Principles of Macroeconomics 11th edition Mankiw Test Bank

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Name:____ Class:_________________________ Date:_____________

Ch 01: MC

1. Resources are
   a. scarce for households but plentiful for economies.
   b. plentiful for households but scarce for economies.
   c. scarce for households and scarce for economies.
   d. plentiful for households and plentiful for economies.

ANSWER: c

2. Fundamentally, economics deals with
   a. scarcity.
   b. money.
   c. poverty.
   d. banking.

ANSWER: a

3. The overriding reason why households and societies face many decisions is that
   a. resources are scarce.
   b. goods and services are not scarce.
   c. incomes fluctuate with business cycles.
   d. people, by nature, tend to disagree.

ANSWER: a

4. The phenomenon of *scarcity* stems from the fact that
   a. most economies' production methods are not very good.
   b. in most economies, wealthy people consume disproportionate quantities of goods and services.
   c. governments restrict production of too many goods and services.
   d. resources are limited.

ANSWER: d

5. In most societies, resources are allocated by
   a. a single central planner.
   b. a small number of central planners.
   c. those firms that use resources to provide goods and services.
   d. the combined actions of millions of households and firms.

ANSWER: d

6. Natural gas is widely used for heating and electricity, but it's considered to be a nonrenewable energy source. Which of the following statements is correct?
   a. Natural gas is an unlimited resource.
   b. Natural gas is a scarce resource.
   c. Natural gas is a nonscarce resource.
   d. Natural gas is not a resource.

ANSWER: b

7. Economics is the study of how society manages its

a. limited wants and unlimited resources.

b. unlimited wants and unlimited resources.

c. limited wants and limited resources.

d. unlimited wants and limited resources.

ANSWER: d

8. What term refers to the idea that society has limited resources and therefore cannot produce all the goods and services people wish to have?

a. inefficiency

b. inequality

c. scarcity

d. market failure

ANSWER: c

9. The adage, "There ain't no such thing as a free lunch," means

a. even people who receive TANF benefits have to pay for food.

b. the cost of living is always increasing.

c. people face tradeoffs.

d. all costs are included in the price of a product.

ANSWER: c

10. Which of the following statements best represents the principle of the adage, "There ain't no such thing as a free lunch"?

a. Aaliyah can attend the concert only by carpooling with siblings.

b. Raj leaves wallet at home and misses lunch.

c. Amar must repair the bike tire before riding it to school.

d. Liam must decide between going to Florida or Brazil for spring break.

ANSWER: d

11. Imagine that you are planning your day off and want to either visit a popular art exhibit or attend a live concert happening at the same time. Unfortunately, the tickets for the concert coincide exactly with the hours the art exhibit is open. Since you can't be in two places at once, you have to pick just one. This situation illustrates the basic principle that

a. people respond to incentives.

b. rational people think at the margin.

c. people face tradeoffs.

d. improvements in efficiency sometimes come at the expense of equality.

ANSWER: c

12. While pollution regulations yield the benefit of a cleaner environment and the improved health that comes with it, the regulations come at the cost of reducing the incomes of the regulated firms' owners, workers, and customers. This statement illustrates the principle that

a. trade can make everyone better off.

b. rational people think at the margin.

c. people face tradeoffs.

d. people respond to incentives.

ANSWER: c

13. When society requires that firms reduce pollution, there is
    a. a tradeoff because of reduced incomes to the firms' owners and workers.
    b. a tradeoff only if some firms are forced to close.
    c. no tradeoff, since the cost of reducing pollution falls only on the firms affected by the requirements.
    d. no tradeoff, since everyone benefits from reduced pollution.

ANSWER: a

14. Efficiency means that
    a. society is conserving resources in order to save them for the future.
    b. society's goods and services are distributed equally among society's members.
    c. society's goods and services are distributed fairly, though not necessarily equally, among society's members.
    d. society is getting the most it can from its scarce resources.

ANSWER: d

15. The property of society getting the most it can from its scarce resources is called
    a. efficiency.
    b. equality.
    c. externality.
    d. productivity.

ANSWER: a

16. Efficiency
    a. and equality both refer to how much a society can produce with its resources.
    b. and equality both refer to how fairly the benefits from using resources are distributed between members of a society.
    c. refers to how much a society can produce with its resources. Equality refers to how evenly the benefits from using resources are distributed among members of society.
    d. refers to how evenly the benefits from using resources are distributed between members of society. Equality refers to how much a society can produce with its resources.

ANSWER: c

17. The terms *equality* and *efficiency* are similar in that they both refer to benefits to society. However, they are different in that
    a. equality refers to uniform distribution of those benefits and efficiency refers to maximizing benefits from scarce resources.
    b. equality refers to maximizing benefits from scarce resources and efficiency refers to uniform distribution of those benefits.
    c. equality refers to everyone facing identical tradeoffs and efficiency refers to the opportunity cost of the benefits.
    d. equality refers to the opportunity cost of the benefits and efficiency refers to everyone facing identical tradeoffs.

ANSWER: a

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18. When society gets the most it can from its scarce resources, then the outcome is called
   a. equitable.
   b. efficient.
   c. normal.
   d. marginal.

ANSWER: b

19. A typical society strives to get the most it can from its scarce resources. At the same time, the society attempts to distribute the benefits of those resources to the members of the society in a fair manner. However, redistributing income from rich to poor reduces the reward for working hard. Therefore, society faces a tradeoff between
   a. guns and butter.
   b. efficiency and equality.
   c. inflation and unemployment.
   d. work and leisure.

ANSWER: b

20. Which of the following is true?
   a. Efficiency refers to the size of the economic pie; equality refers to how the pie is divided.
   b. Government policies usually improve upon both equality and efficiency.
   c. As long as the economic pie continually gets larger, no one will have to go hungry.
   d. Efficiency and equality can both be achieved if the economic pie is cut into equal pieces.

ANSWER: a

21. When the government redistributes income from individuals in the top one percent of income to individuals in the lowest income decile,
   a. efficiency is improved, but equality is not.
   b. individuals with both high levels of income and low levels of income benefit directly.
   c. people work less and produce fewer goods and services.
   d. the government collects more revenue in total.

ANSWER: c

22. When the government implements programs such as progressive income tax rates, which of the following is likely to occur?
   a. Equality is increased and efficiency is increased.
   b. Equality is increased and efficiency is decreased.
   c. Equality is decreased and efficiency is increased.
   d. Equality is decreased and efficiency is decreased.

ANSWER: b

23. Senator Whitman argues that replacing the federal income tax with a national sales tax would increase the level of output. Senator Garcia objects that this policy would benefit individuals in the top one percent of income at the expense of individuals in the lowest income category.
   a. Both senators' arguments are primarily about equality.
   b. Both senators' arguments are primarily about efficiency.
   c. Senator Whitman's argument is primarily about equality, while Senator Garcia's argument is primarily about

efficiency.

d. Senator Whitman's argument is primarily about efficiency, while Senator Garcia's argument is primarily about equality.

ANSWER: d

24. Suppose the government taxes the wealthy at a higher rate than it taxes low-income individuals and then develops programs to redistribute the tax revenue from the wealthy to low-income individuals. This redistribution of wealth

a. is more efficient and more equal for society.

b. is more efficient but less equal for society.

c. is more equal but less efficient for society.

d. is less equal and less efficient for society.

ANSWER: c

25. The opportunity cost of an item is

a. the number of hours needed to earn money to buy the item.

b. what you give up to get that item.

c. usually less than the dollar value of the item.

d. the dollar value of the item.

ANSWER: b

26. Suppose that you receive $500 as a birthday gift. You can spend it now or you can deposit the money in a savings account for one year and earn 4 percent interest. The opportunity cost of spending the money today, in terms of what you could have after one year, is

a. $500.

b. $504.

c. $540.

d. $520.

ANSWER: d

27. When calculating the opportunity cost of attending a college baseball game, you should include

a. the price you pay for the ticket and the value of your time.

b. the price you pay for the ticket, but not the value of your time.

c. the value of your time, but not the price you pay for the ticket.

d. neither the price of the ticket nor the value of your time.

ANSWER: a

28. Riley decides to spend four hours editing videos for her YouTube channel instead of meeting friends for a new Netflix series binge-watch session. Since she earns $30 per hour editing videos, Riley's opportunity cost of working is

a. the $120 earned by working.

b. the $120 minus the enjoyment Riley would have received from attending Netflix night.

c. the enjoyment Riley would have received by going to Netflix night.

d. nothing, since Riley would have received less than $120 worth of enjoyment from attending Netflix night.

ANSWER: c

29. Jordan is considering going to college. Currently, the costs of tuition are $18,000, room and board $9,500, and books

cost $2,200. If Jordan does not attend college, he will earn $20,000 working a job and spend $6,000 on room and board. Jordan's cost of going to college is

a. $29,700.

b. $43,700.

c. $39,700.

d. $51,700.

ANSWER: b

30. For which of the following individuals would the opportunity cost of going to college be highest?

a. A software engineer with a lucrative job offer waiting after graduation.

b. A social entrepreneur running a nonprofit that depends on their leadership.

c. A recent high school graduate unsure about their career path.

d. An aspiring musician playing gigs part-time with minimal income.

