal benefit curve is:
- A. upsloping because of increasing marginal opportunity costs.
 - B. upsloping because successive units of a specific product yield less and less extra benefit.
 - C. downsloping because of increasing marginal opportunity costs.
 - D. downsloping because successive units of a specific product yield less and less extra benefit.**

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

158. The marginal cost curve is:

- A. upsloping because of increasing marginal opportunity costs.
- B. upsloping because successive units of a specific product yield less and less extra utility.
- C. downsloping because of increasing marginal opportunity costs.
- D. downsloping because successive units of a specific product yield less and less extra utility.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

159. The output of MP3 players should be:

- A. reduced if marginal benefits exceed marginal costs.
- B. reduced if marginal costs exceed marginal benefits.
- C. increased if marginal costs exceed marginal benefits.
- D. reduced to zero if their unit costs exceed the unit costs of alternative products.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

160. If the output of product X is such that marginal benefit equals marginal cost:

- A. the correct amount of resources is being allocated to X's production.
- B. the value of producing X exceeds the value of producing alternative products with the available resources.
- C. there can be a net gain to society by allocating either more or less resources to producing X.
- D. resources are overallocated to the production of X.

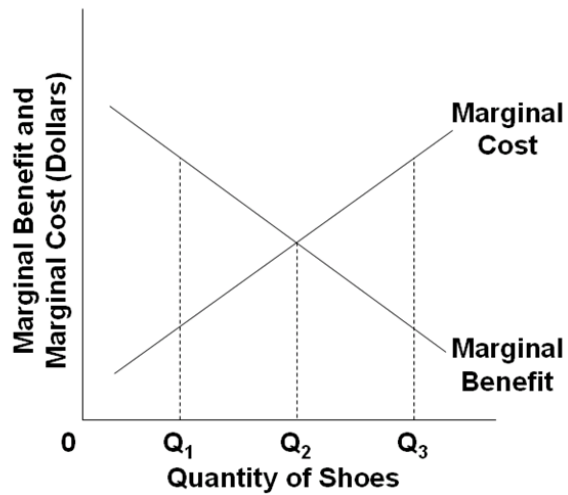
AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model



161. Refer to the above diagram for athletic shoes. The optimal output of shoes is:

- A. Q_1 .
- B. Q_2 .**
- C. Q_3 .
- D. greater than Q_3 .

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

162. Refer to the above diagram for athletic shoes. If the current output of shoes is Q_1 , then:
- A. society would consider additional units of shoes to be more valuable than alternative uses of those resources.
 - B. society would consider additional units of shoes to be less valuable than alternative uses of those resources.
 - C. society would experience a net loss by producing more shoes.
 - D. resources are being allocated efficiently to the production of shoes.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

163. Refer to the above diagram for athletic shoes. If the current output of shoes is Q_3 , then:
- A. resources are being allocated efficiently to the production of shoes.
 - B. society would consider additional units of shoes to be more valuable than alternative products.
 - C. society would consider additional units of shoes to be less valuable than alternative products.
 - D. society would experience a net gain by producing more shoes.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

164. Refer to the above diagram for athletic shoes. If the current output of shoes is Q_3 , then:
- A. society should produce fewer shoes to achieve the optimal allocation of resources.
 - B. society should produce more shoes to achieve the optimal allocation of resources.
 - C. resources are being allocated efficiently to the production of shoes.
 - D. shoes are more valuable to society than alternative products.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

165. Suppose that a fully-employed economy produces only two goods, hamburgers and flat-panel TVs. If the economy is currently producing more than the optimal quantity of hamburgers, then to attain the optimal allocation of resources it should:

- A. produce more hamburgers and fewer TVs.
- B. produce more TVs and fewer hamburgers.**
- C. produce more of both goods.
- D. produce fewer of both goods.

AACSB: Analytic

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

166. Suppose that an economy is producing on its production possibilities curve, but is not producing quantities of each good where the marginal benefit equals the marginal cost for each good. This economy:

- A. should not change its production because it cannot improve its allocation by shifting resources.
- B. can improve its allocation by lowering the unemployment rate.
- C. can improve its allocation by producing more of one good and less of the other.**
- D. can improve its allocation by producing more of both goods.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

167. The optimal allocation of resources is found:

- A. where $MB = MC$.**
- B. at every point along a production possibilities curve.
- C. where the marginal benefit is at its greatest.
- D. where the marginal cost is at its lowest.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model



168. Refer to the above diagram. Technological advance in producing both capital goods and consumer goods is shown by the shift of the production possibilities curve from AB to:

- A. CD.
- B. EB.
- C. AF.
- D. GH.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

Type: Graph

169. Refer to the above diagram. Technological advance that improves the ability to produce capital goods but not consumer goods is shown by the shift of the production possibilities curve from AB to:

- A. CD.
- B.** BE.
- C. AF.
- D. GH.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

Type: Graph

170. Refer to the above diagram. Technological advance that is useful in producing consumer goods but not in producing capital goods is shown by the shift of the production possibilities curve from AB to:

- A. CD.
- B. EB.
- C.** AF.
- D. GH.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

Type: Graph

171. The basic difference between consumer goods and capital goods is that

- A. consumer goods are produced in the private sector and capital goods are produced in the public sector.
- B. an economy that commits a relatively large proportion of its resources to capital goods must accept a lower growth rate.
- C. the production of capital goods is not subject to the law of increasing opportunity costs.
- D.** consumer goods satisfy wants directly while capital goods satisfy wants indirectly.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

172. Which of the following will shift the production possibilities curve to the right?
- A. an increase in the unemployment rate from 6 to 8 percent
 - B. a decline in the efficiency with which the present labor force is allocated
 - C. a decrease in the unemployment rate from 8 to 6 percent
 - D. a technological advance that allows farmers to produce more output from given inputs**

