

Testbank

to accompany

Principles of Economics, 1st edition

by Stiglitz et al.

Prepared by
Andrew Papadimos, Australian Catholic
University

WILEY

© John Wiley & Sons Australia, Ltd

Chapter 1

Modern economics and thinking like an economist

Multiple choice questions

1. A key element of the new economy is:

- a. the entrance of Generation X into the labour force.
- b. the replacement of over half of the pre-1980 factories.
- *c. the presence of new technologies and the growing role of the internet.
- d. the change from budget deficits to budget surpluses.
- e. the inclusion of Microsoft and Intel in the Dow Jones Industrial Average.

General Feedback:

Page 2. Learning Objective 1. Difficulty: Easy. The new economy is linked to technological changes that have transformed what the global economy produces.

2. The 'new economy' might best be said to result from:

- a. the foundations laid by Adam Smith in *The Wealth of Nations*.
- b. a relatively smaller presence of government during the past two decades.
- c. the diminished importance of old economy giants such as General Motors and Ford.
- d. the recent understanding of how economic laws have changed with the advent of computers.
- *e. the information revolution facilitated by the Internet.

General Feedback:

Page 2. Learning Objective 1. Difficulty: Hard. The internet has led to profound changes in the global economy.

3. The primary focus of economics is on:

- a. government decisions about which wants have to go unsatisfied.
- b. implementing a market system.
- *c. choices that must be made.
- d. rising prices.
- e. providing consumers with perfect information.

General Feedback:

Page 3. Learning Objective 1. Difficulty: Easy. Economics studies how individuals, firms, governments and other organisations in our society make choices.

4. The numbers of cars, televisions, and pizzas that are produced at any point in time represent an answer to the basic economic question of:

- a. how items are produced.
- *b. how consumers make choices about which goods are produced and in what quantities.
- c. who these items are produced for.
- d. who makes economic decisions.
- e. which processes guide economic decisions.

General Feedback:

Page 3. Learning Objective 1. Difficulty: Easy. Economics studies how individuals, firms, governments and other organisations in our society make choices.

5. Each of the following is an essential element in an economist's study of choice except:

- a. trade-offs.
- b. incentives.
- c. exchange.
- d. information.
- *e. money.

General Feedback:

Page 3. Learning Objective 1. Difficulty: Hard. All of these involve some type of choice (or trade-off), except money which is only an indication of value.

6. The primary implication of scarcity is that:

- a. one should never wait until tomorrow to buy something that is available today.
- b. government planning is required to determine how resources are to be used.
- *c. choices must be made.
- d. the standard of living will decline over time.
- e. government planning cannot determine how resources are to be used.

General Feedback:

Page 4. Learning Objective 1. Difficulty: Medium. Choice is based on the presumption of scarcity, where finite resources are needed to satisfy unlimited wants.

7. Time is:

- a. not a scarce resource because there is always tomorrow.
- b. irrelevant to resource allocation decisions.
- c. a scarce resource for producers, but not consumers.
- d. a scarce resource for consumers, but not producers.

*e. a scarce resource for everyone.

General Feedback:

Page 4. Learning Objective 1. Difficulty: Easy. Time is a scarce resource which is a fact of life for everyone.

8. Economics is about how individuals and countries:

- *a. satisfy unlimited wants with limited resources.
- b. satisfy limited wants with unlimited resources
- c. learn how to deal with scarcity by becoming less selfish.
- d. satisfy unlimited wants with unlimited resources.
- e. satisfy limited wants with limited resources.

General Feedback:

Page 4. Learning Objective 1. Difficulty: Medium. Scarcity plays a critical role in economics, and means that trade-offs are a basic fact of life.

9. The fundamental issue of economic analysis is:

- a. to prove that only market systems can allocate resources.
- b. to choose the most equitable distribution of income.
- c. to prove that only planned economies can allocate resources.
- d. the disposal of unlimited resources.
- *e. the choices that must be made because resources are scarce.

General Feedback:

Page 4. Learning Objective 1. Difficulty: Medium. Scarcity plays a critical role in economics, and means that trade-offs are a basic fact of life.

10. When resources are limited, but wants are unlimited, individuals must:

- *a. make choices among available alternatives.
- b. put the public interest before self-interest.
- c. become less greedy.
- d. reduce their expectations.
- e. become more self-sufficient.

General Feedback:

Page 4. Learning Objective 1. Difficulty: Medium. Scarcity plays a critical role in economics, and means that trade-offs are a basic fact of life.

11. Which of the following provides no avenue for incentives to affect consumer behaviour?

- a. A reduction in the price of a product
- b. Increased scarcity of a productive resource
- c. Safer automobiles
- d. High-definition television
- *e. None of the options listed.

General Feedback:

Page 5. Learning Objective 1. Difficulty: Easy. All of these listed below can be classified as incentives, which are benefits that motivate a decision maker in favour of a particular choice.

12. Most of the following statements describe a system of voluntary exchange. Which one does not?

- a. People specialise in the production of very few goods and services.
- b. People exchange their produce for things they value more.
- *c. Sellers profit from exchange more than buyers do.
- d. Exchange improves the well-being of both trading parties.
- e. None of the options listed.