ANSWER: a

31. Tariq's college raises the cost of room and board per semester. This increase raises Tariq's opportunity cost of attending college

a. even if the amount he would have to pay for room and board if he didn't attend college rose by the same amount. An increase in opportunity cost reduces Tariq's incentive to attend college.

b. even if the amount he would have to pay for room and board if he didn't attend college rose by the same amount. An increase in opportunity cost increases Tariq's incentive to attend college.

c. only if the amount he would have to pay for room and board if he didn't attend college rose by less than the increase in the amount his college charges. An increase in opportunity cost reduces Tariq's incentive to attend college.

d. only if the amount he would have to pay for room and board if he didn't attend college rose by less than the increase in the amount his college charges. An increase in opportunity cost increases Tariq's incentive to attend college.

ANSWER: c

32. Suppose your college introduces a mandatory technology fee for all students to support campus Wi-Fi. How does this fee affect your opportunity cost of attending college?

a. The technology fee is not part of the opportunity cost of attending college if you would not have to pay for Wi-Fi otherwise.

b. The technology fee is part of the opportunity cost of attending college if you would not have to pay for Wi-Fi otherwise.

c. Only half of the technology fee is part of the opportunity cost of attending college.

d. The technology fee is not part of the opportunity cost of attending college under any circumstances.

ANSWER: b

33. Rafael decides to spend his $250 graduation gift on one of four options: Option A, B, C, or D. Each option costs $250. Finally, Rafael decides on Option C. The opportunity cost of his decision is

a. the value of the option he would have chosen if Option C were not available.

b. the combined value he assigns to Options A, B, and D.

c. the average value he assigns to Options A, B, and D.

d. $250.

ANSWER: a

34. You're on a road trip with friends and have already driven 650 miles. While scrolling through Instagram, you discover a must-see food truck festival just 20 miles off of your current route. You hadn't planned on going, but now you're seriously considering it. When calculating the opportunity cost of checking out the festival, you should include:
   a. both the cost of driving the first 650 miles and the next 20 miles.
   b. the cost of driving the first 650 miles, but not the cost of driving the next 20 miles.
   c. the cost of driving the next 20 miles, but not the cost of driving the first 650 miles.
   d. neither the cost of driving the first 650 miles nor the cost of driving the next 20 miles.

ANSWER: c

35. A rational decision maker
   a. ignores marginal changes and focuses instead on "the big picture."
   b. ignores the likely effects of government policies while making choices.
   c. takes an action only if the marginal benefit of that action exceeds the marginal cost of that action.
   d. takes an action only if the combined benefits of that action and previous actions exceed the combined costs of that action and previous actions.

ANSWER: c

36. Making rational decisions at the margin means that people
   a. make those decisions that do not impose a marginal cost.
   b. evaluate how easily a decision can be reversed if problems arise.
   c. compare the marginal costs and marginal benefits of each decision.
   d. always calculate the dollar costs for each decision.

ANSWER: c

37. People are willing to pay more for a diamond than for a bottle of water because
   a. the marginal cost of producing an extra diamond far exceeds the marginal cost of producing an extra bottle of water.
   b. the marginal benefit of an extra diamond far exceeds the marginal benefit of an extra bottle of water.
   c. producers of diamonds have a much greater ability to manipulate diamond prices than producers of water have to manipulate water prices.
   d. water prices are held artificially low by governments, since water is necessary for life.

ANSWER: b

38. Ivan already owns two pairs of wireless earbuds; one for workouts and one for studying. While scrolling through a flash sale online, he thinks about buying a third pair to keep in his backpack for convenience. The marginal benefit Ivan gets from purchasing the third pair of earbuds is:
   a. the same as the total benefit from purchasing three pairs of earbuds.
   b. more than the marginal cost of purchasing the third pair of earbuds.
   c. the total benefit from purchasing three pairs of earbuds minus the total benefit from purchasing two pairs of earbuds.
   d. the total benefit from purchasing four pairs of earbuds minus the total benefit from purchasing three pairs of earbuds.

ANSWER: c

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39. After much consideration, you have chosen Italy over France for your Study Abroad program next year. However, the deadline for your final decision is still months away and you may reverse this decision. Which of the following events could prompt you to reverse this decision?
   a. The marginal benefit of going to France increases.
   b. The marginal cost of going to France increases.
   c. The marginal benefit of going to France increases.
   d. The marginal cost of going to France decreases.

ANSWER: a

40. A football trainer who trains 25 clients per week and earns a profit is expanding to serve more clients. Is this a good business decision?
   a. Yes, because football training is profitable.
   b. No, because it is very hard to sell more services.
   c. It depends on the marginal cost of serving more clients and the marginal revenue earned from serving more clients.
   d. It depends on the average cost of serving more clients and the average revenue earned from serving more clients.

ANSWER: c

41. Suppose the cost of hosting a 200-seat concert is $100,000 and 10 seats remain unsold. If the marginal cost of admitting one more attendee is $20 and a last-minute fan is willing to pay $50 for a ticket, the concert organizer should
   a. sell the ticket because the marginal benefit exceeds the marginal cost.
   b. sell the ticket because the marginal benefit exceeds the average cost.
   c. not sell the ticket because the marginal benefit is less than the marginal cost.
   d. not sell the ticket because the marginal benefit is less than the average cost.

ANSWER: a

42. Suppose the cost of hosting a 200-seat concert is $100,000 and there are 10 empty seats. The marginal cost of admitting one more attendee is
   a. $10.
   b. $100.
   c. $10,000.
   d. This cannot be determined from the information given.

ANSWER: d

43. Elijah is restoring a car and has already spent $4,000 on the restoration. He expects to be able to sell the car for $5,800 but needs to do an additional $2,400 of work to make the car worth $5,800 to potential buyers. Elijah could also sell the car now, without completing the additional work, for $3,800. What should he do?
   a. Sell the car now for $3,800.
   b. Keep the car since it wouldn't be rational to spend $6,400 restoring a car and then sell it for only $5,800.
   c. Complete the additional work and sell the car for $5,800.
   d. It does not matter which action Elijah takes since the outcome will be the same either way.

ANSWER: a

44. Stonebeam Construction Company, has built 24 houses so far this year at a total cost to the company of $4.80 million.

If the company builds a 25th house, its total cost will increase to $5.05 million. Which of the following statements is correct?

a. For the first 24 houses, the average cost per house was $205,000.

b. The marginal cost of the 25th house, if it is built, will equal $250,000.

c. If the company can sell the 25th house for at least $202,000, then it should build it.

d. The company should never build the 25th house because this increases its total cost.

ANSWER: b

45. Suppose the cost of operating a 75-room hotel for a night is $6,000 and there are five empty rooms for tonight. If the marginal cost of operating one room for one night is $40, the hotel manager should rent one of the empty rooms only if a customer is willing to pay

a. more than $40; because the average benefit will exceed the marginal cost.

b. more than $40; because the marginal benefit will exceed the marginal cost.

c. more than $80; because the average benefit will exceed the marginal cost.

d. more than $80; because the marginal benefit will exceed the marginal cost.

ANSWER: b

46. A bagel shop sells fresh-baked bagels from 5 a.m. until 7 p.m. every day. The shop does not sell day-old bagels, so all unsold bagels are thrown away at 7 p.m. each day. The cost of making and selling a dozen bagels is $1.00; there are no costs associated with throwing bagels away. If the manager has eight dozen bagels left at 6:30 p.m. on a particular day, which of the following alternatives is most attractive?

a. Lower the price of the remaining bagels, even if the price falls below $1.00 per dozen.

b. Lower the price of the remaining bagels, but under no circumstances should the price fall below $1.00 per dozen.

c. Throw the bagels away and produce eight fewer dozen bagels tomorrow.

d. Starting tomorrow, lower the price on all bagels so they will all be sold earlier in the day.

ANSWER: a

47. Wilson buys and sells real estate. Two weeks ago, he paid $300,000 for a house on Hideaway Street, intending to spend $50,000 on repairs and then sell the house for $400,000. Last week, the city government announced a plan to build a new landfill on Hideaway Street just down the street from the house Wilson purchased. As a result of the city's announced plan, Wilson is weighing two alternatives: Go ahead with the $50,000 in repairs and then sell the house for $290,000, or forgo the repairs and sell the house as it is for $250,000. Wilson most likely will

a. keep the house and live in it.

b. go ahead with the $50,000 in repairs and sell the house for $290,000.

c. forgo the repairs and sell the house as it is for $250,000.

d. move the house from Hideaway Street to a more desirable location, regardless of the cost of doing so.

ANSWER: c

48. You are considering staying in college another semester so that you can complete a major in marketing. In deciding whether or not to stay you should

a. compare the total cost of your education to the total benefits of your education.

b. compare the total cost of your education to the benefits of staying one more semester.

c. compare the cost of staying one more semester to the benefits of staying one more semester.

d. compare the total benefits of your education to the cost of staying one more semester.

ANSWER: c

49. You plan to attend a pop-up food festival where entry usually costs $9. You have a $3-off coupon valid only for that festival on that day. When you arrive, a friend invites you to check out a new food truck launch happening at the same time nearby. Both events start and end at the same time. If you decide to go to the food truck launch with your friend, what is your opportunity cost?

a. The amount you value the festival + $3

b. The amount you value the festival + $9

c. $3

d. $9

ANSWER: a

50. Mercedes and Indy charge fellow students to park in their driveway during a big campus music festival. At the current price of $25, seven cars park there. If they raise the price to $30, they know that only five people will want to park. Whether they have seven or five cars parked in their driveway does not affect their costs. From this information it follows that

a. they should leave the price at $25.

b. it does not matter if they charge $25 or $30.

c. they would do better charging $30 than $25.

d. they should raise the price even more.