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

173. Other things equal, which of the following would shift an economy's production possibilities curve to the left?
- A. the discovery of a low-cost means of generating and storing solar energy
 - B. the entrance of more women into the labor force
 - C. a law requiring mandatory retirement from the labor force at age 55**
 - D. an increase in the proportion of total output that consists of capital or investment goods

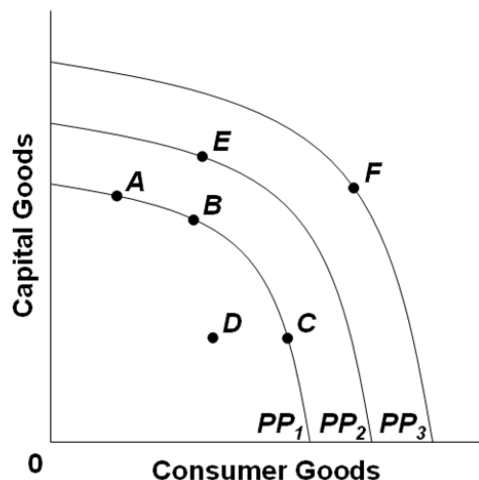
AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future



174. Refer to the above diagram. The concave shape of each production possibilities curve indicates that:

- A. resources are perfectly substitutable.
- B. wants are virtually unlimited.
- C. prices are constant.
- D.** resources are not equally suited for alternative uses.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

Type: Graph

175. Refer to the above diagram. The concept of opportunity cost is best represented by the:

- A. shift of the production possibilities curve from PP_1 to PP_2 .
- B. move from B on PP_1 to E on PP_2 .
- C.** move from B on PP_1 to C on PP_1 .
- D. move from D inside PP_1 to B on PP_1 .

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

Type: Graph

176. Refer to the above diagram. Other things equal, which of the following positions relative to PP_1 would be the most likely to result in a future production possibilities curve of PP_3 , rather than PP_2 ?

- A.** A.
- B. B.
- C. C.
- D. D.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

Type: Graph

177. Refer to the above diagram. An improvement in technology will:

- A. shift the production possibilities curve from PP_1 to PP_2 .
- B. shift the production possibilities curve from PP_2 to PP_1 .
- C. move the economy from A to C along PP_1 .
- D. move the economy from A, B, or C on PP_1 to D.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

Type: Graph

178. Refer to the above diagram. Which one of the following would shift the production possibilities curve from PP_1 to PP_2 ?

- A. worsening of the AIDS epidemic
- B. immigration of skilled workers into the economy
- C. an increase in consumer prices
- D. a reduction in hourly wages

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

Type: Graph

179. Which of the following statements, if any, is correct for a nation that is producing only consumer and capital goods?

- A. Other things equal, the more consumer goods a nation produces, the greater will be its future growth rate.
- B. Other things equal, the more capital goods a nation produces, the greater will be its future growth rate.
- C. There is no general relationship between the current division of output between consumer and capital goods and the future growth rate.
- D. None of these statements is correct.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

180. All of the following could immediately or eventually lead to an inward shift of a nation's production possibilities curve, *except*:

- A. emigration of skilled workers from the nation.
- B. a decline in the birth rate.
- C.** an increase in the average skill level of all occupational groups.
- D. depletion and reduced availability of major energy resources.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

181. A nation's production possibilities curve might shift to the left (inward) as a result of:

- A. technological advance.
- B. increases in the size of the labor force.
- C.** the depletion of its soil fertility due to overplanting and overgrazing.
- D. investing in more capital goods.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

182. Which of the following will enable a nation to obtain a combination of consumer goods and capital goods outside its production possibilities curve?

- A. full employment.
- B.** international specialization and trade.
- C. full production.
- D. productive efficiency.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-06 Explain how economic growth and international trade increase consumption possibilities.

Topic: Unemployment, growth, and the future

183. Suppose that Scoobania, which has full employment, can obtain 1 unit of capital goods by sacrificing 2 units of consumer goods domestically, but can obtain 1 unit of capital goods from another country by trading 1 unit of consumer goods for it. This reality illustrates:

- A. a rightward (outward) shift of the production possibilities curve.
- B. increasing opportunity costs.
- C.** achieving points beyond the production possibilities curve through international specialization and trade.
- D. productive efficiency.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-06 Explain how economic growth and international trade increase consumption possibilities.

Topic: Unemployment, growth, and the future

184. Through specialization and international trade a nation:

- A.** can attain some combination of goods lying outside its production possibilities curve.
- B. can move from a high consumption-low investment to a high investment-low consumption point on its production possibilities curve.
- C. will only attain some combination of goods lying within its production possibilities curve.
- D. will cause its production possibilities curve to shift leftward.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-06 Explain how economic growth and international trade increase consumption possibilities.

Topic: Unemployment, growth, and the future

185. Some agricultural sub-Saharan nations of Africa have overfarmed and overgrazed their land to the extent that significant portions of it have turned into desert. This suggests that:

- A. the production possibilities curves of such nations are more bowed out from the origin.
- B.** the production possibilities curves of such nations have shifted inward.
- C. the production possibilities curves of such nations have shifted outward.
- D. these nations are operating at some point outside of their production possibilities curves.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-06 Explain how economic growth and international trade increase consumption possibilities.

Topic: Unemployment, growth, and the future

186. If all discrimination in the United States were eliminated, the economy would:

- A. have a less concave production possibilities curve.
- B. produce at some point closer to its production possibilities curve.**
- C. be able to produce at some point outside of its production possibilities curve.
- D. produce more consumer goods and fewer investment goods.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

187. A country can achieve some combination of goods outside its production possibilities curve by:

- A. idling some of its resources.
- B. specializing and engaging in international trade.**
- C. buying the debt (bonds and stocks) of foreign nations.
- D. producing more capital goods and fewer consumer goods.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-06 Explain how economic growth and international trade increase consumption possibilities.