General Feedback:

Page 6. Learning Objective 1. Difficulty: Hard. Both parties will gain in a voluntary exchange, not just one.

13. Markets:

- *a. allow buyers and sellers to communicate their desire to make exchanges.
- b. will not resolve the question of how much of each good is produced.
- c. are the only mechanism that can answer all four basic economic questions.
- d. will not resolve the economic question of for whom goods are produced.
- e. eliminate scarcity and the problems associated with limited resources.

General Feedback:

Page 7. Learning Objective 1. Difficulty: Medium. Markets enable consumers and firms to make choices that reflect scarcity, and therefore lead to the efficient exchange of resources.

14. In a market economy, each of the following statements is true except one. Which one is it?

- a. Firms maximise profits.
- b. Individuals respond to incentives.
- c. Resources are generally allocated efficiently.
- d. Scarcity requires that tough choices be made regularly.

*e. Resources are generally allocated fairly.

General Feedback:

Page 7. Learning Objective 1. Difficulty: Medium. Markets enable consumers and firms to make choices that reflect scarcity, and therefore lead to the efficient exchange of resources.

15. When economists talk about a mixed economy, they are referring to:

- a. interaction between the product and the labour markets.
- *b. the observation that both government and individuals make decisions.
- c. interaction between consumers and producers.
- d. the relationship between microeconomics and macroeconomics.
- e. the observation that both consumers and firms make decisions.

General Feedback:

Page 7. Learning Objective 1. Difficulty: Easy. Markets enable consumers and firms to make choices that reflect scarcity, and therefore lead to the efficient exchange of resources.

A mixed economy is one that relies primarily, but not exclusively, on the free interaction of producers and consumers to determine what is produced, how, and for whom.

16. In a market economy, the basic economic questions of which goods are produced, how they are produced, and for whom they are produced are answered through choices made by:

- a. sellers.
- b. buyers.
- c. individuals.
- d. firms and government.
- *e. firms and individuals.

General Feedback:

Page 7. Learning Objective 1. Difficulty: Easy. In a market economy, most exchanges take place through markets, and these exchanges are guided by the price of the goods and services involved.

17. Information is, in many ways, similar to other goods and services because:

- a. unlike a soft drink, it cannot be freely shared.
- b. its quality may be difficult to verify.
- c. you must buy it before looking at it.
- *d. firms and individuals are willing to pay specialists to provide it.
- e. once you've bought it, you can return it.

General Feedback:

Page 8. Learning Objective 1. Difficulty: Medium. Firms and individuals are willing to purchase information, and specialised institutions develop to sell it.

18. Households are _____ in the product market, _____ in the labour market, and _____ in the capital market.

- a. lenders; consumers; sellers
- b. consumers; lenders; sellers
- *c. consumers; sellers; lenders
- d. consumers; sellers; consumers
- e. consumers; buyers; borrowers

General Feedback:

Page 10. Learning Objective 2. Difficulty: Medium. Product markets are where goods and services are bought and sold. Labour markets are where the services of workers are bought and sold. Capital markets include banks, insurance markets, bond markets and the stock market.

19. In the labour market, households:

- a. lend labour services.
- *b. sell labour services.
- c. buy firms' output.
- d. buy and sell labour services.
- e. lend money to firms.

General Feedback:

Page 10. Learning Objective 2. Difficulty: Easy. Labour markets are where the services of workers are bought and sold.

20. Markets in which firms sell their output are called:

- a. capital markets.
- b. stock markets.
- c. labour markets.
- d. farmers' markets.
- *e. product markets.

General Feedback:

Page 10. Learning Objective 2. Difficulty: Easy. Product markets are where goods and services are bought and sold.

21. In the product market, firms:

- a. are only sellers of goods.
- b. are only buyers of goods.
- c. determine for whom goods are produced.
- *d. are sometimes buyers, sometimes sellers, of goods.
- e. have no control over which goods are produced.

General Feedback:

Page 10. Learning Objective 2. Difficulty: Medium. Product markets are where goods and services are bought and sold.

22. The three major markets of interest in economics are the:

- *a. product, labour, and capital markets.
- b. product, labour, and capital goods markets.
- c. product, capital, and capital goods markets.
- d. labour, capital, and capital goods markets.
- e. product, labour, and foreign exchange markets.

General Feedback:

Page 10. Learning Objective 2. Difficulty: Easy. Product markets are where goods and services are bought and sold. Labour markets are where the services of workers are bought and sold. Capital markets include banks, insurance markets, bond markets and the stock market.

23. When referring to the market for capital, which of the following terms is out of place?

- a. Supply and demand
- b. Banks and insurance companies
- c. Money
- d. Interest
- *e. Machines and buildings

General Feedback:

Page 10. Learning Objective 2. Difficulty: Medium. Capital markets include banks, insurance markets, bond markets and the stock market.

24. Microeconomics is that branch of economics that focuses primarily on:

- a. market economies.
- *b. the behaviour of individual units.
- c. centrally planned economies.
- d. economic aggregates such as unemployment and inflation.
- e. aggregate economic activity.

General Feedback:

Page 11. Learning Objective 3. Difficulty: Easy. Microeconomics is the detailed study of the decisions of firms and households, and of prices and production in specific industries.