ANSWER: c

51. Your favorite economics professor, who's also a big fan of video games, has been offered a high-paying job in the gaming industry that boost their income by 30 percent. Still, the professor chooses to continue teaching. This decision would not change unless the marginal

a. cost of teaching increased.

b. benefit of teaching increased.

c. cost of the gaming job increased.

d. benefit of the gaming job decreased.

ANSWER: a

52. Your math professor accepted a job at a tech company offering a 30 percent pay increase because the marginal

a. cost of leaving was greater than the marginal benefit.

b. benefit of leaving was greater than the marginal cost.

c. benefit of teaching was greater than the marginal cost.

d. benefit of teaching was negative.

ANSWER: b

53. Suppose a major metropolitan area increases the toll fees on a major highway. As a result, many drivers start taking alternative routes through neighboring areas to avoid the higher costs. Which of the following principles does this best illustrate?

a. People respond to incentives.

b. Rational people think at the margin.

c. Trade can make everyone better off.

d. Markets are usually a good way to organize economic activity.

ANSWER: a

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54. Which of the following statements exemplifies a principle of individual decision making?
   a. Trade can make everyone better off.
   b. Governments can sometimes improve market outcomes.
   c. The cost of something is what you give up to get it.
   d. Prices rise when the government prints too much money.

ANSWER: c

55. Which of the following is *not* an example of a group responding to an incentive?
   a. Gym members attend more classes because the facility offers a discount for frequent attendance.
   b. Shoppers buy more ice cream when it's marked down for a clearance sale.
   c. A restaurant cuts back on offering vegan options even though customer requests for them have increased and they're cheaper to prepare.
   d. Freelancers take on extra projects to earn bigger bonuses.

ANSWER: c

56. Caleb skips his afternoon lectures to spend four hours streaming and gaming on YouTube. Caleb's opportunity cost of gaming is
   a. the value of the knowledge Caleb would have received by attending classes.
   b. income Caleb could have earned working a job for those four hours.
   c. the value of time gaming minus the value of attending classes.
   d. nothing, since Caleb valued gaming more than attending classes.

ANSWER: a

57. Which of the following industries has a marginal cost that is close to zero?
   a. Automobile
   b. Aircraft
   c. Software
   d. Furniture

ANSWER: c

58. Which is the most accurate statement about trade?
   a. Trade can make every nation better off.
   b. Trade makes some nations better off and others worse off.
   c. Trading for a good can make a nation better off only if the nation cannot produce that good itself.
   d. Trade helps rich nations and hurts poor nations.

ANSWER: a

59. Which of the following statements about trade is false?
   a. Trade increases competition.
   b. With trade, one country must win and one country must lose.
   c. Bulgaria can benefit, potentially, from trade with any other country.
   d. Trade allows people to buy a greater variety of goods and services at lower cost.

ANSWER: b

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60. If the United States decides to trade with Vietnam, we know that
    a. Vietnam will benefit, but trade with a less developed country could not benefit the United States.
    b. it will not benefit Vietnam because workers in the United States are more productive.
    c. Vietnam and the United States can both benefit.
    d. it will not benefit either country because their cultural differences are too vast.

ANSWER: c

61. Destiny is a graphic designer with a strong client list. Instead of spending hours cooking meals every week, she subscribes to a local meal prep service. She knows that she can earn more in the time saved than what she pays for the prepared meals. This scenario best illustrates which principle of economics?
    a. Trade can make everyone better off.
    b. Markets are usually a good way to organize economic activity.
    c. Governments can sometimes improve market outcomes.
    d. Prices rise when the government prints too much money.

ANSWER: a

62. Andrew is a college student who edits videos and Jordan is a tech-savvy friend who builds custom PCs. Alex edits a promo reel for Jordan's gaming channel in exchange for Jordan upgrading Alex's computer setup. Who benefits from this exchange?
    a. Only Andrew is made better off by trade.
    b. Only Jordan is made better off by trade.
    c. Both Andrew and Jordan are made better off by trade.
    d. Neither Andrew nor Jordan are made better off by trade.

ANSWER: c

63. Trade between countries tends to
    a. reduce both competition and specialization.
    b. reduce competition and increase specialization.
    c. increase competition and reduce specialization.
    d. increase both competition and specialization.

ANSWER: d

64. Trade
    a. allows specialization, which increases costs.
    b. allows specialization, which reduces costs.
    c. reduces specialization, which increases costs.
    d. reduces specialization, which reduces costs.

ANSWER: b

65. Central planning refers to
    a. markets guiding economic activity. Today many countries that had this system have abandoned it.
    b. markets guiding economic activity. Today many countries that did not have this system have implemented it.
    c. government guiding economic activity. Today many countries that had this system have abandoned it.
    d. government guiding economic activity. Today many countries that did not have this system have implemented it.

ANSWER: c

66. The basic principles of economics suggest that
    a. markets are seldom, if ever, a good way to organize economic activity.
    b. government should become involved in markets when trade between countries is involved.
    c. government should become involved in markets when those markets fail to produce efficient or fair outcomes.
    d. government should never become involved in markets.

ANSWER: c

67. Communist countries worked under the premise that
    a. people, when left on their own without government intervention, will find the best use of available resources.
    b. central planners were in the best position to determine the allocation of scarce resources in the economy.
    c. households and firms, guided by an "invisible hand," could achieve the most efficient allocation of scarce resources.
    d. allowing the market forces of supply and demand to operate with no government intervention would achieve the most efficient allocation of scarce resources.

ANSWER: b

68. Prior to the collapse of communism, communist countries worked on the premise that economic well-being could be best attained by
    a. a market economy.
    b. a strong reliance on prices and individuals' self-interests.
    c. a system of large privately owned firms.
    d. the actions of government central planners.

ANSWER: d

69. Which of the following observations was made famous by Adam Smith in his book *The Wealth of Nations?*
    a. There is no such thing as a free lunch.
    b. People buy more when prices are high than when prices are low.
    c. No matter how much people earn, they tend to spend more than they earn.
    d. Households and firms interacting in markets are guided by an "invisible hand" that leads them to desirable market outcomes.

ANSWER: d

70. The famous observation that households and firms interacting in markets act as if they are guided by an "invisible hand" that leads them to desirable market outcomes comes from whose 1776 book?
    a. David Ricardo
    b. Thorstein Veblen
    c. John Maynard Keynes
    d. Adam Smith

ANSWER: d

71. The "invisible hand" refers to
    a. how central planners made economic decisions.

b. how the decisions of households and firms lead to desirable market outcomes.
c. the control that large firms have over the economy.
d. government regulations without which the economy would be less efficient.

ANSWER: b

72. The "invisible hands" ability to coordinate the decisions of the firms and households in the economy can be hindered by
a. government actions that distort prices.
b. increased competition in markets.
c. enforcement of property rights.
d. too much attention paid to efficiency.

ANSWER: a

73. In a market economy, who makes the decisions that guide most economic activity?
a. Firms only
b. Households only
c. Firms and households
d. Government

ANSWER: c

74. In a market economy, economic activity is guided by
a. the government.
b. public-interest groups.
c. central planners.
d. self-interest and prices.

ANSWER: d

75. Which of the following statements does *not* apply to a market economy?
a. Firms decide whom to hire and what to produce.
b. The "invisible hand" usually maximizes the income of society as a whole.
c. Households decide which firms to work for and what to buy with their incomes.
d. Government policies are the primary forces that guide the decisions of firms and households.

ANSWER: d

76. Prices direct economic activity in a market economy by
a. influencing the actions of buyers and sellers.
b. reducing scarcity of the goods and services produced.
c. reducing opportunity cost of goods and services produced.
d. allocating goods and services in the most equitable way.

ANSWER: a

77. If the government were to intervene in a market economy and fix the price of visiting a health care provider below the market price, then we would expect, relative to the market outcome,
a. an increase in the number of visits people want to make and an increase in the number of visits health care

providers want to provide.

b. an increase in the number of visits people want to make and a decrease in the number of visits health care providers want to provide.

c. a decrease in the number of visits people want to make and an increase in the number of visits health care providers want to provide.

d. a decrease in the number of visits people want to make and a decrease in the number of visits health care providers want to provide.

ANSWER: b

78. If the government were to intervene and set a wage for unskilled labor above the market wage, then we would expect, relative to the market outcome,

a. an increase in the number of unskilled jobs available.

b. a decrease in the number of unskilled jobs available.

c. a decrease in the number of workers wanting unskilled jobs.

d. an increase in the number of businesses using unskilled workers.

ANSWER: b

79. When the government prevents prices from adjusting naturally to supply and demand, it

a. equates the amount buyers want to buy with the amount sellers want to sell.

b. adversely affects the allocation of resources.

c. improves equality and efficiency.

d. improves efficiency but reduces equality.

ANSWER: b

80. The ability of an individual to own and exercise control over scarce resources is called

a. market failure.

b. property rights.

c. externality.

d. market power.

ANSWER: b

81. The term used to describe a situation in which markets do not allocate resources efficiently is

a. economic meltdown.

b. market failure.

c. equilibrium.

d. the effect of the invisible hand.

ANSWER: b

82. The term *market failure* refers to

a. a situation in which the market on its own fails to allocate resources efficiently.

b. an unsuccessful advertising campaign which reduces demand for a product.

c. a situation in which competition among firms becomes ruthless.

d. a firm that is forced out of business because of losses.