Topic: Unemployment, growth, and the future

188. In recent years the economy of Japan has grown, despite the fact that the population of Japan has declined. Which of the following would best explain Japan's economic growth despite having a smaller population?

- A. Immigration of new workers into Japan.
- B. Advancements in technology that make labor more productive.**
- C. Reduced employment of capital because fewer workers are available to use it.
- D. Greater consumption of goods imported from other countries.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

189. (Consider This) Free products offered by firms:

- A. may or may not be free to society, but are never free to individuals.
- B.** may or may not be free to individuals, but are never free to society.
- C. are produced and distributed at no cost to society.
- D. usually are items nobody wants.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

190. (Consider This) The assertion by economists that "there is no free lunch":

- A. is contradicted by the presence of free goods offered by firms.
- B. applies to goods that have prices, not to goods given away free by firms.
- C.** remains true even for goods given away free by firms.
- D. applies to agricultural goods, but not to manufactured goods.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

191. (Consider This) The economic perspective used in customer decision making at fast-food restaurants is reflected in:

- A.** customers selecting the shortest line.
- B. decisions for which marginal costs exceed marginal benefits.
- C. all customer lines tending to be of different length.
- D. irrational purchasing of high-fat-content food.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

192. (Consider This) At fast-food restaurants:

- A. consumers enjoy complete and accurate information.
- B. decisions are usually made by trial and error.
- C.** decisions entail comparisons of marginal costs and marginal benefits.
- D. benefits always exceed costs.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

193. (Consider This) Consumers might leave a fast-food restaurant without being served because:

- A. they are misinformed about the marginal cost and marginal benefits of the food being served.
- B.** they conclude that the marginal cost (monetary plus time costs) exceeds the marginal benefit.
- C. the environment is not conducive to a rational choice.
- D. the lines waiting for service are not of equal length.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

194. (Consider This) A direct cost of going to college is:

- A. tuition, while an indirect cost (opportunity cost) is books and other supplies.
- B. forgone income while in college, while an indirect cost (opportunity cost) is tuition.
- C.** tuition, while an indirect cost (opportunity cost) is forgone income while in college.
- D. books and supplies, while an indirect cost (opportunity cost) is food and housing.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

195. (Consider This) An exception to the advice "go to college, stay in college, and earn a degree" occurs when:

- A. tuition expenses are high and rising.
- B. the opportunity cost of attending college is extraordinarily high.**
- C. the price of textbooks is high and rising.
- D. the economy is growing rapidly and jobs are plentiful.

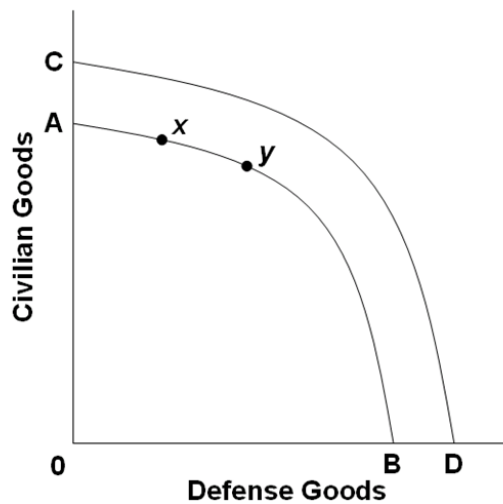
AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective



196. (Consider This) Refer to the above diagram. The direct economic impact of the destruction and loss of lives caused by the terrorist attacks of September 11, 2001 is illustrated by the:

- A. shift of the production possibilities curve from CD to AB.**
- B. shift of the production possibilities curve from AB to CD.
- C. move from x to y on production possibilities curve AB.
- D. move from y to x on production possibilities curve AB.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

197. (Consider This) Refer to the above diagram. The U.S. response to the events of September 11, 2001, is illustrated by the:

- A. shift of the production possibilities curve from CD to AB.
- B. shift of the production possibilities curve from AB to CD.
- C.** move from x to y on production possibilities curve AB.
- D. move from y to x on production possibilities curve AB.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

198. (Consider This) Refer to the above diagram. Suppose that point y represents the optimal combination of civilian goods and defense goods. We can conclude that at y the marginal benefit of defense goods:

- A. exceeds the marginal cost of defense goods.
- B.** equals the marginal cost of defense goods.
- C. is zero.
- D. is negative.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

199. (Consider This) In response to the terrorist attacks of September 11, 2001, the government decided to allocate more resources toward defense goods. The government's decision reflects their assessment that:

- A.** the marginal benefits of additional defense goods outweighed the marginal cost.
- B. the marginal cost of additional defense goods outweighed the marginal benefit.
- C. there cannot be too many defense goods.
- D. civilian goods are not worth producing.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

200. (Last Word) The fallacy of composition states that:

- A. because economic systems are composed of so many diverse economic units, economic laws are necessarily inexact.
- B. the anticipation of a particular event can affect the composition of that event when it occurs.
- C. what is true for the individual must necessarily be true for the group.
- D. because event A precedes event B, A is necessarily the cause of B.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

201. (Last Word) The "after this, therefore because of this" fallacy states that:

- A. because event A precedes event B, A is necessarily the cause of B.
- B. the very attempt to accomplish a certain objective may create conditions that prohibit the achievement of that goal.
- C. events may drastically alter plans; one's intentions and actual accomplishments may differ considerably.
- D. generalizations that are accurate at the level of microeconomics may be inaccurate at the level of macroeconomics.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