25. All of the following, except one, would be an appropriate focus of study for microeconomics. Which is not?

- a. the determination of prices in the computer industry.
- b. the level of production by a firm in the compact disc industry.
- c. the interaction of supply and demand in the corn market.
- d. the number of people employed in the advertising business.
- *e. the determination of the rate of inflation.

General Feedback:

Page 11. Learning Objective 3. Difficulty: Medium. The determination of the rate of inflation belongs to the field of macroeconomics.

26. Macroeconomics is the branch of economics that focuses primarily on:

- a. the behaviour of the individual units that make up the total economy.
- b. the interactions between buyers and sellers in individual markets.
- c. the behaviour of buyers and sellers in individual markets.
- d. how individual firms make their production decisions.
- *e. aggregated economic activities.

General Feedback:

Page 11. Learning Objective 3. Difficulty: Easy. Macroeconomics looks at the behaviour of the economy as a whole, particularly unemployment, inflation, economic growth and trade.

27. Unemployment and inflation are topics within:

- a. microeconomics.
- *b. macroeconomics.
- c. the product market.
- d. the labour market.
- e. the capital market.

General Feedback:

Page 11. Learning Objective 3. Difficulty: Easy. Macroeconomics looks at the behaviour of the economy as a whole, particularly unemployment, inflation, economic growth and trade.

28. The microeconomic perspective:

- a. involves analysis of the behaviour of the economy as a whole.
- b. studies the behaviour of aggregate economic variables like unemployment and price inflation.
- c. studies the overall rate of economic growth.
- d. is a top-down view of the economy.
- *e. is a bottom-up view of the economy.

General Feedback:

Page 11. Learning Objective 3. Difficulty: Easy. Microeconomics is the detailed study of the decisions of firms and households, and of prices and production in specific industries.

29. The macroeconomic perspective:

- a. involves analysis of the behaviour of individual units in the economy.
- b. studies how consumers and firms make decisions.
- c. involves a detailed study of the product, labour, and capital markets.
- *d. is a top-down view of the economy.
- e. is a bottom-up view of the economy.

General Feedback:

Page 11. Learning Objective 3. Difficulty: Easy. Macroeconomics looks at the behaviour of the economy as a whole, particularly unemployment, inflation, economic growth and trade.

30. The theories that are developed in economics:

- *a. are conclusions derived from sets of assumptions.
- b. are based upon unrealistic assumptions and therefore are of little value in explaining real-world behaviour.
- c. are valid for individuals but not for groups.
- d. are of little value since they cannot actually be tested in laboratories.
- e. require that individuals know and understand them before they can be applied.

General Feedback:

Page 12. Learning Objective 3. Difficulty: Medium. A theory consists of a set of assumptions and conclusions derived from those assumptions. Theories are logical exercises: if the assumptions are correct, then the results follow.

31. Economic theory would not be useful in studying:

- *a. why some people find it easier to give up smoking than others.
- b. the effect of increased cigarette taxes on cigarette consumption.
- c. the impact on the domestic car industry of a quota on imported cars.

- d. the effects on one's job prospects of returning to school to study for a degree.
- e. the impact on the domestic economy of reducing income taxes.

General Feedback:

Page 12. Learning Objective 3. Difficulty: Medium. All other choices apart from A are related to economics.

32. In informal terms, an economic model is a statement about:

- a. how assumptions affect conclusions.
- *b. how economic variables are believed to be related to each other.
- c. the relationships among the product, labour, and capital markets.
- d. the relationship between microeconomics and macroeconomics.
- e. how conclusions affect assumptions.

General Feedback:

Page 12. Learning Objective 3. Difficulty: Medium. An economic model might describe a general relationship, a quantitative relationship or make a general prediction.

33. A variable is:

- a. something that can be expressed mathematically.
- b. something that is correlated with something else.
- *c. anything that can be measured and that changes.
- d. something that is not correlated with something else.
- e. anything that cannot be measured.

General Feedback:

Page 12. Learning Objective 3. Difficulty: Medium. A variable is any item that can be measured and that changes such as prices, wages, interest rates and quantities bought and sold.

34. We observe causation, and not just correlation, if:

- a. two variables move in the same direction.
- *b. a change in one variable is responsible for change in some other variable.
- c. two variables move in opposite directions.
- d. a change in one variable is later followed by a change in some other variable.
- e. two variables change at the same time.

General Feedback:

Page 13. Learning Objective 3. Difficulty: Easy. If one variable 'causes' the other, then changing the first variable will necessarily change the other.

35. Whenever two events occur simultaneously:

- a. one event must have caused the other event.
- b. there is both correlation and causation.
- c. there is causation but not necessarily correlation.
- *d. there is correlation but not necessarily causation.
- e. the two events are independent.

General Feedback:

Page 13. Learning Objective 3. Difficulty: Medium. Correlation exists when a systematic relationship exists, but may be due to chance rather than causation.

36. Which of the following is a positive economic statement?

- a. Unemployment insurance is too low.
- b. Lowering unemployment is more important than curbing inflation.
- *c. The typical doctor earns more than the typical blue-collar worker.
- d. Unemployment insurance is too high.
- e. Women should be paid as much as men for the same work.