ANSWER: a

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83. Which of the following do economists *not* generally regard as a legitimate reason for the government to intervene in a market?
    a. To promote efficiency
    b. To promote equality
    c. To enforce property rights
    d. To protect an industry from foreign competition

ANSWER: d

84. Widespread respiratory illnesses have been linked to pollution from delivery trucks operating in major cities. While companies profit from quick deliveries, the health consequences affect many residents. This is an example of
    a. a market failure caused by an externality.
    b. a market failure caused by market power.
    c. a market failure caused by equality.
    d. no market failure.

ANSWER: a

85. If an externality is present in a market, economic efficiency may be enhanced by
    a. government intervention.
    b. a decrease in foreign competition.
    c. fewer market participants.
    d. weaker property rights.

ANSWER: a

86. Which of the following is an example of an externality?
    a. Zia buys a limited-edition sneaker drop online.
    b. Zack's roommate blasts music at two o'clock in the morning, disturbing the entire dorm.
    c. Zane buys a subscription to a streaming service and shares his login with his friends.
    d. Zion binge-watches a new Netflix series on his own.

ANSWER: b

87. The willingness of citizens to pay for vaccinations does not include the benefit society receives from having vaccinated citizens who cannot transmit an illness to others. This extra benefit society gets from vaccinating its citizens is known as
    a. productivity.
    b. an externality.
    c. market power.
    d. property rights.

ANSWER: b

88. City laws that limit loud parties in shared apartment buildings are examples of government action designed to reduce
    a. efficiency.
    b. equality.
    c. externalities.
    d. productivity.

ANSWER: c

89. Which of these activities will most likely impose an external cost?
    a. A fitness influencer streams their workout from a crowded gym.
    b. A delivery driver vapes inside a shared office space.
    c. A new parent takes their baby for a walk in the park.
    d. A barista grabs a quick bite between shifts.

ANSWER: b

90. Which of these activities will most likely result in an external benefit?
    a. A college student buys a deck of cards to play solitaire in her dorm room.
    b. A group of neighbors plant a flower garden on the vacant lot next to their houses.
    c. An executive purchases a book to read on a business trip.
    d. A ten-year-old spending a $100 allowance to buy new Nike shoes.

ANSWER: b

91. Market power refers to the
    a. power of a single person or small group to influence market prices.
    b. ability of a person or small group to successfully market new products.
    c. power of the government to regulate a market.
    d. importance of a certain market in relation to the overall economy.

ANSWER: a

92. Which of the following firms is likely to have the greatest market power?
    a. A utility company
    b. A farmer
    c. A grocery store
    d. A local electronics retailer

ANSWER: a

93. Productivity is defined as the
    a. amount of goods and services produced from each unit of labor input.
    b. number of workers required to produce a given amount of goods and services.
    c. amount of labor that can be saved by replacing workers with machines.
    d. actual amount of effort workers put into an hour of working time.

ANSWER: a

94. The primary determinant of a country's standard of living is
    a. the country's ability to prevail over foreign competition.
    b. the country's ability to produce goods and services.
    c. the total supply of money in the economy.
    d. the average age of the country's labor force.

ANSWER: b

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95. The slow growth of U.S. incomes during the 1970s and 1980s can best be explained by
    a. unstable economic conditions in Eastern Europe.
    b. increased competition from abroad.
    c. a decline in the rate of increase in U.S. productivity.
    d. a strong U.S. dollar abroad, hurting U.S. exports.

ANSWER: c

96. Suppose that in Brazil total annual output is worth $600 million and people work 30 million hours. In Peru, total annual output is worth $800 million and people work 50 million hours. Productivity is higher
    a. in Brazil. Most variation in the standard of living across countries is due to differences in productivity.
    b. in Brazil. Differences in productivity explain very little of the variation in the standard of living across countries.
    c. in Peru. Most variation in the standard of living across countries is due to differences in productivity.
    d. in Peru. Differences in productivity explain very little of the variation in the standard of living across countries.

ANSWER: a

97. In a particular country in 2014, the average worker needed to work 25 hours to produce 40 units of output. In that same country in 2024, the average worker needed to work 40 hours to produce 68 units of output. In that country, the productivity of the average worker
    a. decreased by 1.7 percent between 2014 and 2024.
    b. remained unchanged between 2014 and 2024.
    c. increased by 4.75 percent between 2014 and 2024.
    d. increased by 6.25 percent between 2014 and 2024.

ANSWER: d

98. A worker in the Philippines can earn $6 per day making cotton cloth by hand, while a worker in the United States makes $85 per day using automated machinery. What is the likely explanation for the difference in wages?
    a. U.S. textile workers have union protections, whereas Filipino workers do not.
    b. There is little demand for cotton cloth in the Philippines compared to the United States.
    c. Labor is more productive making cotton cloth with automated machinery than making it by hand.
    d. The Philippines sets low wages to stay competitive in global markets.

ANSWER: c

99. To improve living standards, policymakers should
    a. impose restrictions on foreign competition.
    b. formulate policies designed to increase productivity.
    c. impose tougher immigration policies.
    d. provide tax breaks for the middle class.

ANSWER: b

100. An increase in the overall level of prices in an economy is referred to as
    a. the income effect.
    b. inflation.
    c. deflation.

d. the substitution effect.

ANSWER: b

101. Large or persistent inflation is almost always caused by

a. excessive government spending.

b. excessive growth in the quantity of money.

c. foreign competition.

d. higher-than-normal levels of productivity.

ANSWER: b

102. In the short run, which of the following rates of growth in the money supply is likely to lead to the lowest level of unemployment in the economy?

a. 2 percent per year

b. 4 percent per year

c. 6 percent per year

d. 8 percent per year

ANSWER: d

103. In the short run, an increase in the money supply is likely to lead to

a. lower unemployment and lower inflation.

b. lower unemployment and higher inflation.

c. higher unemployment and lower inflation.

d. higher unemployment and higher inflation.

ANSWER: b

104. Suppose the Federal Reserve announces that it will be making a change to a key interest rate to increase the money supply. This is likely because

a. the Federal Reserve is worried about inflation.

b. the Federal Reserve is worried about unemployment.

c. the Federal Reserve is hoping to reduce the demand for goods and services.

d. the Federal Reserve is worried that the economy is growing too quickly.

ANSWER: b

105. Which of the following is the most correct statement about the relationship between inflation and unemployment?

a. In the short run, falling inflation is associated with falling unemployment.

b. In the short run, falling inflation is associated with rising unemployment.

c. In the long run, falling inflation is associated with falling unemployment.

d. In the long run, falling inflation is associated with rising unemployment.

ANSWER: b

106. Which of the following is an important cause of inflation in an economy?

a. Increases in productivity in the economy

b. The influence of positive externalities on the economy

c. Lack of property rights in the economy

d. Growth in the quantity of money in the economy

ANSWER: d

107. Which of the following claims is consistent with the views of mainstream economists?

a. If we increase the rate of inflation from 4 percent to 7 percent, then the rate of unemployment will temporarily fall.

b. If we increase the rate of inflation from 4 percent to 7 percent, then the rate of unemployment will temporarily rise.

c. If we increase the rate of inflation from 4 percent to 7 percent, then the rate of unemployment will permanently fall.

d. If we increase the rate of inflation from 4 percent to 7 percent, then the rate of unemployment will permanently rise.

ANSWER: a

108. For a very long time the country of Taxachusetts has had an inflation rate of 10 percent. Suddenly its inflation rate drops to 4 percent. The drop in the inflation rate

a. could be due to slower money supply growth. We would expect unemployment to be higher.

b. could be due to slower money supply growth. We would expect unemployment to be lower.

c. could be due to higher money supply growth. We would expect unemployment to be higher.

d. could be due to higher money supply growth. We would expect unemployment to be lower.

ANSWER: a

109. For a number of years country A had inflation of 4 percent but for the last five years has had inflation of 7 percent. Country B had inflation of 5 percent for many years, but very recently inflation unexpectedly rose to 10 percent. Other things the same, in which of the countries would the higher inflation rate be more likely to reduce unemployment?

a. both country A and country B

b. neither country A nor country B

c. country A but not country B

d. country B but not country A

ANSWER: d

110. During the 1990s, the United Kingdom experienced low levels of inflation while Turkey experienced high levels of inflation. A likely explanation of these facts is that

a. the United Kingdom has a better education system than Turkey.

b. the rate of growth of the quantity of money was slower in the United Kingdom than in Turkey.

c. workers in Turkey are more productive than workers in the United Kingdom.

d. there are more instances of market power in Turkey than in the United Kingdom.

ANSWER: b

111. In the short run, which of the following is *not* correct?

a. Increasing the money supply increases the demand for goods and services.

b. Increasing the money supply encourages firms to hire more workers.

c. Lowering the money supply leads to a higher level of unemployment.

d. Policies that encourage higher employment will also induce a lower rate of inflation.

ANSWER: d

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112. The business cycle is the
    a. relationship between unemployment and inflation.
    b. irregular fluctuations in economic activity.
    c. positive relationship between the quantity of money in an economy and inflation.
    d. predictable changes in economic activity due to changes in government spending and taxes.

ANSWER: b

113. Both the production of goods and services and the unemployment rate are used to measure
    a. the business cycle.
    b. productivity.
    c. the interest rate.
    d. inflation.

