Microeconomics and behaviour European 1st Edition Frank Test Bank

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Chapter 1

Student:

- 1. Microeconomics is primarily:
 - A. the study of how the stock market works.
 - B. the study of how people choose among alternatives.
 - C. the study of how businesses can make money.
 - D. the study of how the economy functions as a whole.
- 2. If everyone had unlimited wealth but limited time, then:
 - A. scarcity would not exist.
 - B. scarcity would still exist.
 - C. economics would be irrelevant.
 - D. one would need to study macroeconomics only.
- 3. If you are at an all-you-can-eat buffet dinner and you are considering whether to eat another dessert, you, as a rational consumer should decide to eat the dessert:
 - A. if it brings you any pleasure at all.
 - B. if it brings you more pleasure than the price you paid for the meal.
 - C. if it brings you as much pleasure as the desert costs if it is ordered ala carte.
 - D. no matter what because you want to get more for your money.

- 4. Say your girlfriend has received two free tickets to the Sunday movie matinee and she wants you to go with her. Nevertheless, the movie plays at the same time you were planning to watch the football game on the TV. As a rational person you should decide to go the movie:
 - A. always, since the tickets were free.
 - B. only if you would gain some pleasure from it.
 - C. only if the pleasure you will gain from it outweighs the pleasure you would gain from watching the football game.
 - D. only if it brings you more pleasure than the cost of the tickets.
- 5. The reservation price of good X is:
 - A. the market price for a good.
 - B. any price above what you would be willing to pay for the good.
 - C. the price at which one would be indifferent between good X and simply keeping the money.
 - D. the cost of producing good X.
- 6. If the benefits of $X = \notin 50$ and the price of $X = \notin 50$, then:
 - A. €100 is the reservation price.
 - B. you will be indifferent between buying X and keeping your money.
 - C. \in 0 is the reservation price.
 - D. you should buy X

 Your bank account pays 3% interest per year. You loan a friend €100 for one year at zero interest. Assuming the loan is paid on time the opportunity cost of the loan is:

A. €3

B. €100

C. €103

- D. €0
- 8. You decide to go skiing this weekend. It costs €50 for transportation, €50 for lodging, €30 for ski lift tickets and you could have earned €100 as a waiter. What is the total cost of the ski weekend?
 - A. €230
 - B. €130
 - C. €100
 - D. €80
- You decide to go skiing this weekend. It costs €50 for transportation, €50 for lodging, €30 for ski lift tickets. You are unemployed. What is the total cost of the ski weekend?

A. €230

- B. €130
- C. €100
- D. €80

- 10. You decide to go skiing this weekend. It costs €50 for transportation, €50 for lodging, €30 for ski lift tickets and you could have earned €100 at a job you love so much you would do it as a volunteer. What is the total cost of the ski weekend?
 - A. €230
 - B. €130
 - C. €100
 - D. €80
- 11. Your parents have given you a new car on your 17th birthday for which they paid about €24,000. Assume this is also the price you would get if you decided to sell the car a month after getting it. The monthly costs of driving the car are €100 for oil changes and €200 for gas / petrol.

If you decide to keep the car, the total costs of the car to you this month will be:

A. €2,300

- B. €300
- C. €24,300

D. €0

12. Your parents have given you a new car on your 17th birthday for which they paid about €24,000.
 Assume this is also the price you would get if you decided to sell the car a month after getting it.
 The monthly costs of driving the car are €100 for oil changes and €200 for gas / petrol.

What are the opportunity costs of driving the car this month?

- A. €300
- B. €2,000
- C. €24,000
- D. €0
- 13. Here are the costs of going to university: tuition €5,000; books €200; housing €1,000; food €1,000; lost income from work €10,000. Studying and work are equally desirable in your mind.

Suppose that you could live at home at no cost to you if you worked, but must live on campus if you go to school. What is the total opportunity cost to you of going to university rather than working? (Food costs the same at school or home.)