General Feedback:

Page 13. Learning Objective 4. Difficulty: Medium. A positive economic statement is concerned with what is, and can be tested by using the facts.

37. The claim that a reduction in the rate of capital-gains tax would lead to an increase in the level of business investment is an example of:

- a. a normative economic statement.
- b. causation without correlation.
- c. blind faith.
- d. correlation without causation.
- *e. a positive economic statement.

General Feedback:

Page 14. Learning Objective 4. Difficulty: Medium. A positive economic statement is concerned with what is, and can be tested by using the facts.

38. Normative economics:

- a. describes how the economy operates.
- b. focuses on what is.
- *c. concerns what should be.

- d. is a subset of positive economics.
- e. predicts the consequences of actions.

General Feedback:

Page 14. Learning Objective 4. Difficulty: Easy. A normative statement expresses an opinion, and involves value judgments that may not be able to be tested.

39. Which statement could explain why economists disagree on matters of positive economics?

- a. Some prefer macroeconomics, some prefer microeconomics.
- b. They have different backgrounds and different sets of interests.
- *c. They disagree over the appropriate model of the economy.
- d. They disagree about the role government should play.
- e. They differ in regard to the relative importance of equity and efficiency.

General Feedback:

Page 14. Learning Objective 4. Difficulty: Medium. A positive economic statement is concerned with what is, and can be tested by using the facts.

40. Which of the following is not a consequence of market competition in our economy?

- a. Millions of daily exchanges take place between millions of people.
- b. Wheat is planted and turned into bread.
- c. Power generating plants are built and electricity is produced.
- d. A few vocalists get together and form a band.
- *e. None of the options listed.

General Feedback:

Page 14. Learning Objective 5. Difficulty: Medium. Market competition involves rivalry between producers for customers or between consumers for goods and services. All of the following indicate at least some form of market competition.

41. The economic assumption of rational choice is based on the expectation that individuals:

- a. use economics to make choices.
- *b. make choices and decisions in pursuit of self-interest.
- c. collect all possible information prior to making a choice.
- d. all have the same preferences.
- e. do not understand that resources are scarce.

General Feedback:

Page 15. Learning Objective 5. Difficulty: Easy. In the competitive model, consumers are assumed to be rational actors.

42. In their study of rational consumers, economists focus on:

- a. what determines the goals and desires of consumers.
- b. why different consumers have different preferences.
- *c. how consumers' preferences affect the choices they make.
- d. why consumers' preferences change over time.
- e. how consumers' preferences are formulated.

General Feedback:

Page 15. Learning Objective 5. Difficulty: Medium. In the case of individuals, the rationality assumption is taken to mean they make choices and decisions in pursuit of their own self-interest.

43. Rationality, in the case of firms, is taken to mean that they strive to:

- *a. maximise profits.
- b. charge the highest possible price.
- c. maximise revenues.
- d. sell the highest quantity possible.
- e. minimise costs.

General Feedback:

Page 15. Learning Objective 5. Difficulty: Medium. In the case of firms, the rationality assumption is taken to mean that they are profit maximising.

44. In perfect competition, an individual firm:

- *a. is a price taker.
- b. behaves irrationally.
- c. exploits its customers.
- d. does not maximise profits.
- e. can only increase sales by lowering its price.

General Feedback:

Page 15. Learning Objective 5. Difficulty: Easy. The individual firm is considered to be too small to have an impact on the prevailing market price, and therefore must 'take' the market price as its own.

45. In competitive markets:

- a. consumers are price takers but firms are not.

- b. neither consumers nor firms are price takers.
- *c. consumers and firms are price takers.
- d. consumers and firms behave irrationally.
- e. firms are price takers but consumers are not.

General Feedback:

Page 15. Learning Objective 5. Difficulty: Medium. Both the firm and the individual are considered to be too small to have an impact on the prevailing market price, and therefore must 'take' the market price as their own.

46. In today's world of the internet:

- a. a need for middlemen no longer exists.
- b. government's role as an information watchdog has been greatly reduced.
- c. an instant/electronic market for all goods and services has been created.
- *d. people all over the world can get together to trade goods and services.
- e. shortages and surpluses have been eliminated.

General Feedback:

Page 16. Learning Objective 5. Difficulty: Easy. Today, with the aid of the internet, markets all over the world can be joined instantaneously, creating a global marketplace.

47. When markets are well described by the competitive model, the economy is efficient, which means that:

- a. there is no scarcity.
- *b. resources are not wasted.
- c. the prices of different products are equalised.
- d. everyone receives the same income.
- e. some sources remain unemployed.

General Feedback:

Page 16. Learning Objective 5. Difficulty: Medium. In the competitive model, it will not be possible to produce more of one good without producing less of another. In other words, resources are not wasted.

48. Competitive markets are efficient. This means that:

- a. scarcity is eliminated.
- b. it is possible to produce more of all goods with existing resources.
- c. the only way to produce more is to put currently idle resources to work.
- *d. it is not possible to produce more of one good without producing less of some other good.
- e. it is possible to produce more of some goods with existing resources.

General Feedback:

Page 16. Learning Objective 5. Difficulty: Hard. In a competitive market, resources are not wasted.