202. (Last Word) The safest way for an individual to leave a burning theater is to run for the nearest exit; it is therefore also the best means of escape for a large audience. This assertion illustrates the:

- A. "after this, therefore because of this" fallacy.
- B. correlation fallacy.
- C. fallacy of composition.
- D. fallacy of limited decisions.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

203. (Last Word) The *post hoc, ergo propter hoc* fallacy suggests that:
- A. positive statements are always followed by normative judgments.
 - B. positive statements can never be proven true or false.
 - C. if one acts on one's expectations, those expectations will always be fulfilled.
 - D.** cause and effect can be determined merely by observing the sequence of events.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

204. (Last Word) Which of the following has to do with the problem of distinguishing cause and effect in economic reasoning?
- A. the law of large numbers.
 - B. the law of averages.
 - C.** the *post hoc, ergo propter hoc* fallacy.
 - D. the fallacy of composition.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

205. (Last Word) Which of the following best illustrates the *post hoc, ergo propter hoc* fallacy?
- A. Because it was 90 degrees today, I worked up a sweat playing tennis.
 - B.** I took the day off work to go to the beach and that's why it rained.
 - C. Because it rained at the football game, my new sweater got wet.
 - D. Because I have studied diligently this semester, my grade average has improved.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

206. (Last Word) The fallacy of composition is essentially the error of:

- A. omitting relevant variables in constructing a model.
- B. reasoning from the general to the particular.
- C. confusing cause and effect in economic relationships.
- D.** generalizing from the particular to the general.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

207. (Last Word) The *post hoc* fallacy and the correlation problem both relate to:

- A. the calculation of marginal costs and marginal benefits of any economic activity.
- B.** the issue of determining causation.
- C. the frequent inability of households and businesses to behave rationally.
- D. the tradeoff problem associated with competing goals.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

208. (Last Word) If variables X and Y are positively correlated, this means that:

- A. X is the cause of Y .
- B. Y is the cause of X .
- C. causation necessarily exists, but we don't know whether X or Y is the cause.
- D.** causation may or may not exist between X and Y .

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

209. (Last Word) "The government deregulated the electricity industry in California and a shortage of electricity soon occurred. It is clear that the deregulation caused the shortage."

This statement needs careful analysis because it may reflect the:

- A. the fallacy of composition.
- B. *post hoc, ergo propter hoc* fallacy.**
- C. use of loaded terminology.
- D. the law of averages.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

210. (Last Word) A caller to a radio talk show states that oil companies are "greedy price gougers." This is an example of:

- A. loaded terminology.**
- B. the "after this, therefore because of this fallacy."
- C. the fallacy of composition.
- D. the economic perspective.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

211. (Last Word) A caller to a radio talk show states that protesters against globalization are a collection of "anarchist punks, naïve college students, and trade union radicals." This is an example of:

- A. the fallacy of composition.
- B. the economic perspective.
- C. loaded terminology.**
- D. marginal analysis.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

212. (Last Word) A study found that the incidence of skin cancer increases along with the amount of time people work under fluorescent light, leading some people to conclude that fluorescent lighting is a cause of skin cancer. But further analysis found that people who work in offices, where fluorescent light is common, suffer more sunburn on their vacations than other workers. The sunburns, not the fluorescent light, were the cause of the higher incidence of skin cancer. The original conclusion illustrates:

- A. the fallacy of composition.
- B.** confusion of correlation and causation.
- C. identifying marginal costs and marginal benefits.
- D. biases and loaded terminology.

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

True / False Questions

213. An economic model is an ideal or utopian type of economy that society should strive to obtain through economic policy.

FALSE

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

214. Because economic generalizations are simplifications from reality, they are impractical and useless.

FALSE

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

215. If economic theories are solidly based on relevant facts, then appropriate economic policy becomes obvious and uncontroversial.

FALSE

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Describe the role of economic theory in economics.

Topic: Theories, principles, and models

216. Normative statements are expressions of facts.

FALSE

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Positive and normative statements

217. Positive statements are expressions of value judgments.

FALSE

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Positive and normative statements

218. Macroeconomics explains the behavior of individual households and business firms; microeconomics is concerned with the behavior of aggregates or the economy as a whole.

FALSE

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.

Topic: Microeconomics and macroeconomics

219. Purposeful behavior implies that everyone will make identical choices.

FALSE

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

220. Marginal analysis means that decision-makers compare the extra benefits with the extra costs of a specific choice.

TRUE

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

221. Rational individuals may make different choices because their preferences and circumstances differ.

TRUE

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

222. Choices entail marginal costs because resources are scarce.

TRUE

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective

223. The production possibilities curve shows various combinations of two products that an economy can produce when achieving full employment.

TRUE

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

224. The entrepreneur's sole function is to combine other resources (land, labor, and capital) in the production of some good or service.

FALSE

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Production possibilities model

225. Products and services are scarce because resources are scarce.

TRUE

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Production possibilities model

226. An economy cannot produce at a point outside of its production possibilities curve because human economic wants are insatiable.

FALSE

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

227. The process by which capital goods are accumulated is known as investment.

TRUE

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Unemployment, growth, and the future

228. The present choice of position on the production possibilities curve will not influence the future location of the curve.

FALSE

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

229. Although sleeping in on a work day or school day has an opportunity cost, sleeping late on the weekend does not.

FALSE

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-01 Define economics and the features of the economic perspective.

Topic: Economics; economic perspective



230. Refer to the above diagram. Given production possibilities curve (a), the combination of civilian and war goods indicated by point X is unattainable to this economy.