- A. €16,200
- B. €7,200
- C. €5,200
- D. €15,200

14. Here are the costs of going to university: tuition - €5,000; books - €200; housing - €1,000; food €1,000; lost income from work - €10,000. Studying and work are equally desirable in your mind.

Suppose you must live on your own anyway. What is the cost of going to university?

- A. €17,200
- B. €7,200
- C. €15,200
- D. €16,200
- 15. Here are the costs of going to university: tuition €5,000; books €200; housing €1,000; food €1,000; lost income from work €10,000. Studying and work are equally desirable in your mind.

Suppose that you could work part-time and make 5,000 at a job you would volunteer to do. You live on campus instead of at home. What is the cost of going to university?

- A. €16,200
- B. €7,200
- C. €5,200
- D. €11,200
- 16. You decide to lend €100 to a friend interest free for one year. You calculate that you could have earned 10% interest. What is the opportunity cost of the loan if it is paid on time?
 - A. €10
 - B. €100
 - C. €110
 - D. €0

17. You are considering renting a car for the weekend. It costs €200 for the car plus €0.20 per km (including petrol).

If you decide to go on a 300 km trip, what is the total cost of the rental?

- A. €200
- B. €60
- C. €260
- D. €0
- You are considering renting a car for the weekend. It costs €200 for the car plus €0.20 per km (including petrol).

Suppose you have already rented the car for the week and then add the 300 km addition to your trip. Now what is the cost of the journey?

- A. €100
- B. €60
- C. €260
- D. €0

 You are considering renting a car for the weekend. It costs €200 for the car plus €0.20 per km (including petrol).

If you decide to take a detour that adds 50km above the 300km you planned, what is the cost of the detour?

- A. €10
- B. €70
- C. €270
- D. €200
- 20. Adam Smith in The Wealth of Nations argued that:
 - A. society works best when people act in their own interest.
 - B. society works best when people act unselfishly.
 - C. society works best when people act as if they were invisible to others.
 - D. the social order needs the guidance of the government's visible hand.
- 21. Your textbook costs €100 and the university snack shop sells ice cream for €1. Which of the following statements is true for most people?
 - A. You would be indifferent between a bookstore sale of 1% off on your text and one free ice cream in the snack shop
 - B. Most people will get greater satisfaction from the bookstore sale than from the snack shop giveaway
 - C. Most people will get greater satisfaction from the snack shop giveaway than from the bookstore sale
 - D. Because people are very different there is no general principle that can be suggested regarding the satisfaction people get in these situations

- 22. Joe is one km from the finish of a grueling 42km marathon. Tim is at the four km mark of a five km run. Which runner is most likely to be emotionally energized for the race to the finish line?
 - A. Joe
 - B. Tim
 - C. Joe and Tim should be equally energized
 - D. Without knowing more about the runners there is no way to predict which runner will be most energized
- 23. Suppose you buy two tickets to the concert; one for you and one for your girlfriend. Nevertheless, the day of the concert your car brakes down preventing both of you from attending it. Assuming both you and your girlfriend had the same preferences, which of the two of you stand to loose the most from not being able to attend the concert?
 - A. You
 - B. Your girlfriend
 - C. Both of you stand to lose the same
 - D. None of you would stand to loose anything
- 24. When one is considering costs of taking a trip in their car, the average cost per km includes some items of cost that are not included in the marginal cost of a km driven. This statement is:
 - A. always true
 - B. always false
 - C. sometimes true and sometimes false depending on the circumstances
 - D. absurd because marginal costs do not apply to travel costs

25. We say economists are doing positive economics when they:

A. focus on policies and rhetoric that encourage people to be optimistic about the future.

B. look for regularities and principles in economic life that can help show how the economy works.

- C. claim that there is no value free social science so articulating one's values is important.
- D. try to improve the welfare of all citizens.

26. Scarcity means that:

A. people have unlimited wants.

- B. everyone can not have all they want at a zero price.
- C. people try to be satisfied with what they have.
- D. people always respond to incentives.
- 27. If scarcity didn't exist:
 - A. we would still have to choose among alternatives.
 - B. we would still need to study economics.
 - C. all prices would be zero.
 - D. all prices would be infinite.