49. In a market economy, firms are motivated by:

- *a. profits.
- b. social responsibility.
- c. costs.
- d. social interest.
- e. revenues.

General Feedback:

Page 17. Learning Objective 5. Difficulty: Easy. In the competitive model, firms are rational and profit-maximising.

50. A market system allocates resources through:

- a. queues.
- *b. prices.
- c. coupons.
- d. chance.
- e. a lottery.

General Feedback:

Page 17. Learning Objective 6. Difficulty: Easy. The price system is the economic system in which prices are used to allocate scarce resources

51. Which of the following is the most economically efficient method of allocating resources?

- a. Lotteries
- b. Queues
- *c. Prices
- d. Rationing
- e. First-come, first-served

General Feedback:

Page 17. Learning Objective 6. Difficulty: Medium. The price system is the economic system in which prices are used to allocate scarce resources

52. The rights to private property allow the owner to:

- a. use but not sell the property.
- b. sell but not use the property.
- *c. use and sell the property.
- d. exploit those with no property.
- e. ignore other people's property rights.

General Feedback:

Page 18. Learning Objective 6. Difficulty: Medium. Property rights typically include the right to use the property as the owner sees fit (subject to certain restrictions) and the right to sell it when they see fit.

53. The incentive-equality trade-off refers to the:

- a. alternative products a firm can produce.
- b. alternative products a consumer could buy.
- *c. alternative combinations of incentives and inequality.
- d. alternative ways in which the government can spend its tax revenue.
- e. alternative uses of a worker's time.

General Feedback:

Page 18. Learning Objective 6. Difficulty: Easy. The fact that greater incentives lead to greater resulting inequality is called the incentive-equality trade-off.

54. An example of the incentive-equality trade-off occurs when the government raises tax rates to finance higher welfare benefits, and in the process:

- a. lowers incentives, thereby reducing output and increasing inequality.
- *b. lowers incentives, thereby reducing output and inequality.
- c. lowers incentives, thereby increasing output and inequality.
- d. lowers incentives, thereby increasing output and reducing inequality.
- e. increases incentives, thereby reducing output and increasing inequality.

General Feedback:

Page 18. Learning Objective 6. Difficulty: Hard. Increases taxes leads to less incentive to produce, and output and profits fall. This results in the inequality gap in society decreasing as owners of production become poorer, and people on welfare becoming richer.

55. If property rights are ill defined or absent:

- a. consumers and firms fail to make rational choices.
- *b. resources are used inefficiently.
- c. consumers no longer pursue their self-interest.

- d. firms no longer strive to maximise profits.
- e. scarcity is eliminated.

General Feedback:

Page 18. Learning Objective 6. Difficulty: Medium. Without private property, firms would have no incentive to invest in new factories or new technologies, hire employees, produce goods and services, and earn profits. This would lead to inefficient use of resources.

56. An opportunity set is:

- *a. the group of available options open to a consumer.
- b. the sum of all opportunity costs confronting a consumer.
- c. equal sets of opportunity costs.
- d. another name for a consumer's preferences.
- e. a collection of games in tennis.

General Feedback:

Page 19. Learning Objective 7. Difficulty: Easy. An opportunity set is a summary of the choices available to individuals, as defined by budget constraints and time constraints.

57. Karen sleeps eight hours a night and works eight hours a day. She spends the remaining eight hours swimming and watching television. If we were to ignore the time she spends working and sleeping, her time constraint would indicate:

- *a. the various combinations of hours she can devote to swimming and watching television.
- b. which television shows she watches.
- c. how many television shows she could watch if she did not go swimming.
- d. which television shows she could watch and how many lengths of the pool she could swim.
- e. how many lengths of the pool she could swim after she had watched all the television shows she likes.

General Feedback:

Page 19. Learning Objective 7. Difficulty: Medium. The time constraint defines the opportunity set of individuals if the only constraint they face is time.

58. In the majority of economic situations the constraints limiting an individual's choices are:

- a. resources and capital.
- b. time and preferences.
- *c. time and money.
- d. preferences and values.
- e. values and opportunities.

General Feedback:

Page 19. Learning Objective 7. Difficulty: Easy. Both budget and time constraints limit an individual's choices.

59. Katy spends all her income on CDs and DVDs. Her budget constraint indicates:

- *a. the various combinations of quantities of CDs and DVDs she can afford, given her income.
- b. how many CDs and DVDs she owns.
- c. how many CDs she can buy with her income if she does not buy any DVDs.
- d. her preferred combinations of quantities of CDs and DVDs.
- e. how many DVDs she could afford if she buys all the CDs she likes.

General Feedback:

Page 19. Learning Objective 7. Difficulty: Medium. Budget constraints refers to the limitations on consumption of different goods imposed by the fact that households have only a limited amount of money to spend.

60. Assume that pizza and Coke are the only two goods available to Ian. The price of Coke is \$2 per pitcher and pizza is \$1 per slice. If Ian has \$20 to spend, which graph in figure 1.1 represents Ian's budget constraint?