ANSWER: a

114. Scarcity means that there is less of a good or resource available than people wish to have.
    a. True
    b. False

ANSWER: True

115. Economics is exclusively the study of how evenly goods and services are distributed within society.
    a. True
    b. False

ANSWER: False

116. Economics is the study of how society allocates its unlimited resources.
    a. True
    b. False

ANSWER: False

117. Because resources are scarce, a society cannot give all individuals the standard of living to which each aspires.
    a. True
    b. False

ANSWER: True

118. Equality means distributing society's resources in the most efficient manner.
    a. True
    b. False

ANSWER: False

119. Economists study how people make decisions.
    a. True
    b. False

ANSWER: True

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120. With careful planning, we can usually get something that we like without having to give up something else that we like.

a. True

b. False

ANSWER: False

121. Choosing not to attend a music festival so that you can study for your economics exam is an example of a tradeoff.

a. True

b. False

ANSWER: True

122. The classic tradeoff between "guns and butter" states that when a society spends more on national defense, it has less to spend on consumer goods to raise the standard of living.

a. True

b. False

ANSWER: True

123. Efficiency means everyone in the economy should receive an equal share of the goods and services produced.

a. True

b. False

ANSWER: False

124. Equality refers to how the pie is divided, and efficiency refers to the size of the economic pie.

a. True

b. False

ANSWER: True

125. Government policies that improve equality usually increase efficiency at the same time.

a. True

b. False

ANSWER: False

126. Using income tax revenue to fund the welfare system illustrates the conflict between efficiency and equality.

a. True

b. False

ANSWER: True

127. An individual deciding how to allocate one's limited time is dealing with both scarcity and trade-offs.

a. True

b. False

ANSWER: True

128. The cost of an action is measured in terms of foregone opportunities.

a. True

b. False

ANSWER: True

129. Tuition is the single-largest cost of attending college for most students.
    a. True
    b. False

ANSWER: False

130. If wages for accountants rose, then accountants' leisure time would have a lower opportunity cost.
    a. True
    b. False

ANSWER: False

131. A marginal change is a small incremental adjustment to an existing plan of action.
    a. True
    b. False

ANSWER: True

132. An increase in the marginal cost of an activity necessarily means that people will no longer engage in any of that activity.
    a. True
    b. False

ANSWER: False

133. If the average cost of transporting a passenger on the train from Chicago to St. Louis is $75, it would be irrational for the railroad to allow any passenger to ride for less than $75.
    a. True
    b. False

ANSWER: False

134. The fact that people are willing to pay much more for a diamond, which is not needed for survival, than they are willing to pay for a cup of water, which is needed for survival, is an example of irrational behavior.
    a. True
    b. False

ANSWER: False

135. A rational decision maker takes an action if and only if the marginal cost exceeds the marginal benefit.
    a. True
    b. False

ANSWER: False

136. Suppose one county in Missouri decides it wants to reduce alcohol consumption, so the county passes a law that raises the price of a bottle of beer by $1. As a result, people drive to other counties to drink alcohol, which results in an increase in drunk driving. This illustrates the principle that people respond to incentives.
    a. True
    b. False

ANSWER: True

137. A tax on gasoline is an incentive that encourages people to drive smaller and more fuel-efficient cars.
   a. True
   b. False

ANSWER: True

138. To say people respond to incentives means that people may alter their decisions when the costs and benefits of an action change.
   a. True
   b. False

ANSWER: True

139. Trade allows each person to specialize in the activities he or she does best, thus increasing each individual's productivity.
   a. True
   b. False

ANSWER: True

140. Trade with any nation can be mutually beneficial.
   a. True
   b. False

ANSWER: True

141. Trade can make everyone better off except in the case where one person is better at doing everything.
   a. True
   b. False

ANSWER: False

142. The invisible hand ensures that economic prosperity is distributed equally.
   a. True
   b. False

ANSWER: False

143. A market economy cannot produce a socially desirable outcome because individuals are motivated by their own selfish interests.
   a. True
   b. False

ANSWER: False

144. Communist countries worked on the premise that government officials were in the best position to allocate the economy’s scarce resources.
   a. True
   b. False

ANSWER: True

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145. The government can potentially improve market outcomes if market inequalities or market failure exists.
    a. True
    b. False

ANSWER: True

146. One way that governments can improve market outcomes is to ensure that individuals are able to own and exercise control over their scarce resources.
    a. True
    b. False

ANSWER: True

147. Market failure refers to a situation in which the market does not allocate resources efficiently.
    a. True
    b. False

ANSWER: True

148. Market power and externalities are two possible causes of market failure.
    a. True
    b. False

ANSWER: True

149. Market failure occurs when no individual has the ability to substantially influence market prices.
    a. True
    b. False

ANSWER: False

150. Productivity is defined as the quantity of goods and services produced from each unit of labor input.
    a. True
    b. False

ANSWER: True

151. Inflation is the primary determinant of a country's living standards.
    a. True
    b. False

ANSWER: False

152. Inflation increases the value of money.
    a. True
    b. False

ANSWER: False

153. Inflation measures the increase in the quantity of goods and services produced from each hour of a worker’s time.
    a. True
    b. False

ANSWER: False

154. Variations in the standard of living across countries is due almost entirely to differences in each nation's total output of goods and services.
    a. True
    b. False

ANSWER: False

155. In the short-run, society faces a tradeoff between inflation and unemployment.
    a. True
    b. False

ANSWER: True

156. In the long run the primary effect of increasing the quantity of money is higher prices.
    a. True
    b. False

ANSWER: True

157. The business cycle refers to fluctuations in economic activity such as employment and production.
    a. True
    b. False

ANSWER: True

158. The opportunity cost of working one hour is the sum of the values you would have received from all other activities you could have done in that hour.
    a. True
    b. False

ANSWER: False

159. The opportunity cost of working out for one hour is the value of the next-best activity that you could have done in that hour.
    a. True
    b. False

ANSWER: True

160. Inflation and unemployment both increase as the money supply increases.
    a. True
    b. False

ANSWER: False

161. A rational decision maker takes an action if and only if the marginal benefit exceeds the marginal cost.
    a. True
    b. False

ANSWER: True

162. The "invisible hand" influences market behavior through trade.

a. True
b. False

ANSWER: False

163. Economics is the study of ______ .
ANSWER: how society manages its scarce resources.

164. The term ______ refers to the size of the economic pie, and the term ______ refers to how the pie is divided.
ANSWER: efficiency; equality

165. Explain how government policies that redistribute income from the rich to the poor might reduce efficiency.
ANSWER: They reduce the reward for working hard. As a result, people work less and produce fewer goods and services.

Scenario 1-1
You have the afternoon free. You have a choice between going to the movies with a friend or studying economics for three hours. If you go to the movies, you will spend $12.00 on a ticket and $8.50 on popcorn. If you choose to study economics for three hours, you will raise your exam grade by 15 points.

166. **Refer to Scenario 1-1.** What is your opportunity cost of going to the movies?
ANSWER: $20.50 and 15 points on your exam grade

167. **Refer to Scenario 1-1.** What is your opportunity cost of studying economics?
ANSWER: The enjoyment you would have received from going to the movies with your friend.

Scenario 1-2
Suppose that you have a choice between going to the movies with a friend for two hours or working at your job. If you go to the movies, you will spend $12 on a ticket and $10 on popcorn. If you choose to work, you will earn $15 an hour.

168. **Refer to Scenario 1-2.** What is your opportunity cost of going to the movies?
ANSWER: $52

169. **Refer to Scenario 1-2.** What is your opportunity cost of working?
ANSWER: The enjoyment you would have received from going to the movies with your friend.

170. Charlie quits his job at a technology firm, which he earns $55,000 a year, to pursue a three-year doctoral program. His annual school expenses are $35,000 for tuition, $2,500 for books, $12,000 for rent, and $4,000 for food. What is his opportunity cost of attending the three-year doctoral program?
ANSWER: $277,500

171. Give an example of a trade-off faced by society.
ANSWER: Efficiency and equality; a clean environment and a high level of income; guns and butter (national defense and consumer goods)

Scenario 1-3
It costs a company $48,000 to produce 1,200 smartwatches. If the company produces one more smartwatch, the total cost rises to $48,045. The company is currently producing 1,200 smartwatches.

172. **Refer to Scenario 1-3.** What is the company's average cost?

ANSWER: $40

173. **Refer to Scenario 1-3.** What is the company's marginal cost?
ANSWER: $45

174. **Refer to Scenario 1-3.** A customer is willing to pay $55 for the 1,201th smartwatch. Should the company produce and sell it? Explain.
ANSWER: No, because the marginal cost ($45) is less than the marginal benefit ($55).

175. **Refer to Scenario 1-3.** What is the minimum price the company will charge for the 1,201th calculator?
ANSWER: $45

Scenario 1-4 You have the afternoon free. You have a choice between going to the movies with a friend or studying economics for three hours. If you go to the movies, you will spend $12.00 on a ticket and $4.75 on popcorn. If you choose to study economics for three hours, you will raise your exam grade by 15 points.

176. **Refer to Scenario 1-4.** What is your opportunity cost of going to the movies?
ANSWER: $16.75 and 15 points on your exam grade

177. **Refer to Scenario 1-4.** What is your opportunity cost of studying economics?
ANSWER: The enjoyment you would have received from going to the movies with your friend.