FALSE

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

231. Refer to the above diagram. Given production possibilities curve (a), point Y indicates that society is failing to use available resources efficiently.

FALSE

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

232. Refer to the above diagram. The movement from curve (a) to curve (b) could be explained by an increase in the quantity and/or quality of society's productive resources.

TRUE

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

233. Refer to the above diagram. The movement from curve (a) to curve (c) suggests an improvement in civilian goods technology but not in war goods technology.

FALSE

AACSB: Reflective Thinking

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Production possibilities model

Type: Graph

234. An economy will always operate at some point on its production possibilities curve.

FALSE

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.

Topic: Unemployment, growth, and the future

235. In drawing a particular budget line, money income and the prices of the two products are fixed.

TRUE

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

236. The lower the consumer's income, the higher his or her budget line.

FALSE

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.

Topic: Individual's economizing problem -- budget lines

Multiple Choice Questions

237. If we say that two variables are directly related, this means that:

- A. the relationship between the two is purely random.
- B. an increase in one variable is associated with a decrease in the other variable.
- C.** an increase in one variable is associated with an increase in the other variable.
- D. the two graph as a downsloping line.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

238. If we say that two variables are inversely related, this means that:

- A. the two graph as an upsloping line.
- B.** an increase in one variable is associated with a decrease in the other.
- C. an increase in one variable is associated with an increase in the other.
- D. the resulting relationship can be portrayed by a straight line parallel to the horizontal axis.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

239. Economists:

- A. always put the independent variable on the horizontal axis and the dependent variable on the vertical axis.
- B. always put the dependent variable on the horizontal axis and the independent variable on the vertical axis.
- C.** are somewhat arbitrary in assigning independent and dependent variables to the horizontal and vertical axes.
- D. measure the slope of a line differently than do mathematicians.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

240. Which of the following statements is correct?

- A. The value of the independent variable is determined by the value of the dependent variable.
- B.** The value of the dependent variable is determined by the value of the independent variable.
- C. The dependent variable designates the "cause" and the independent variable the "effect."
- D. Dependent variables graph as upsloping lines; independent variables graph as downsloping lines.

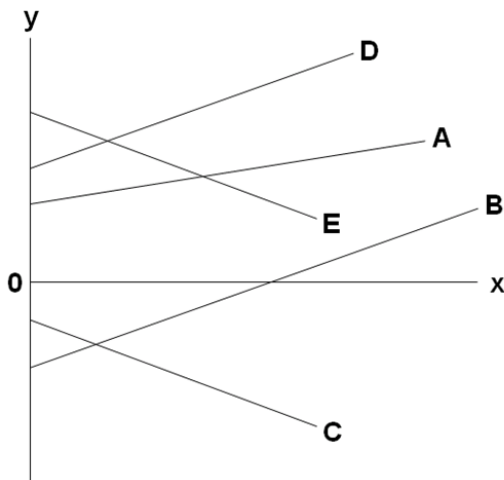
AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning



241. Refer to the above diagram. Which line(s) show(s) a positive relationship between x and y ?

- A. A only.
- B. A and D only.
- C. A, B, and D.**
- D. both C and E.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

242. Refer to the above diagram. Which line(s) show(s) a negative relationship between x and y ?

- A. A only.
- B. both A and D.
- C. A, B, and D.
- D. both C and E.**

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

243. Refer to the above diagram. Which line(s) show(s) a positive vertical intercept?

- A. A and D only.
- B. B and C only.
- C. A, D, and E.**
- D. A, D, and B.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

244. Refer to the above diagram. Which line(s) show(s) a negative vertical intercept?

- A. *C* only.
- B. both *C* and *E*.
- C. *B*, *C*, and *E*.
- D.** both *B* and *C*.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

245. If two variables are inversely related, then as the value of one variable:

- A. increases, the value of the other may either increase or decrease.
- B. decreases, the value of the other decreases.
- C.** increases, the value of the other decreases.
- D. increases, the value of the other increases.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

246. If a positive relationship exists between x and y :

- A. an increase in x will cause y to decrease.
- B. a decrease in x will cause y to increase.
- C.** the relationship will graph as an upsloping line.
- D. the vertical intercept must be positive.

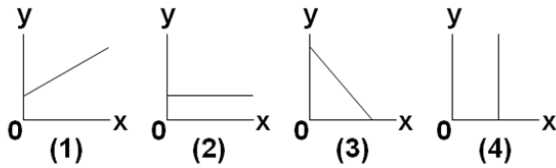
AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning



247. Answer on the basis of the relationships shown in the above four figures. The amount of Y is directly related to the amount of X in:

- A. both 1 and 3.
- B. both 1 and 2.
- C. 2 only.
- D.** 1 only.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

248. Answer on the basis of the relationships shown in the above four figures. The amount of Y is inversely related to the amount of X in:

- A. 2 only.
- B. both 1 and 3.
- C.** 3 only.
- D. 1 only.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

249. If price (P) and quantity (Q) are directly related, this means that:

- A. a change in Q will alter P , but a change in P will not alter Q .
- B. if P increases, Q will decrease.
- C. if P increases, Q will also increase.
- D. an increase in P will cause Q to change, but the direction in which Q changes cannot be predicted.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

Answer the question on the basis of the following information. Assume that if the interest rate that businesses must pay to borrow funds were 20 percent, it would be unprofitable for businesses to invest in new machinery and equipment, so investment would be zero. But if the interest rate were 16 percent, businesses would find it profitable to invest \$10 billion. If the interest rate were 12 percent, \$20 billion would be invested. Assume that total investment continues to increase by \$10 billion for each successive 4 percentage point decline in the interest rate.

250. Refer to the above information. Which of the following is an accurate verbal statement of the described relationship?