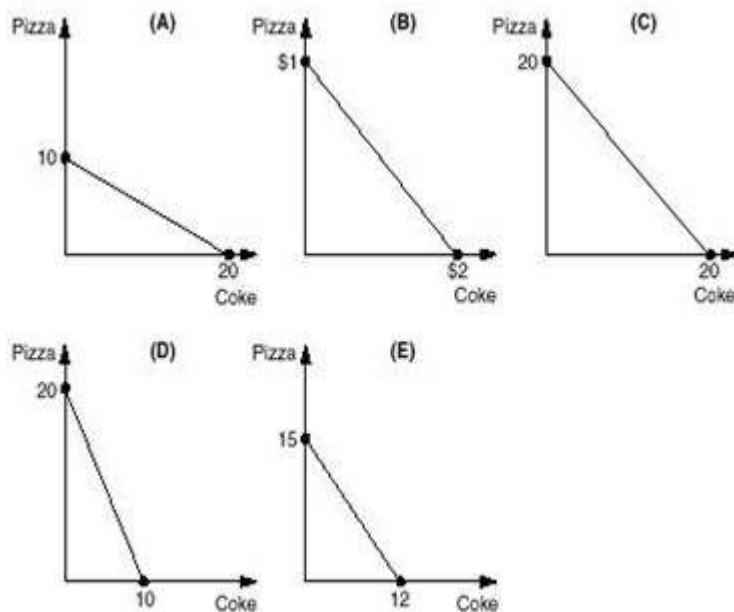


Figure 1.1

- a. Graph A
- b. Graph B
- c. Graph C
- *d. Graph D

e. Graph E

General Feedback:

Page 20. Learning Objective 7. Difficulty: Medium. Graph A indicates Ian's Production Possibilities Curve with a maximum of 20 slices of pizza (at \$1 each) or 10 pitchers of Coke (at \$2 each), and all combinations in between. All other combinations do not equate to \$20.

61. Figure 1.2 shows Christopher's budget constraint. What is the price of attending a movie if Christopher's income is \$30?

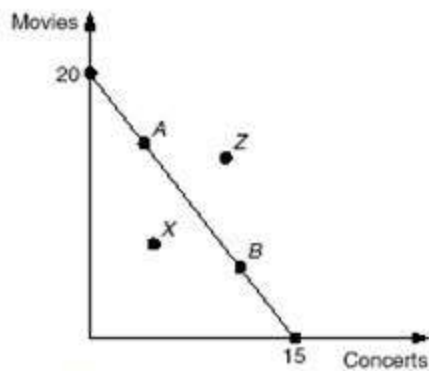


Figure 1.2

- *a. \$1.50
- b. \$2
- c. \$5
- d. \$15
- e. \$20

General Feedback:

Page 20. Learning Objective 7. Difficulty: Medium. $\$1.50 \times 20 =$ Christopher's budget constraint (\$30).

62. Figure 1.2 shows Christopher's budget constraint. What is the price of attending a concert if Christopher's income is \$30?

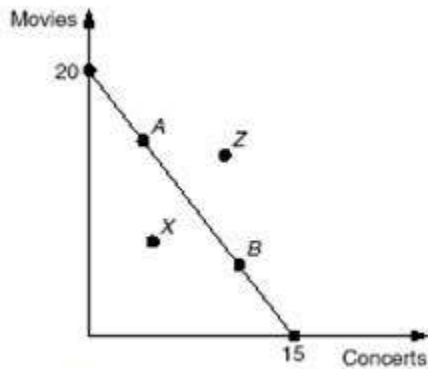


Figure 1.2

- a. \$20
- b. \$15
- c. \$5
- *d. \$2
- e. \$1.50

General Feedback:

Page 20. Learning Objective 7. Difficulty: Medium. Christopher can attend a maximum of 15 concerts. If Christopher's income is \$30, this means the price of a concert ticket is \$2 ($\$30/15$ concerts).

63. Colin sleeps eight hours a night and works eight hours a day. He spends the rest of his time bird-watching and riding his bike. Figure 1.3 shows Colin's time constraint for these two activities. If Colin moves from point A to point B, this represents:

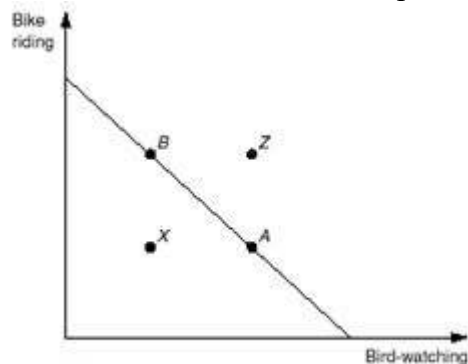


Figure 1.3

- *a. an increase in bike riding, at the expense of bird-watching.
- b. an increase in bird-watching, at the expense of bike riding.
- c. an increase in both bird-watching and bike riding.

- d. a decrease in both bird-watching and bike riding.
- e. a movement from an attainable point to an unattainable point.

General Feedback:

Page 20. Learning Objective 7. Difficulty: Medium. Moving from Point A to B upwards along the curve indicates less time bird watching and more time bike riding.

64. A production possibilities curve defined over guns and butter shows:

- a. how much land the country needs to produce guns and butter.
- *b. the maximum amount of guns that can be produced for each amount of butter produced.
- c. the minimum amounts of guns and butter required by the country, given its population.
- d. the minimum amount of guns that can be produced for each amount of butter produced.
- e. how incentives are reduced when a country produces fewer guns.