178. What is another word for "marginal"?
ANSWER: incremental; additional

Scenario 1-5
Suppose that you have a choice between going to the movies with a friend for three hours or working at your job. If you go to the movies, you will spend $12 on a ticket and $6 on popcorn. If you choose to work, you will earn $10 an hour.

179. **Refer to Scenario 1-5.** What is your opportunity cost of going to the movies?
ANSWER: $48

180. **Refer to Scenario 1-5.** What is your opportunity cost of working?
ANSWER: The enjoyment you would have received from going to the movies with your friend.

Scenario 1-6
It costs a company $30,000 to produce 600 fitness trackers. The company's cost will be $30,070 if it produces an additional fitness tracker. The company is currently producing 600 fitness trackers.

181. **Refer to Scenario 1-6.** What is the company's average cost?
ANSWER: $50

182. **Refer to Scenario 1-6.** What is the company's marginal cost?
ANSWER: $70

183. **Refer to Scenario 1-6.** A customer is willing to pay $60 for the 601st fitness tracker. Should the company produce and sell it? Explain.
ANSWER: No, because the marginal cost ($70) exceeds the marginal benefit ($60).

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184. **Refer to Scenario 1-6.** What is the minimum price that would induce this company to produce the 601st fitness tracker?
ANSWER: $70

185. Tracy quits her job, which she earns $45,000 per year, to attend a one-year master's program in data science. Her annual college expenses are $28,000 for tuition and fees, $1,500 for laptop and software costs, $1,200 for books, and $9,000 for food and rent. What is her opportunity cost of attending college for the year?
ANSWER: $75,700

186. Melinda quits her job at a bank, which pays $30,000 a year, to enroll in a two-year graduate program. Her annual school expenses are $22,000 for tuition and fees and $2,000 for books. What is her opportunity cost of attending the two-year graduate program?
ANSWER: $108,000

187. What does the term "marginal change" mean?
ANSWER: A small incremental adjustment to a plan of action

188. Rational people make decisions "at the margin" by comparing ______.
ANSWER: marginal costs and marginal benefits

189. In a centrally-planned economy, economic activity is guided by ______.
ANSWER: the government

190. Explain how trade with other countries is beneficial.
ANSWER: Trade allows countries to specialize in what they do best, which increases total output.

191. What are the two basic types of economies?
ANSWER: Centrally planned economies and market economies

192. What is the main difference between a centrally planned economy and a market economy?
ANSWER: In a market economy, decisions are guided by prices and individual self-interest. In a centrally planned economy, economic activity is guided by the government.

193. Economists use the term ______ to refer to a situation in which the market on its own fails to produce an efficient allocation of resources.
ANSWER: market failure

194. What are the two possible causes of market failure?
ANSWER: Externality and market power

195. Explain the concept of externality and give an example.
ANSWER: The impact of one person's actions on the well-being of a bystander; pollution

196. What are the two reasons for the government to intervene in a market?
ANSWER: To promote efficiency and equality

197. What does the "invisible hand" refers to?
ANSWER: How the decisions of self-interested households and firms lead to desirable market outcomes.

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198. Invisible hand is a term used by the economist ______ in his 1776 book *An Inquiry into the Nature and Causes of the Wealth of Nations*.
ANSWER: Adam Smith

199. What do prices reflect in a market economy?
ANSWER: The value of a good to society and the cost to society of making the good

200. Explain the concept of market failure.
ANSWER: Market failure is a situation in which the market on its own fails to produce an efficient allocation of resources.

201. Economists use the term ______ to refer to the ability of a single person (or a small group) to have a substantial influence on market prices.
ANSWER: market power

202. Give an example of government intervention that is intended to reduce an externality.
ANSWER: Laws that restrict the smoking of cigarettes in public places

203. Give an example of government intervention that is intended to improve equality.
ANSWER: The income tax; the welfare system

204. Economists use the term ______ to refer to an increase in the overall level of prices in the economy.
ANSWER: Inflation

205. In the short run, an increase in the money supply is likely to lead to ______ inflation and ______ unemployment.
ANSWER: higher; lower

206. Economists use the term ______ to refer to fluctuations in economic activity, such as employment and production.
ANSWER: business cycle

207. Consider two countries, Muria and Zenya. In Muria total annual output is worth $800 million and people work 40 million hours. In Zenya total annual output is worth $900 million and people work 50 million hours. In which country is productivity higher?
ANSWER: In Muria

208. Suppose that in France total annual output is worth $600 million and people work 40 million hours. In Italy total annual output is worth $700 million and people work 50 million hours. In which country do people enjoy a higher standard of living?
ANSWER: In France. Almost all variation in the standard of living across countries is due to differences in productivity.

209. What are the two short-run effects of increasing the quantity of nation's money?
ANSWER: Higher inflation and lower unemployment

210. How does the study of economics depend upon the phenomenon of scarcity?
ANSWER: Because economics is the study of how society allocates its scarce resources, if there were no scarcity, there would be no need for economics. Everyone could have all the goods and services they wanted. No one would have to make decisions based on tradeoffs, because there would be no opportunity cost associated with the

decision. (It is difficult to conceive of a situation where time is not scarce, however).

211. One tradeoff society faces is between efficiency and equality. Define each term. If the U.S. government redistributes income from the rich to the poor, explain how this action affects equality as well as efficiency in the economy.

ANSWER: Efficiency is the property of society getting the most it can from its scarce resources. Equality is defined as the property of distributing economic prosperity evenly among the members of society. Often, these two goals conflict. When the government redistributes income from the rich to the poor, it reduces the reward for working hard. Fewer goods and services are produced and the economic pie gets smaller. When the government tries to cut the economic pie into more equal slices, the pie gets smaller. Policies aimed at achieving a more equal distribution of economic well-being, such as the welfare system, try to help those members of society who are most in need. The individual income tax asks the financially successful to contribute more than others to support the government.

212. Define opportunity cost. What is the opportunity cost to you of attending college? What was your opportunity cost of coming to class today?

ANSWER: Whatever must be given up to obtain some item it its opportunity cost. Basically, this would be a person's second choice. The opportunity cost of a person attending college is the value of the best alternative use of that person's time, as well as the additional costs the person incurs by making the choice to attend college. For most students this would be the income the student gives up by not working plus the cost of tuition and books, and any other costs they incur by attending college that they would not incur if they chose not to attend college. A student's opportunity cost of coming to class was the value of the best opportunity the student gave up. (For most students, that seems to be sleep.)

213. With the understanding that people respond to incentives, outline the possible outcome for teachers if the K-12 school year is extended to 11 months per year instead of the existing 9 months per year.

ANSWER: The concept of working longer per year would be perceived by many teachers as a definite increase in the cost of teaching. Even with additional compensation, many teachers look at summers off as a major benefit of the education profession. If this benefit were eliminated or diminished, some teachers may perceive that the marginal cost of teaching would now be greater than the marginal benefit and would choose to leave teaching.

214. Under what conditions might government intervention in a market economy improve the economy's performance?

ANSWER: If there is a market failure, such as an externality or monopoly, government regulation might improve the well-being of society by promoting efficiency. If the distribution of income or wealth is considered to be unfair by society, government intervention might achieve a more just distribution of economic well-being.

215. Explain how an attempt by the government to lower inflation could cause unemployment to increase in the short-run.

ANSWER: To lower inflation, the government may choose to reduce the money supply in the economy. When the money supply is reduced, prices don't adjust immediately. Lower spending, combined with prices that are too high, reduces sales and causes workers to be laid off. Hence, the lower price level is associated with higher unemployment.

Ch 01: MC Algo

1. Resources are
    a. scarce for households but plentiful for economies.
    b. plentiful for households but scarce for economies.
    c. scarce for households and scarce for economies.
    d. plentiful for households and plentiful for economies.

ANSWER: c

2. Fundamentally, economics deals with
    a. scarcity.
    b. money.
    c. poverty.
    d. banking.

ANSWER: a

3. The overriding reason why households and societies face many decisions is that
    a. resources are scarce.
    b. goods and services are not scarce.
    c. incomes fluctuate with business cycles.
    d. people, by nature, tend to disagree.

ANSWER: a

4. The phenomenon of *scarcity* stems from the fact that
    a. most economies' production methods are not very good.
    b. in most economies, wealthy people consume disproportionate quantities of goods and services.
    c. governments restrict production of too many goods and services.
    d. resources are limited.

ANSWER: d

5. In most societies, resources are allocated by
    a. a single central planner.
    b. a small number of central planners.
    c. those firms that use resources to provide goods and services.
    d. the combined actions of millions of households and firms.

ANSWER: d

6. Natural gas is considered to be a nonrenewable energy source. Which of the following statements is correct?
    a. Natural gas is an unlimited resource.
    b. Natural gas is a scarce resource.
    c. Natural gas is a nonscarce resource.
    d. Natural gas is not a resource.

ANSWER: b

7. Economics is the study of how society manages its
    a. limited wants and unlimited resources.

b. unlimited wants and unlimited resources.
c. limited wants and limited resources.
d. unlimited wants and limited resources.

ANSWER: d

8. What term refers to the idea that society has limited resources and therefore cannot produce all the goods and services people wish to have?
a. inefficiency
b. inequality
c. scarcity
d. market failure

ANSWER: c

9. The adage, "There ain't no such thing as a free lunch," means
a. even people on welfare have to pay for food.
b. the cost of living is always increasing.
c. people face tradeoffs.
d. all costs are included in the price of a product.