- 28. You can drive to campus, take a bus, or walk. Driving costs you €1/km in petrol and maintenance, the bus costs €1 for unlimited distance, and walking is free but involves a disutility equivalent to €1/km. If you live 2km from campus, and are a rational decision maker, what is your reservation price for a bus ticket?
 - A. €0
 - B. €1
 - C. €2
 - D. €4
- 29. Unbridled self-interest fails to coordinate resource flows most effectively in which of the following cases?
 - A. The production of bread
 - B. The building of a tornado warning siren
 - C. The production of cars
 - D. The production of haircuts
- 30. If you receive €18 worth of pleasure from the first hole of golf played and your additional pleasure from succeeding holes drops €1 for each hole played, how many holes of golf would you play if you had to pay €2.10 per hole?
 - A. 9
 - B. 12
 - C. 14
 - D. 16

- 31. If you receive €18 worth of pleasure from the first hole of golf played and your additional pleasure from succeeding holes drops €1 for each hole played, if the cost per hole is zero, how many holes of golf will you play?
 - A. 16
 - B. 17
 - C. 18
 - D. 19
- 32. If you receive €18 worth of pleasure from the first hole of golf played and your additional pleasure from succeeding holes drops €1 for each hole played. You must pay €25 up front to get on the course but you can then play as many holes as you like for the day without any further charge. How many holes of golf will you play?
 - A. 9
 - B. 12
 - C. 18
 - D. As many holes as can be played from dawn until dusk
- 33. Suppose the first hour of study today will allow you to answer 10 correct questions in tomorrow's exam. After the first hour, the marginal benefit of each additional hour of study is reduced by 2 (meaning if you study 2 hours today your total number of correct responses tomorrow will be 18 and if you study 3 hours it will be 24 and so on). If the costs of studying each additional hour are zero, how many hours you should study?
 - A. 18
 - B. 10
 - C. 6
 - D. 0

- 34. The marginal benefit of a typical activity:
 - A. increases as long as the activity has any value to you.
 - B. decreases as you do more of the activity.
 - C. stays the same if the cost of doing the activity stays the same.
 - D. can never be negative.
- 35. If the benefits of X = €100 and the price of X = €50, then:
 - A. €100 is the reservation price
 - B. You will be indifferent between buying X and keeping your money
 - C. €0 is the reservation price
 - D. You should not buy X
- 36. You have just won a ticket to see John Mayer in concert this Saturday evening. Nevertheless, it would cost you around €20 in transportation costs to go to the concert since you would have to drive to the neighbouring city (where the concert is taking place). Tickets for the concert are selling for €100 in your town. Assuming you only work Monday-Friday, the cost of going to the concert is:
 - A. €0
 - B. €100
 - C. €120
 - D. €80

- 37. You are in the line to go see a movie when you suddenly realized you have lost your ticket. It would cost you €10 to buy a new ticket. Now you are deciding whether to buy a new ticket or not. Assuming you have enough money to buy a new ticket, you would always buy the new ticket as long as:
 - A. your reservation price for it is equal or larger than €10
 - B. the new ticket is free.
 - C. your reservation price for it is equal or larger than €20
 - D. the new ticket is less expensive than the first
- 38. Which of the following statements could be considered a normative statement?
 - A. Rent support is a good way to help low-income people afford housing.
 - B. Rent support allows low-income people to buy more housing.
 - C. Most low-income people use rent support to rent housing
 - D. A large portion of the government budget is used to provide rent support to low-income people.
- 39. You recently took the car to the mechanic to fix its engine. The mechanic had quoted you a total price for the work of €1000, and you had decided to go ahead with the work. Nevertheless, when you go to pick up the car he tells you that in order to complete the job he needs to buy another part adding about €200 extra to the cost of fixing the car. According to the cost-benefit rule you should pay the extra money to finish the job only if the benefits of using the car are greater or equal to:
 - A. €200
 - B. €1000
 - C. €1,200
 - D. 0

40. When you golf you receive 18 units of pleasure from the first hole and on each hole thereafter your pleasure drops by one unit so that the 17 hole gives you 17 units of pleasure etc. If you play 5 holes and the rain hits so that you quit playing, what is the total pleasure, the average pleasure and the marginal pleasure experienced at the last hole played? Answer this with numerical answers and then graph the story.