General Feedback:

Page 20. Learning Objective 7. Difficulty: Easy. The Production Possibilities Curve defines the opportunity set for an entire economy and gives the possible combination of goods that can be produced from a given level of inputs.

65. A country's production possibilities curve is downward sloping because:

- a. resources are equally well equipped for the production of any good.
- b. the more the country's inhabitants have of anything, the lower is the value they place on having more of it.
- c. some resources are better equipped for the production of one good than another.
- *d. if we want to produce more of one good, we must sacrifice some production of the other good.
- e. different goods require different combinations of labour and capital in their production.

General Feedback:

Page 22. Learning Objective 7. Difficulty: Medium. For each increase in the production of one good, the reduction in the number of other goods produced gets larger.

66. If a country's possibilities curve bows outward, this indicates that:

- *a. to produce more of one good, the country must sacrifice increasingly larger amounts of the other good.
- b. scarcity is less of a problem the more the country produces.
- c. the country faces fixed trade-offs.
- d. the country cannot produce more of all goods simultaneously.
- e. to produce more of one good, the country must sacrifice smaller and smaller amounts of the other good.

General Feedback:

Page 22. Learning Objective 7. Difficulty: Medium. For each increase in the production of one good, the reduction in the number of other goods produced gets larger.

67. A country's production possibilities curve is curved outward because:

- a. resources are scarce, but some are more scarce than others.
- b. different goods require different combinations of labour and capital in their production.
- *c. some resources are better equipped for the production of one good rather than another.
- d. the more a country's inhabitants have of anything, the lower is the value they place on having more of it.
- e. resources are equally well equipped for the production of any good.

General Feedback:

Page 22. Learning Objective 7. Difficulty: Hard. For each increase in the production of one good, the reduction in the number of other goods produced gets larger.

68. Which of the following examples best illustrates the principle of diminishing returns?

- a. More and more cherry pickers get fewer and fewer cherries picked.
- b. Fewer cherry pickers get more cherries picked.
- c. Each additional cherry picker reduces the number of cherries picked.
- *d. Each additional cherry picker increases total cherries picked by fewer than the last one.
- e. More cherry pickers get more cherries picked today so fewer are needed to return tomorrow.

General Feedback:

Page 23. Learning Objective 7. Difficulty: Medium. The principle of diminishing returns states that as one input increases, while other inputs remain fixed, the resulting increase in output tends to get smaller and smaller.

69. Figure 1.4 shows a country's production possibilities curve defined over hamburgers and machines. At which point can the country be said to be producing inefficiently?

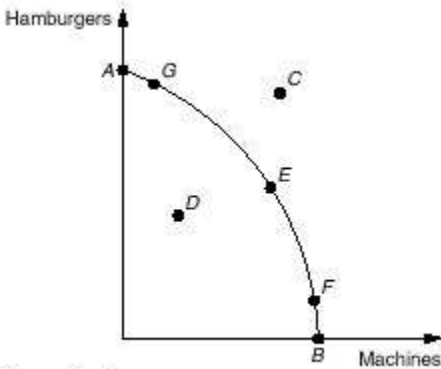


Figure 1.4

- a. Point A
- b. Point B
- c. Point C
- *d. Point D
- e. Point E

General Feedback:

Page 24. Learning Objective 7. Difficulty: Medium. Point D lies within the Production Possibilities Curve, which indicates the economy is running inefficiently as there are wasted resources.

70. Figure 1.4 shows a country's production possibilities curve defined over hamburgers and machines. Which of the statements about Point C is correct?

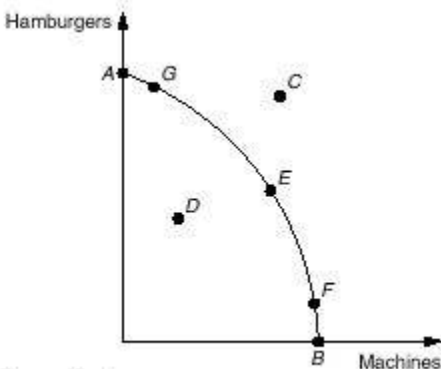


Figure 1.4

- a. It represents a combination of hamburger and machine production that is less desirable than point E.
- b. It reflects inefficient production.
- *c. It represents an unattainable combination of machines and hamburgers.

- d. It represents an unattainable combination of machines and hamburgers, but one that would be attainable if machines and hamburgers were less expensive.
- e. It reflects idle resources.

General Feedback:

Page 24. Learning Objective 7. Difficulty: Medium. Point C lies outside the production possibilities curve, which indicates the economy cannot attain this level of production until the curve expands outwards.

71. Figure 1.4 shows a country's production possibilities curve defined over hamburgers and machines. Which of the following statements about Point D is correct?