ANSWER: c

10. Imagine that you are planning your day off and want to either visit a popular art exhibit or attend a live concert happening at the same time. Unfortunately, the tickets for the concert coincide exactly with the hours the art exhibit is open. Since you can’t be in two places at once, you have to pick just one. This situation illustrates the basic principle that
a. people respond to incentives.
b. rational people think at the margin.
c. people face tradeoffs.
d. improvements in efficiency sometimes come at the expense of equality.

ANSWER: c

11. Which of the following statements best represents the principle of the adage, "There ain't no such thing as a free lunch"?
a. Grom can attend the movie only if he takes his brother with him.
b. Ren is hungry and homeless.
c. Ashlyn must repair her scooter before she can ride it back home.
d. Dani must decide between going to California or Maui for spring break.

ANSWER: d

12. While pollution regulations yield the benefit of a cleaner environment and the improved health that comes with it, the regulations come at the cost of reducing the incomes of the regulated firms' owners, workers, and customers. This statement illustrates the principle that
a. trade can make everyone better off.
b. rational people think at the margin.
c. people face tradeoffs.
d. people respond to incentives.

ANSWER: c

13. When society requires that firms reduce pollution, there is
   a. a tradeoff because of reduced incomes to the firms' owners and workers.
   b. a tradeoff only if some firms are forced to close.
   c. no tradeoff, since the cost of reducing pollution falls only on the firms affected by the requirements.
   d. no tradeoff, since everyone benefits from reduced pollution.

ANSWER: a

14. Efficiency means that
   a. society is conserving resources in order to save them for the future.
   b. society's goods and services are distributed equally among society's members.
   c. society's goods and services are distributed fairly, though not necessarily equally, among society's members.
   d. society is getting the most it can from its scarce resources.

ANSWER: d

15. The property of society getting the most it can from its scarce resources is called
   a. efficiency.
   b. equality.
   c. externality.
   d. productivity.

ANSWER: a

16. Efficiency
   a. and equality both refer to how much a society can produce with its resources.
   b. and equality both refer to how fairly the benefits from using resources are distributed between members of a society.
   c. refers to how much a society can produce with its resources. Equality refers to how evenly the benefits from using resources are distributed among members of society.
   d. refers to how evenly the benefits from using resources are distributed between members of society. Equality refers to how much a society can produce with its resources.

ANSWER: c

17. The terms *equality* and *efficiency* are similar in that they both refer to benefits to society. However, they are different in that
   a. equality refers to uniform distribution of those benefits and efficiency refers to maximizing benefits from scarce resources.
   b. equality refers to maximizing benefits from scarce resources and efficiency refers to uniform distribution of those benefits.
   c. equality refers to everyone facing identical tradeoffs and efficiency refers to the opportunity cost of the benefits.
   d. equality refers to the opportunity cost of the benefits and efficiency refers to everyone facing identical tradeoffs.

ANSWER: a

Ch 01: MC Algo

18. When society gets the most it can from its scarce resources, then the outcome is called

    a. equitable.

    b. efficient.

    c. normal.

    d. marginal.

ANSWER: b

19. A typical society strives to get the most it can from its scarce resources. At the same time, the society attempts to distribute the benefits of those resources to the members of the society in a fair manner. However, redistributing income from rich to poor reduces the reward for working hard. Therefore, society faces a tradeoff between

    a. guns and butter.

    b. efficiency and equality.

    c. inflation and unemployment.

    d. work and leisure.

ANSWER: b

20. Which of the following is true?

    a. Efficiency refers to the size of the economic pie; equality refers to how the pie is divided.

    b. Government policies usually improve upon both equality and efficiency.

    c. As long as the economic pie continually gets larger, no one will have to go hungry.

    d. Efficiency and equality can both be achieved if the economic pie is cut into equal pieces.

ANSWER: a

21. When the government redistributes income from individuals in the top one percent of income to individuals in the lowest income decile,

    a. efficiency is improved, but equality is not.

    b. individuals with both high levels of income and low levels of income benefit directly.

    c. people work less and produce fewer goods and services.

    d. the government collects more revenue in total.

ANSWER: c

22. When the government implements programs such as progressive income tax rates, which of the following is likely to occur?

    a. Equality is increased and efficiency is increased.

    b. Equality is increased and efficiency is decreased.

    c. Equality is decreased and efficiency is increased.

    d. Equality is decreased and efficiency is decreased.

ANSWER: b

23. Senator Jackson argues that replacing the federal income tax with a national sales tax would increase the level of output. Senator Lau objects that this policy would benefit individuals in the top one percent of income at the expense of individuals in the lowest income category.

    a. Both senators' arguments are primarily about equality.

    b. Both senators' arguments are primarily about efficiency.

    c. Senator Jackson's argument is primarily about equality, while Senator Lau's argument is primarily about efficiency.

d. Senator Jackson's argument is primarily about efficiency, while Senator Lau's argument is primarily about equality.

ANSWER: d

24. Suppose the government taxes the wealthy at a higher rate than it taxes low-income individuals and then develops programs to redistribute the tax revenue from the wealthy to low-income individuals. This redistribution of wealth

a. is more efficient and more equal for society.

b. is more efficient but less equal for society.

c. is more equal but less efficient for society.

d. is less equal and less efficient for society.

ANSWER: c

25. The opportunity cost of an item is

a. the number of hours needed to earn money to buy the item.

b. what you give up to get that item.

c. usually less than the dollar value of the item.

d. the dollar value of the item.

ANSWER: b

26. Suppose that you have received $450 as a birthday gift. You can spend it now or you can deposit the money in a bank account for one year and earn 4 percent interest. The opportunity cost of spending the money today, in terms of what you could have after one year, is

a. $0.

b. $18.00.

c. $454.00.

d. $468.00.

ANSWER: d

27. When computing the opportunity cost of attending a rodeo as a spectator, you should include

a. the price you pay for the ticket and the value of your time.

b. the price you pay for the ticket, but not the value of your time.

c. the value of your time, but not the price you pay for the ticket.

d. neither the price of the ticket nor the value of your time.

ANSWER: a

28. Sabrina decides to spend 3 hours working overtime rather than going to the park with her friends. She earns $12 per hour for overtime work. Her opportunity cost of working is

a. the $36 she earns working.

b. the $36 minus the enjoyment she would have received from going to the park.

c. the enjoyment she would have received had she gone to the park.

d. nothing, since she would have received less than $36 worth of enjoyment from going to the park.

ANSWER: c

29. Consider Miray's decision to go to college. If she goes to college, she will spend $22,000 on tuition, $11,000 on room

and board, and $1,900 on books. If she does not go to college, she will earn $12,000 working in a store and spend $6,000 on room and board. Miray's cost of going to college is

a. $34,900.
b. $40,900.
c. $46,900.
d. $52,900.

ANSWER: b

30. For which of the following individuals would the opportunity cost of going to college be highest?

a. A software engineer with a lucrative job offer waiting after graduation.
b. A social entrepreneur running a nonprofit that depends on their leadership.
c. A recent high school graduate unsure about their career path.
d. An aspiring musician playing gigs part-time with minimal income.

ANSWER: a

31. Jamal's college raises the cost of room and board per semester. This increase raises Jamal's opportunity cost of attending college

a. even if the amount he would have to pay for room and board if he didn't attend college rose by the same amount. An increase in opportunity cost reduces Jamal's incentive to attend college.
b. even if the amount he would have to pay for room and board if he didn't attend college rose by the same amount. An increase in opportunity cost increases Jamal's incentive to attend college.
c. only if the amount he would have to pay for room and board if he didn't attend college rose by less than the increase in the amount his college charges. An increase in opportunity cost reduces Jamal's incentive to attend college.
d. only if the amount he would have to pay for room and board if he didn't attend college rose by less than the increase in the amount his college charges. An increase in opportunity cost increases Jamal's incentive to attend college.

ANSWER: c

32. Suppose your college introduces a mandatory technology fee for all students to support campus Wi-Fi. How does this fee affect your opportunity cost of attending college?

a. The technology fee is not part of the opportunity cost of attending college if you would not have to pay for Wi-Fi otherwise.
b. The technology fee is part of the opportunity cost of attending college if you would not have to pay for Wi-Fi otherwise.
c. Only half of the technology fee is part of the opportunity cost of attending college.
d. The technology fee is not part of the opportunity cost of attending college under any circumstances.

ANSWER: b

33. You're on a road trip with friends and have already driven 850 miles. While scrolling through Instagram, you discover a must-see food truck festival just 95 off of your current route. You hadn’t planned on going, but now you’re seriously considering it. When calculating the opportunity cost of checking out the festival, you should include:

a. both the cost of driving the first 850 miles and the next 95 miles.
b. the cost of driving the first 850 miles, but not the cost of driving the next 95 miles.
c. the cost of driving the next 95 miles, but not the cost of driving the first 850 miles.
d. neither the cost of driving the first 850 miles nor the cost of driving the next 95 miles.

ANSWER: c

34. Javaris's aunt gave him $200 for his birthday with the condition that Javaris buys himself something. In deciding how to spend the money, Javaris narrows his options down to four choices: Alternative 1, Alternative 2, Alternative 3, and Alternative 4. Each option costs $200. Finally, he decides on Alternative 2. The opportunity cost of this decision is
   a. the value to Javaris of the option he would have chosen had Alternative 2 not been available.
   b. the value to Javaris of Alternatives 1, 3, and 4 combined.
   c. the average of the values to Javaris of Alternatives 1, 3, and 4.
   d. $200.