- A. There is no regular or dependable relationship between business investment and the interest rate.
- B. The amount of business investment is unaffected by changes in the interest rate.
- C. Investment spending by businesses varies inversely with the interest rate.
- D. Investment spending by businesses varies directly with the interest rate.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

251. Refer to the above information. Using i and I to indicate the interest rate and investment (in billions of dollars) respectively, which of the following is the correct tabular presentation of the described relationship?

A)	i	I	B)	i	I
	20	\$50		24	\$10
	16	40		20	20
	12	30		16	30
	8	20		12	40
	4	10		8	50
	0	0		4	60

C)	i	I	D)	i	I
	20	\$0		20	\$10
	16	10		16	20
	12	20		12	30
	8	30		8	40
	4	40		4	50
	0	50		0	60

- A. Option A
- B. Option B
- C. Option C**
- D. Option D

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Table

252. Refer to the above information. Which of the following correctly expresses the indicated relationship as an equation?

- A. $i = 20 - 4I$.
- B. $i = 20 - .4I$.**
- C. $i = 24 - .4I$.
- D. $i = 20 - 10I$.

AACSB: Analytic

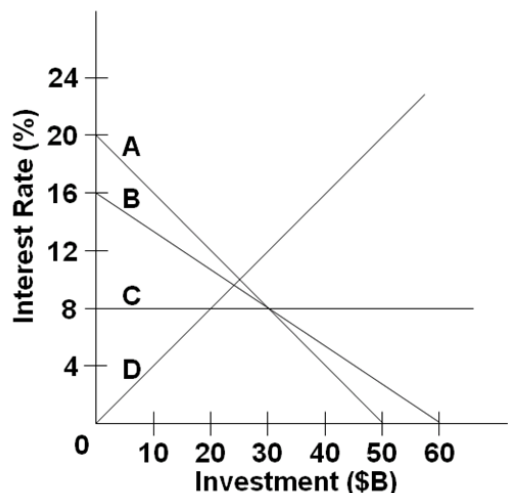
Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Table



253.

Assume that if the interest rate that businesses must pay to borrow funds were 20 percent, it would be unprofitable for businesses to invest in new machinery and equipment, so investment would be zero. But if the interest rate were 16 percent, businesses would find it profitable to invest \$10 billion. If the interest rate were 12 percent, \$20 billion would be invested. Assume that total investment continues to increase by \$10 billion for each successive 4 percentage point decline in the interest rate. Refer to the above graph. Which of the following is the correct graphical presentation of the indicated relationship?

- A. line D
- B. line C
- C. line B
- D.** line A

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

Answer the question on the basis of the following data:

<u>After-Tax Income</u>	<u>Consumption</u>
\$1,000	\$900
2,000	1,800
3,000	2,700
4,000	3,600
5,000	4,500

254. The above data suggest that:

- A. consumption varies inversely with after-tax income.
- B. consumption varies directly with after-tax income.**
- C. consumption and after-tax income are unrelated.
- D. a tax increase will increase consumption.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Table

255. The above data indicate that:

- A. consumers spend 80 percent of their after-tax incomes.
- B. consumers spend 90 percent of their after-tax incomes.**
- C. a tax reduction will reduce consumption.
- D. the relationship between consumption and after-tax income is random.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Table

256. The above data suggest that:

- A. a policy of tax reduction will increase consumption.**
- B. a policy of tax increases will increase consumption.
- C. tax changes will have no impact on consumption.
- D. after-tax income should be lowered to increase consumption.

AACSB: Reflective Thinking

Bloom's: Level 4 Analyze

Difficulty: 3 Hard

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Table

257. The slope of a straight line can be determined by:

- A. comparing the absolute horizontal change to the absolute vertical change between two points on the line.
- B. comparing the absolute vertical change to the absolute horizontal change between two points on the line.**
- C. taking the reciprocal of the vertical intercept.
- D. comparing the percentage vertical change to the percentage horizontal change between two points on the line.

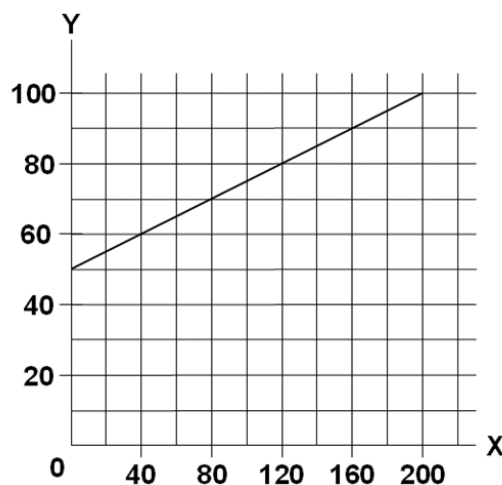
AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning



258. Refer to the above diagram. The variables X and Y are:

- A. inversely related.
- B. directly related.**
- C. unrelated.
- D. negatively related.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

259. Refer to the above diagram. The vertical intercept:

- A. is 40.
- B. is 50.**
- C. is 60.
- D. cannot be determined from the information given.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

260. Refer to the above diagram. The slope of the line:

- A. is $-\frac{1}{4}$.
- B. is $+\frac{1}{4}$.**
- C. is .40.
- D. cannot be determined from the information given.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

261. Refer to the above diagram. The equation that shows the relationship between Y and X is:

- A. $Y = 50 + \frac{1}{4} X$.**
- B. $X = \frac{1}{4} Y$.
- C. $Y = .4X$.
- D. $Y = \frac{1}{4} X - 50$.