41. Academic institutions frequently talk about academic excellence and how they have superior programs in everything. "If it is not top quality it will not be offered here" seems to be the theme of many university prospectuses. Explain, on the basis of material in this chapter, why this public relations noise is not believable.

42. Give an example, not similar to the text material, where you erroneously took sunk costs into account where it was inappropriate to do so.

43. Give an example, not similar to the text material, where you made a decision based on your private costs only, and should have made a different decision if all costs had been considered.

44. One of the reasons why men have shorter lines at public rest rooms is because their bathrooms have many more urinals than toilets so turnover is much faster. The efficiency of urinals in terms of water usage and time savings seems clear, yet no one uses urinals in their own homes. This seems to be a curious puzzle. A good economic naturalist should have some explanation for this lack of urinals in homes. What reasons can you give for this puzzle?

45. Say you and two friends are 3000m into a climbing trip to the summit of a 4000m peak in Switzerland. At that point, a rainstorm comes up all of a sudden and makes the last 1000m quite treacherous. One of your friends wants to stop and head down and argues it would be dangerous to continue. He says he doesn't care about the 5 hours he has hiked already to get where he is, he only cares about the final 1000m. Your other friend, however, wants to continue and argues that it would be stupid to quit so close to the summit, especially after all the hard work you have incurred. Which one of your two friends has a more rational argument?

Chapter 1 Key

- 1. Microeconomics is primarily:
 - A. the study of how the stock market works.
 - **B.** the study of how people choose among alternatives.
 - C. the study of how businesses can make money.
 - D. the study of how the economy functions as a whole.

Easy Frank - Chapter 01 #1 Topic: Role of Economic Theory

- 2. If everyone had unlimited wealth but limited time, then:
 - A. scarcity would not exist.
 - **B.** scarcity would still exist.
 - C. economics would be irrelevant.
 - D. one would need to study macroeconomics only.

Easy Frank - Chapter 01 #2 Topic: Role of Economic Theory 3. If you are at an all-you-can-eat buffet dinner and you are considering whether to eat another dessert, you, as a rational consumer should decide to eat the dessert:

A. if it brings you any pleasure at all.

- B. if it brings you more pleasure than the price you paid for the meal.
- C. if it brings you as much pleasure as the desert costs if it is ordered ala carte.
- D. no matter what because you want to get more for your money.

Frank - Chapter 01 #3 Intermediate Topic: Cost-benefit Approach

- 4. Say your girlfriend has received two free tickets to the Sunday movie matinee and she wants you to go with her. Nevertheless, the movie plays at the same time you were planning to watch the football game on the TV. As a rational person you should decide to go the movie:
 - A. always, since the tickets were free.
 - B. only if you would gain some pleasure from it.
 - <u>C.</u> only if the pleasure you will gain from it outweighs the pleasure you would gain from watching the football game.
 - D. only if it brings you more pleasure than the cost of the tickets.

Frank - Chapter 01 #4 Haro Topic: Common Pitfalls in Decision Making

- A. the market price for a good.
- B. any price above what you would be willing to pay for the good.
- **C.** the price at which one would be indifferent between good X and simply keeping the money.
- D. the cost of producing good X.

Easy Frank - Chapter 01 #5 Topic: Cost-benefit Approach

- 6. If the benefits of $X = \notin 50$ and the price of $X = \notin 50$, then:
 - A. €100 is the reservation price.
 - **<u>B.</u>** you will be indifferent between buying X and keeping your money.
 - C. €0 is the reservation price.
 - D. you should buy X

Frank - Chapter 01 #6 Intermediate Topic: Cost-benefit Approach

- 7. Your bank account pays 3% interest per year. You loan a friend €100 for one year at zero interest. Assuming the loan is paid on time the opportunity cost of the loan is:
 - <u>A.</u> €3
 - B. €100
 - C. €103
 - D. €0

Frank - Chapter 01 #7 Intermediate Topic: Cost-benefit Approach 8. You decide to go skiing this weekend. It costs €50 for transportation, €50 for lodging, €30 for ski lift tickets and you could have earned €100 as a waiter. What is the total cost of the ski weekend?