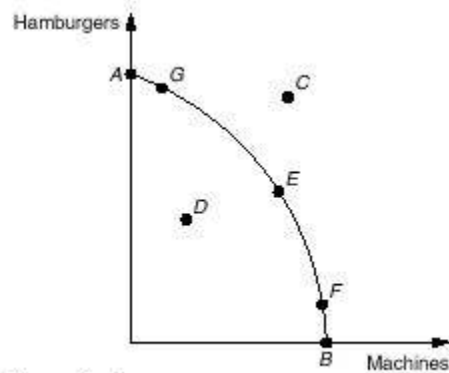


Figure 1.4

- a. It represents a combination of hamburger and machine production that is more desirable than point E.
- *b. It reflects inefficient production.
- c. It represents an unattainable combination of machines and hamburgers.
- d. It represents a combination of hamburger and machine production that is more desirable than point A.
- e. It reflects a combination of machines and hamburgers at which all resources must be fully employed.

General Feedback:

Page 24. Learning Objective 7. Difficulty: Medium. Point D lies within the production possibilities curve, which indicates the economy is running inefficiently as there are wasted resources.

72. Figure 1.4 shows a country's production possibilities curve defined over hamburgers and machines. If the country is at point G and wants to move to point F, this is only possible if it:

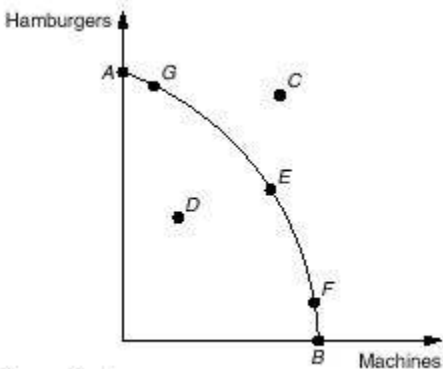


Figure 1.4

- a. increases total resources.
- b. employs currently idle resources.
- c. uses existing resources more efficiently.
- *d. reallocates resources.
- e. reduces the price of its resources.

General Feedback:

Page 24. Learning Objective 7. Difficulty: Medium. Movement from Point G to Point F represents a movement along the production possibilities curve, which means it still has to make use of current resources and technologies by reallocating resources.

73. Along a country's production possibilities curve:

- *a. there are no idle resources.
- b. the prices of the goods that are produced are identical.
- c. the costs of production of the goods that are produced are identical.
- d. resources are equally well equipped for the production of any good.
- e. there is only one efficient point.

General Feedback:

Page 24. Learning Objective 7. Difficulty: Hard. The production possibilities curve indicates the maximum level at which an economy can operate, and therefore have no idle resources.

74. If a country is operating inside its production possibilities curve:

- a. it is operating efficiently.
- b. it can only increase production of one good by decreasing production of another.
- c. all resources must be employed.
- d. resources are equally well equipped for the production of any good.
- *e. it is operating inefficiently.

General Feedback:

Page 24. Learning Objective 7. Difficulty: Medium. Operating within the production possibilities curve indicates the economy is running inefficiently, as there are wasted resources.

75. The opportunity cost of an activity is:

- a. the amount of money spent on the activity.
- *b. the next-best use of the resources devoted to the activity.
- c. any cost that cannot be recovered.
- d. the value of the time spent on that activity.
- e. any cost other than the direct money cost of the activity.

General Feedback:

Page 25. Learning Objective 7. Difficulty: Easy. Opportunity costs represents the opportunity forgone of decided on one course of action over another.

76. Jayne has just begun attending university. Which of the following should not be included in the opportunity cost of this activity?

- a. Tuition fees
- *b. The value of meals she consumes
- c. The value of books she purchases for courses
- d. The wages she could have earned if she had not gone to university
- e. The value of any equipment she is required to buy for her courses

General Feedback:

Page 25. Learning Objective 7. Difficulty: Hard. The value of meals she consumes does not represent a sacrifice Jayne has made to attend university, whereas all other options represent opportunity costs related to her university studies.

77. When economists talk of the marginal cost of an activity, the word 'marginal' means:

- a. 'total'.
- b. 'external'.
- c. 'opportunity'.
- d. 'sunk'.
- *e. 'additional'.

General Feedback:

Page 28. Learning Objective 7. Difficulty: Easy. A marginal cost is the additional cost corresponding to an additional unit of output produced.

78. When deciding whether or not to consume a second bottle of beer, the economic way of thinking focuses on a comparison of:

- a. total costs and total benefits.
- *b. marginal costs and marginal benefits.
- c. total costs and marginal benefits.
- d. marginal costs and total benefits.
- e. sunk costs and sunk benefits.

General Feedback:

Page 28. Learning Objective 7. Difficulty: Easy. Marginal analysis is one of the critical concepts that enables economists to think about the costs or benefits of alternative choices, such as whether to consume a second bottle of beer or not.

79. In any diagram, the amount by which the value along the vertical axis increases from a change in a unit along the horizontal axis is called the:

- a. curve.
- b. input.
- c. output.
- d. rise.
- *e. slope.

General Feedback:

Page 32. Learning Objective 7. Difficulty: Easy. In any diagram, the amount by which the value along the vertical axis increases from a change in a unit along the horizontal axis is called the slope.

80. _____ is one of the critical concepts that enable economists to think systematically about the costs of alternative choices.

- a. Marginal costs
- b. Marginal benefits
- *c. Marginal analysis
- d. Diminishing returns
- e. Possibilities curve

General Feedback:

Page 28. Learning objective 7. Difficulty: Easy. Marginal analysis is one of the critical concepts that enable economists to think systematically about the costs of alternative choices.