AACSB: Analytic

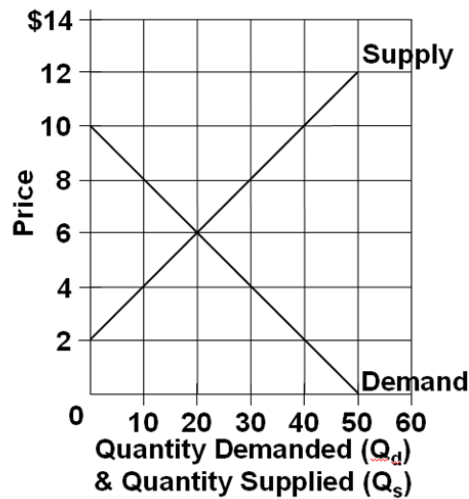
Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph



262. Refer to the above graph. Which of the following statements is correct?

- A. Quantity demanded and quantity supplied are independent of price.
- B. Price and quantity demanded are directly related.
- C.** Price and quantity supplied are directly related.
- D. Price and quantity supplied are inversely related.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

263. Refer to the above graph. Which of the following schedules correctly reflects "demand"?

A)	P	Qd	B)	P	Qd
	\$12	0		\$14	0
	10	0		12	0
	8	10		10	20
	6	20		8	40
	4	30		6	60
	2	40		4	80

C)	P	Qd	D)	P	Qd
	\$14	60		\$12	0
	12	50		10	10
	10	40		8	20
	8	30		6	30
	6	20		4	40
	4	10		2	50

- A. Option A
- B. Option B
- C. Option C
- D. Option D

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

264. Refer to the above graph. Which of the following schedules correctly reflects "supply"?

A)	P	Qs	B)	P	Qs
	\$12	50		\$14	50
	10	30		12	40
	8	10		10	30
	6	0		8	20
	4	0		6	10
	2	0		4	0

C)	P	Qs	D)	P	Qs
	\$12	50		\$12	0
	10	40		10	0
	8	30		8	10
	6	20		6	20
	4	10		4	30
	2	0		2	40

- A. Option A
- B. Option B
- C. Option C
- D. Option D

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

265. Refer to the above graph. Using Q_d for quantity demanded and P for price, which of the following equations correctly states the demand for this product?

- A. $P = Q_d/10$.
- B. $P = 50 - P/2$.
- C. $P = 10 - .2Q_d$.
- D. $P = 10 - 2Q_d$.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

266. Refer to the above graph. Using Q_s for quantity supplied and P for price, which of the following equations correctly states the supply of this product?

A. $P = 4 + .2Q_s$.

B. $P = 60/Q_s$.

C. $P = 10Q_s - 2P$.

D. $P = 2 + .2Q_s$.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

267. Assume a household would consume \$100 worth of goods and services per week if its weekly income were zero and would spend an additional \$80 per week for each \$100 of additional income. Letting C represent consumption and Y represent income, the equation that summarizes this relationship is:

A. $C = 80 + 100Y$.

B. $C = 100 + .8Y$.

C. $C = 100 + 80Y$.

D. $C = 80 + .1Y$.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Answer the question on the basis of the following five data sets wherein it is assumed that the variable shown on the left is the independent variable and the one on the right is the dependent variable. Assume in graphing these data that the independent variable is shown on the horizontal axis and the dependent variable on the vertical axis.

(1)		(2)		(3)		(4)		(5)	
J	K	L	M	N	P	R	T	U	V
0	10	0	-15	100	40	0	-15	0	0
40	20	30	-5	80	50	20	-25	5	10
80	30	60	5	60	60	40	-35	10	20
120	40	90	15	40	70	60	-45	15	30
160	50	120	25	20	80	80	-55	20	40
200	60	150	35	0	90	100	-65	25	50

268. Refer to the above data sets. The variables are directly related in:

- A. all five data sets.
- B. in none of the data sets.
- C. in data sets 1, 2, and 3 only.
- D. in data sets 1, 2, and 5 only.**

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Table

269. Refer to the above data sets. The vertical intercept is positive for:

- A. all five data sets.
- B. data sets 1 and 3 only.**
- C. data sets 1, 3, and 5 only.
- D. data set 2 only.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Table

270. Refer to the above data sets. The vertical intercept is negative for:

- A. none of the data sets.
- B. data sets 1 and 3 only.
- C. data sets 2 and 4 only.**
- D. data sets 1 and 5 only.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Table

271. Refer to the above data sets. The equation for data set 3 is:

- A. $P = 90 - .5N$.**
- B. $P = 90 + .5N$.
- C. $P = .5N$.
- D. $P = 40 + .5N$.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Table

272. Refer to the above data sets. For which data set(s) is the vertical intercept zero?

- A. data set 4.
- B. data set 5.**
- C. data sets 2 and 3.
- D. data set 1.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Table

273. Refer to the above data sets. The equation for data set 5 is:

- A. $V = .5Y$.
- B. $U = -.5V$.
- C. $U = V$.
- D.** $V = 2U$.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Table

274. Refer to the above data sets. Which of the data sets would graph as an upsloping line?

- A. 1 only.
- B. 1, 2, and 3 only.
- C. 4 and 5 only.
- D.** 1, 2, and 5 only.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Table

275. If the equation $y = 15 - 4x$ was plotted, the:

- A. vertical intercept would be -4.
- B. vertical intercept would be +4.
- C. vertical intercept would be +9.
- D.** slope would be -4.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

276. If the equation $y = -10 + 2.5x$ was plotted:

- A. the vertical intercept would be -10.
- B. the slope would be -7.5.
- C. it would graph as a downsloping line.
- D. the slope would be -10.