A. €230

B. €130

- C. €100
- D. €80

Frank - Chapter 01 #8 Intermediate Topic: Cost-benefit Approach

- You decide to go skiing this weekend. It costs €50 for transportation, €50 for lodging, €30 for ski lift tickets. You are unemployed. What is the total cost of the ski weekend?
 - A. €230
 - **B.** €130
 - C. €100
 - D. €80

Frank - Chapter 01 #9 Intermediate Topic: Cost-benefit Approach 10. You decide to go skiing this weekend. It costs €50 for transportation, €50 for lodging, €30 for ski lift tickets and you could have earned €100 at a job you love so much you would do it as a volunteer. What is the total cost of the ski weekend?

A. €230

B. €130

- C. €100
- D. €80

Frank - Chapter 01 #16 Intermediate Topic: Cost-benefit Approach

11. Your parents have given you a new car on your 17th birthday for which they paid about €24,000. Assume this is also the price you would get if you decided to sell the car a month after getting it. The monthly costs of driving the car are €100 for oil changes and €200 for gas / petrol.

If you decide to keep the car, the total costs of the car to you this month will be:

- A. €2,300
- B. €300
- <u>C.</u> €24,300
- D. €0

Frank - Chapter 01 #11 Intermediate Topic: Cost-benefit Approach 12. Your parents have given you a new car on your 17th birthday for which they paid about €24,000. Assume this is also the price you would get if you decided to sell the car a month after getting it. The monthly costs of driving the car are €100 for oil changes and €200 for gas / petrol.

What are the opportunity costs of driving the car this month?

- A. €300
- B. €2,000
- <u>C.</u> €24,000
- D. €0

Frank - Chapter 01 #12 Intermediate Topic: Cost-benefit Approach

Here are the costs of going to university: tuition - €5,000; books - €200; housing - €1,000; food
- €1,000; lost income from work - €10,000. Studying and work are equally desirable in your mind.

Suppose that you could live at home at no cost to you if you worked, but must live on campus if you go to school. What is the total opportunity cost to you of going to university rather than working? (Food costs the same at school or home.)

- **A.** €16,200
- B. €7,200
- C. €5,200
- D. €15,200

Frank - Chapter 01 #13 Haro Topic: Common Pitfalls in Decision Making 14. Here are the costs of going to university: tuition - €5,000; books - €200; housing - €1,000; food
- €1,000; lost income from work - €10,000. Studying and work are equally desirable in your mind.

Suppose you must live on your own anyway. What is the cost of going to university?

A. €17,200

B. €7,200

<u>C.</u> €15,200

D. €16,200

Frank - Chapter 01 #14 Haro Topic: Cost-benefit Approach

Here are the costs of going to university: tuition - €5,000; books - €200; housing - €1,000; food
 - €1,000; lost income from work - €10,000. Studying and work are equally desirable in your mind.

Suppose that you could work part-time and make 5,000 at a job you would volunteer to do. You live on campus instead of at home. What is the cost of going to university?

- A. €16,200
- B. €7,200
- C. €5,200
- <u>D.</u>€11,200

Frank - Chapter 01 #15 Haro Topic: Cost-benefit Approach

- 16. You decide to lend €100 to a friend interest free for one year. You calculate that you could have earned 10% interest. What is the opportunity cost of the loan if it is paid on time?
 - **A.** €10
 - B. €100
 - C. €110
 - D. €0

Frank - Chapter 01 #16 Haro Topic: Cost-benefit Approach

You are considering renting a car for the weekend. It costs €200 for the car plus €0.20 per km (including petrol).

If you decide to go on a 300 km trip, what is the total cost of the rental?

- A. €200
- B. €60
- <u>C.</u> €260
- D. €0

Frank - Chapter 01 #17 Intermediate Topic: Cost-benefit Approach You are considering renting a car for the weekend. It costs €200 for the car plus €0.20 per km (including petrol).

Suppose you have already rented the car for the week and then add the 300 km addition to your trip. Now what is the cost of the journey?

A. €100

B. €60

C. €260

D. €0

Frank - Chapter 01 #18 Intermediate Topic: Common Pitfalls in Decision Making

You are considering renting a car for the weekend. It costs €200 for the car plus €0.20 per km (including petrol).

If you decide to take a detour that adds 50km above the 300km you planned, what is the cost of the detour?

A. €10

B. **€**70

C. €270

D. €200

Frank - Chapter 01 #19 Intermediate Topic: Common Pitfalls in Decision Making

- 20. Adam Smith in The Wealth of Nations argued that:
 - A. society works best when people act in their own interest.
 - B. society works best when people act unselfishly.
 - C. society works best when people act as if they were invisible to others.
 - D. the social order needs the guidance of the government's visible hand.

Easy Frank - Chapter 01 #20 Topic: Role of Economic Theory

- 21. Your textbook costs €100 and the university snack shop sells ice cream for €1. Which of the following statements is true for most people?
 - A. You would be indifferent between a bookstore sale of 1% off on your text and one free ice cream in the snack shop
 - B. Most people will get greater satisfaction from the bookstore sale than from the snack shop giveaway
 - <u>C.</u> Most people will get greater satisfaction from the snack shop giveaway than from the bookstore sale
 - D. Because people are very different there is no general principle that can be suggested regarding the satisfaction people get in these situations

Frank - Chapter 01 #21 Haro Topic: Common Pitfalls in Decision Making 22. Joe is one km from the finish of a grueling 42km marathon. Tim is at the four km mark of a five km run. Which runner is most likely to be emotionally energized for the race to the finish line?

A. Joe

- B. Tim
- C. Joe and Tim should be equally energized
- D. Without knowing more about the runners there is no way to predict which runner will be most energized

Frank - Chapter 01 #22 Haro Topic: Common Pitfalls in Decision Making

- 23. Suppose you buy two tickets to the concert; one for you and one for your girlfriend. Nevertheless, the day of the concert your car brakes down preventing both of you from attending it. Assuming both you and your girlfriend had the same preferences, which of the two of you stand to loose the most from not being able to attend the concert?
 - A. You
 - B. Your girlfriend
 - C. Both of you stand to lose the same
 - D. None of you would stand to loose anything

Frank - Chapter 01 #23 Intermediate Topic: Common Pitfalls in Decision Making 24. When one is considering costs of taking a trip in their car, the average cost per km includes some items of cost that are not included in the marginal cost of a km driven. This statement is:

A. always true

B. always false

- C. sometimes true and sometimes false depending on the circumstances
- D. absurd because marginal costs do not apply to travel costs

Easy Frank - Chapter 01 #24 Topic: Common Pitfalls in Decision Making

25. We say economists are doing positive economics when they:

- A. focus on policies and rhetoric that encourage people to be optimistic about the future.
- **<u>B.</u>** look for regularities and principles in economic life that can help show how the economy works.
- C. claim that there is no value free social science so articulating one's values is important.
- D. try to improve the welfare of all citizens.

Frank - Chapter 01 #25 Intermediate Topic: Role of Economic Theory

- 26. Scarcity means that:
 - A. people have unlimited wants.
 - **<u>B.</u>** everyone can not have all they want at a zero price.
 - C. people try to be satisfied with what they have.
 - D. people always respond to incentives.

- 27. If scarcity didn't exist:
 - A. we would still have to choose among alternatives.
 - B. we would still need to study economics.
 - C. all prices would be zero.
 - D. all prices would be infinite.