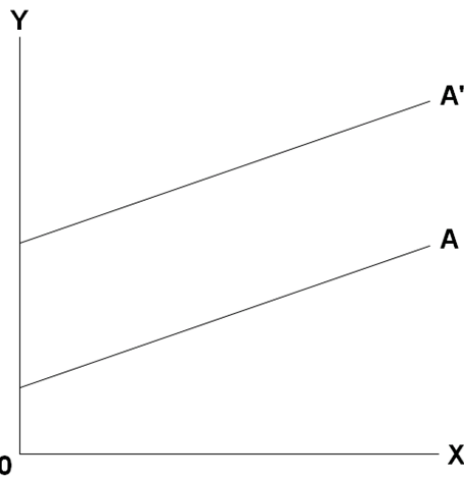
AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning



277.

The movement from line A to line A' represents a change in:

- A. the slope only.
- B. the intercept only.
- C. both the slope and the intercept.
- D. neither the slope nor the intercept.

AACSB: Analytic

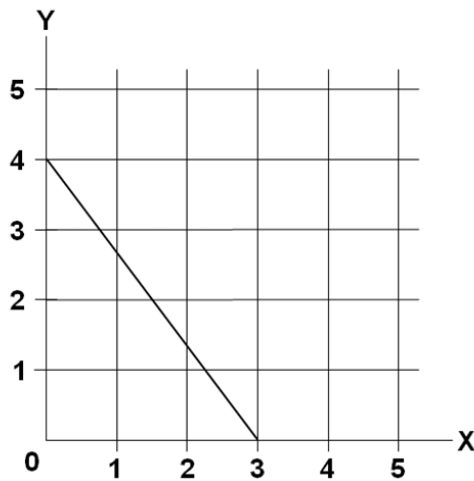
Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph



278. In the above diagram variables x and y are:

- A. both dependent variables.
- B. directly related.
- C. inversely related.
- D. unrelated.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

279. In the above diagram the vertical intercept and slope are:

- A. 4 and $-1\frac{1}{3}$ respectively.
- B. 3 and $-1\frac{1}{3}$ respectively.
- C. 3 and $+\frac{3}{4}$ respectively.
- D. 4 and $+\frac{3}{4}$ respectively.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

280. In the above diagram the equation for this line is:

- A. $y = 4 - 1\frac{1}{3}x$.
- B. $y = 3 + \frac{3}{4}x$.
- C. $y = 4 - \frac{3}{4}x$.
- D. $y = 4 + 1\frac{1}{3}x$.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

281. If we are considering the relationship between two variables and release one of the other-things-equal assumptions, we would expect:

- A. the relationship to change from direct to inverse.
- B. the line representing that relationship on a graph to shift.
- C. the data points to have a tighter fit to the line representing the relationship.
- D. the relationship to change from inverse to direct.

AACSB: Reflective Thinking

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

282. The amount of pizzas that consumers want to buy per week is reflected in the equation $P = 15 - .02Q_d$, where Q_d is the amount of pizzas purchased per week and P is the price of pizzas. On the basis of this information we can say that:

- A. if pizzas were free, people would consume 800 per week.
- B. more pizzas will be purchased at a high price than at a low price.
- C. if the price of pizzas is \$6, then 150 will be purchased.
- D. 50 fewer pizzas will be purchased per week for every \$1 increase in price.

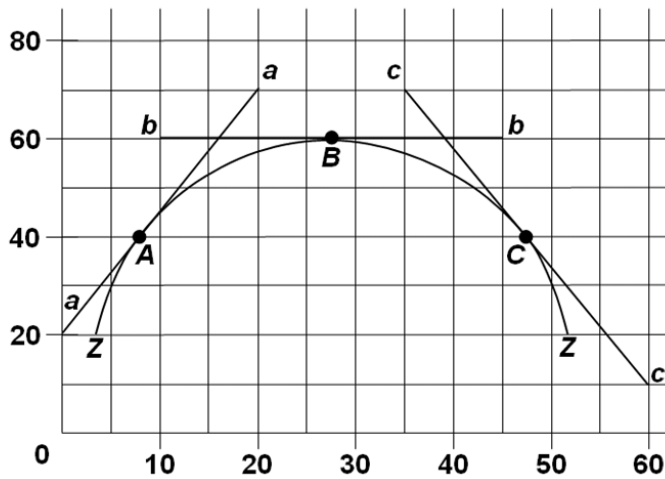
AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning



283. Refer to the above diagram. The slope of curve ZZ at point A is approximately:

- A. +2.
- B. $+2\frac{1}{2}$.**
- C. $-2\frac{1}{2}$.
- D. +4.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

284. Refer to the above diagram. The slope of curve ZZ at point B is:

- A. infinity.
- B. zero.**
- C. +1.
- D. -1.

AACSB: Analytic

Bloom's: Level 2 Understand

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

285. Refer to the above diagram. The slope of curve ZZ at point C is approximately:

- A. -4.
- B. -2.
- C. $-2^2/5$.**
- D. +3.

AACSB: Analytic

Bloom's: Level 3 Apply

Difficulty: 2 Medium

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Type: Graph

286. The slope of a line parallel to the vertical axis is:

- A. zero.
- B. one.
- C. infinite.**
- D. one-half.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

287. The slope of a line parallel to the horizontal axis is:

- A. zero.**
- B. one.
- C. infinite.
- D. one-half.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning

Chapter 01 - Limits, Alternatives, and Choices (+ Appendix)

288. Slopes of lines are especially important in economics because:

- A. they measure marginal changes.
- B. they always tell us something about profits.
- C. positive slopes are always preferred to negative slopes.
- D. they always relate to resource and output scarcity.

AACSB: Analytic

Bloom's: Level 1 Remember

Difficulty: 1 Easy

Learning Objective: 01-07 (Appendix) Understand graphs; curves; and slopes as they relate to economics.

Topic: Graphs and their meaning