Frank - Chapter 01 #27 Haro Topic: Role of Economic Theory

- 28. You can drive to campus, take a bus, or walk. Driving costs you €1/km in petrol and maintenance, the bus costs €1 for unlimited distance, and walking is free but involves a disutility equivalent to €1/km. If you live 2km from campus, and are a rational decision maker, what is your reservation price for a bus ticket?
 - A. €0
 - B. €1
 - <u>C.</u>€2
 - D. **€**4

Frank - Chapter 01 #28 Haro Topic: Cost-benefit Approach

- 29. Unbridled self-interest fails to coordinate resource flows most effectively in which of the following cases?
 - A. The production of bread
 - B. The building of a tornado warning siren
 - C. The production of cars
 - D. The production of haircuts

Frank - Chapter 01 #29 Intermediate Topic: Role of Economic Theory

- 30. If you receive €18 worth of pleasure from the first hole of golf played and your additional pleasure from succeeding holes drops €1 for each hole played, how many holes of golf would you play if you had to pay €2.10 per hole?
 - A. 9
 - B. 12
 - C. 14
 - <u>D.</u> 16

Frank - Chapter 01 #30 Haro Topic: Cost-benefit Approach

- 31. If you receive €18 worth of pleasure from the first hole of golf played and your additional pleasure from succeeding holes drops €1 for each hole played, if the cost per hole is zero, how many holes of golf will you play?
 - A. 16

B. 17

- <u>C.</u> 18
- D. 19

Frank - Chapter 01 #31 Haro Topic: Cost-benefit Approach

- 32. If you receive €18 worth of pleasure from the first hole of golf played and your additional pleasure from succeeding holes drops €1 for each hole played. You must pay €25 up front to get on the course but you can then play as many holes as you like for the day without any further charge. How many holes of golf will you play?
 - A. 9
 - B. 12
 - <u>C.</u> 18
 - D. As many holes as can be played from dawn until dusk

Frank - Chapter 01 #32 Haro Topic: Cost-benefit Approach

- 33. Suppose the first hour of study today will allow you to answer 10 correct questions in tomorrow's exam. After the first hour, the marginal benefit of each additional hour of study is reduced by 2 (meaning if you study 2 hours today your total number of correct responses tomorrow will be 18 and if you study 3 hours it will be 24 and so on). If the costs of studying each additional hour are zero, how many hours you should study?
 - A. 18
 - B. 10
 - <u>C.</u> 6
 - D. 0

Frank - Chapter 01 #33 Intermediate Topic: Common Pitfalls in Decision Making

- 34. The marginal benefit of a typical activity:
 - A. increases as long as the activity has any value to you.
 - **B.** decreases as you do more of the activity.
 - C. stays the same if the cost of doing the activity stays the same.
 - D. can never be negative.

Easy Frank - Chapter 01 #34 Topic: Common Pitfalls in Decision Making

- A. €100 is the reservation price
- B. You will be indifferent between buying X and keeping your money
- C. €0 is the reservation price
- D. You should not buy X

Frank - Chapter 01 #35 Intermediate Topic: Cost-benefit Approach

- 36. You have just won a ticket to see John Mayer in concert this Saturday evening. Nevertheless, it would cost you around €20 in transportation costs to go to the concert since you would have to drive to the neighbouring city (where the concert is taking place). Tickets for the concert are selling for €100 in your town. Assuming you only work Monday-Friday, the cost of going to the concert is:
 - A. €0

B. €100

- <u>C.</u>€120
- D. €80

Frank - Chapter 01 #36 Intermediate Topic: Common Pitfalls in Decision Making

- 37. You are in the line to go see a movie when you suddenly realized you have lost your ticket. It would cost you €10 to buy a new ticket. Now you are deciding whether to buy a new ticket or not. Assuming you have enough money to buy a new ticket, you would always buy the new ticket as long as:
 - A. your reservation price for it is equal or larger than €10
 - B. the new ticket is free.
 - C. your reservation price for it is equal or larger than €20
 - D. the new ticket is less expensive than the first

Frank - Chapter 01 #37 Haro Topic: Common Pitfalls in Decision Making

- 38. Which of the following statements could be considered a normative statement?
 - A. Rent support is a good way to help low-income people afford housing.
 - B. Rent support allows low-income people to buy more housing.
 - C. Most low-income people use rent support to rent housing
 - D. A large portion of the government budget is used to provide rent support to low-income people.

Frank - Chapter 01 #38 Intermediate Topic: Role of Economic Theory 39. You recently took the car to the mechanic to fix its engine. The mechanic had quoted you a total price for the work of €1000, and you had decided to go ahead with the work. Nevertheless, when you go to pick up the car he tells you that in order to complete the job he needs to buy another part adding about €200 extra to the cost of fixing the car. According to the cost-benefit rule you should pay the extra money to finish the job only if the benefits of using the car are greater or equal to:

A. €200

B. €1000

C. €1,200

D. 0

Frank - Chapter 01 #39 Intermediate Topic: Common Pitfalls in Decision Making 40. When you golf you receive 18 units of pleasure from the first hole and on each hole thereafter your pleasure drops by one unit so that the 17 hole gives you 17 units of pleasure etc. If you play 5 holes and the rain hits so that you quit playing, what is the total pleasure, the average pleasure and the marginal pleasure experienced at the last hole played? Answer this with numerical answers and then graph the story.

The total pleasure is 80, the marginal pleasure is 14, and the average pleasure is 16.



The area under the dotted lines is the total pleasure. The marginal pleasure is the area under the fifth hole played and the average is the total pleasure divided by 5 holes. It is easy to see that average pleasure does not relate to any given hole.

> Frank - Chapter 01 #40 Haro Topic: Cost-benefit Approach

41. Academic institutions frequently talk about academic excellence and how they have superior programs in everything. "If it is not top quality it will not be offered here" seems to be the theme of many university prospectuses. Explain, on the basis of material in this chapter, why this public relations noise is not believable.

Universities must look at the cost of providing top quality education. If they accepted a bit less quality in several programs and were able to offer a new program or two with the money saved, their constituency may be happier and revenues could go up. Again costs and benefits must be evaluated on all the margins.

Frank - Chapter 01 #41 Haro Topic: Cost-benefit Approach

42. Give an example, not similar to the text material, where you erroneously took sunk costs into account where it was inappropriate to do so.

Answers may vary.

Frank - Chapter 01 #42 Haro Topic: Common Pitfalls in Decision Making 43. Give an example, not similar to the text material, where you made a decision based on your private costs only, and should have made a different decision if all costs had been considered.

Answers may vary.

Frank - Chapter 01 #43 Haro Topic: Common Pitfalls in Decision Making

44. One of the reasons why men have shorter lines at public rest rooms is because their bathrooms have many more urinals than toilets so turnover is much faster. The efficiency of urinals in terms of water usage and time savings seems clear, yet no one uses urinals in their own homes. This seems to be a curious puzzle. A good economic naturalist should have some explanation for this lack of urinals in homes. What reasons can you give for this puzzle?

The most obvious reason is that there are usually no waiting lines in homes. However, water savings must be less than the extra cost of the fixture and the space needed to install it.

Frank - Chapter 01 #44 Haro Topic: Cost-benefit Approach 45. Say you and two friends are 3000m into a climbing trip to the summit of a 4000m peak in Switzerland. At that point, a rainstorm comes up all of a sudden and makes the last 1000m quite treacherous. One of your friends wants to stop and head down and argues it would be dangerous to continue. He says he doesn't care about the 5 hours he has hiked already to get where he is, he only cares about the final 1000m. Your other friend, however, wants to continue and argues that it would be stupid to quit so close to the summit, especially after all the hard work you have incurred. Which one of your two friends has a more rational argument?

The first. The first 5 hours are a sunk cost and so should be ignored.

Frank - Chapter 01 #45 Haro Topic: Common Pitfalls in Decision Making

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Chapter 1 Summary

Category	# of Questions
Easy	7
Frank - Chapter 01	45
Hard	19
Intermediate	19
Topic: Common Pitfalls in Decision Making	16
Topic: Cost-benefit Approach	21
Topic: Role of Economic Theory	8