ANSWER: a

35. A rational decision maker
   a. ignores marginal changes and focuses instead on "the big picture."
   b. ignores the likely effects of government policies when he or she makes choices.
   c. takes an action only if the marginal benefit of that action exceeds the marginal cost of that action.
   d. takes an action only if the combined benefits of that action and previous actions exceed the combined costs of that action and previous actions.

ANSWER: c

36. Making rational decisions at the margin means that people
   a. make those decisions that do not impose a marginal cost.
   b. evaluate how easily a decision can be reversed if problems arise.
   c. compare the marginal costs and marginal benefits of each decision.
   d. always calculate the dollar costs for each decision.

ANSWER: c

37. People are willing to pay more for a diamond than for a bottle of water because
   a. the marginal cost of producing an extra diamond far exceeds the marginal cost of producing an extra bottle of water.
   b. the marginal benefit of an extra diamond far exceeds the marginal benefit of an extra bottle of water.
   c. producers of diamonds have a much greater ability to manipulate diamond prices than producers of water have to manipulate water prices.
   d. water prices are held artificially low by governments, since water is necessary for life.

ANSWER: b

38. The marginal benefit Joseph gets from purchasing a fifth pair of glasses is
   a. the same as the total benefit he gets from purchasing five pairs of glasses.
   b. more than the marginal cost of purchasing the fifth pair of glasses.
   c. the total benefit he gets from purchasing five pairs of glasses minus the total benefit he gets from purchasing four pairs of glasses.
   d. the total benefit he gets from purchasing six pairs of glasses minus the total benefit he gets from purchasing five pairs of glasses.

ANSWER: c

39. After much consideration, you have chosen Italy over France for your Study Abroad program next year. However, the

deadline for your final decision is still months away and you may reverse this decision. Which of the following events could prompt you to reverse this decision?

a. The marginal benefit of going to France increases.
b. The marginal cost of going to France increases.
c. The marginal benefit of going to Italy increases.
d. The marginal cost of going to Italy decreases.

ANSWER: a

40. A football trainer who trains 25 clients per week and earns a profit is expanding to serve more clients. Is this a good business decision?

a. Yes, because football training is profitable.
b. No, because it is very difficult to sell more services.
c. It depends on the marginal cost of serving more clients and the marginal revenue they will earn from serving more clients.
d. It depends on the average cost of serving more clients and the average revenue they will earn from serving more clients.

ANSWER: c

41. Suppose the cost of hosting a 200-seat concert is $100,000 and 10 seats remain unsold. If the marginal cost of admitting one more attendee is $20 and a last-minute fan is willing to pay $50 for a ticket, the concert organizer should

a. sell the ticket because the marginal benefit exceeds the marginal cost.
b. sell the ticket because the marginal benefit exceeds the average cost.
c. not sell the ticket because the marginal benefit is less than the marginal cost.
d. not sell the ticket because the marginal benefit is less than the average cost.

ANSWER: a

42. Suppose the cost of hosting a 450-seat concert is $45,000 and there are 10 empty seats. The marginal cost ofadmitting one more attendee is

a. $450.
b. $450.
c. $45,000.
d. This cannot be determined from the information given.

ANSWER: d

43. Samuel is restoring a car and has already spent $4,000 on the restoration. He expects to be able to sell the car for $5,800. Samuel discovers that he needs to do an additional $2,400 of work to make the car worth $5,800 to potential buyers. He could also sell the car now, without completing the additional work, for $3,800. What should he do?

a. He should sell the car now for $3,800.
b. He should keep the car since it wouldn’t be rational to spend $6,400 restoring a car and then sell it for only $5,800.
c. He should complete the additional work and sell the car for $5,800.
d. It does not matter which action he takes since the outcome will be the same either way.

ANSWER: a

44. Rami Home Builders, Inc., has built 28 houses so far this year at a total cost to the company of $4.9 million. If the

company builds a 29th house, its total cost will increase to $5.075 million. Which of the following statements is correct?

a. For the first 28 houses, the average cost per house was $170,000.

b. The marginal cost of the 29th house, if it is built, will equal $175,000.

c. If the company can sell the 29th house for at least $167,000, then it should build it.

d. The company should never build the 29th house because this increases its total cost.

ANSWER: b

45. Suppose the cost of operating a 75-room hotel for a night is $6,000 and there are five empty rooms for tonight. If the marginal cost of operating one room for one night is $40, the hotel manager should rent one of the empty rooms only if a customer is willing to pay

a. more than $40; because the average benefit will exceed the marginal cost.

b. more than $40; because the marginal benefit will exceed the marginal cost.

c. more than $80; because the average benefit will exceed the marginal cost.

d. more than $80; because the marginal benefit will exceed the marginal cost.

ANSWER: b

46. A donut shop sells fresh-baked donuts from 5 a.m. until 6 p.m. every day. The shop does not sell day-old donuts, so all unsold donuts are thrown away at 6 p.m. each day. The cost of making and selling a dozen donuts is $1; there are no costs associated with throwing donuts away. If the manager has seven dozen donuts left at 5 p.m. on a particular day, which of the following alternatives is most attractive?

a. Lower the price of the remaining donuts, even if the price falls below $1 per dozen.

b. Lower the price of the remaining donuts, but under no circumstances should the price fall below $1 per dozen.

c. Throw the donuts away and produce seven fewer dozen donuts tomorrow.

d. Starting tomorrow, lower the price on all donuts so they will all be sold earlier in the day.

ANSWER: a

47. Justin buys and sells real estate. Two weeks ago, he paid $300,000 for a house on Cypress Street, intending to spend $50,000 on repairs and then sell the house for $400,000. Last week, the city government announced a plan to build a new landfill on Cypress Street just down the street from the house Justin purchased. As a result of the city's announced plan, Justin is weighing two alternatives: He can go ahead with the $50,000 in repairs and then sell the house for $290,000, or he can forgo the repairs and sell the house as it is for $250,000. He should

a. keep the house and live in it.

b. go ahead with the $50,000 in repairs and sell the house for $290,000.

c. forgo the repairs and sell the house as it is for $250,000.

d. move the house from Cypress Street to a more desirable location, regardless of the cost of doing so.

ANSWER: c

48. You are considering staying in college another semester so that you can complete a major in economics. In deciding whether or not to stay you should

a. compare the total cost of your education to the total benefits of your education.

b. compare the total cost of your education to the benefits of staying one more semester.

c. compare the cost of staying one more semester to the benefits of staying one more semester.

d. compare the total benefits of your education to the cost of staying one more semester.

ANSWER: c

Ch 01: MC Algo

49. You plan to attend a pop-up food festival where entry usually cost $8.00. You have a $1.00-off coupon valid only for that festival on that day. When you arrive, a friend invites you to check out a new food truck launch happening at the same time nearby. Both events start and end at the same time. If you decide to go to the food truck launch with your friend, what is your opportunity cost?

a. The amount you value the festival + $1.00

b. The amount you value the festival + $8.00

c. $1.00

d. $8.00

ANSWER: a

50. Gabrielle and Jayden charge fellow students to park in their driveway during a big campus music festival. At the current price of $10, six cars park there. If they raise the price to $15, they know that only five people will want to park. Whether they have six or five cars parked in their driveway does not affect their costs. From this information it follows that

a. they should leave the price at $10.

b. it does not matter if they charge $10 or $15.

c. they would do better charging $15 than $10.

d. they should raise the price even more.

ANSWER: c

51. Your favorite finance professor, who's also a big fan of video games, has been offered a high-paying job in the gaming industry that would boost their income by 20 percent. Still, the professor chooses to continue teaching. This decision would not change unless the marginal

a. cost of teaching increased.

b. benefit of teaching increased.

c. cost of the gaming job increased.

d. benefit of the gaming job decreased.

ANSWER: a

52. Your economics professor accepted a job at a tech company offering a 30 percent pay increase because the marginal

a. cost of leaving was greater than the marginal benefit.

b. benefit of leaving was greater than the marginal cost.

c. benefit of teaching was greater than the marginal cost.

d. benefit of teaching was negative.

ANSWER: b

53. Suppose the state of New Jersey passes a law that increases the tax on tobacco products. As a result, tobacco consumers who live in New Jersey start purchasing their tobacco products in surrounding states. Which of the following principles does this best illustrate?

a. People respond to incentives.

b. Rational people think at the margin.

c. Trade can make everyone better off.

d. Markets are usually a good way to organize economic activity.

ANSWER: a

Ch 01: MC Algo

54. Which of the following statements exemplifies a principle of individual decision making?
    a. Trade can make everyone better off.
    b. Governments can sometimes improve market outcomes.
    c. The cost of something is what you give up to get it.
    d. Prices rise when the government prints too much money.

ANSWER: c

55. Which of the following is *not* an example of a group responding to an incentive?
    a. Gym members attend more classes because the facility offers a discount for frequent attendance.
    b. Shoppers buy more ice cream when it's marked down for a clearance sale.
    c. A restaurant cuts back on offering vegan options even though customer requests for them have increased and they're cheaper to prepare.
    d. Freelancers take on extra projects to earn bigger bonuses.

ANSWER: c

56. Jin decides to spend four hours streaming video games on YouTube rather than attending his classes. His opportunity cost of streaming video games on YouTube is
    a. the value of the knowledge he would have received had he attended his classes.
    b. the $70 he could have earned if he had worked at his job for those four hours.
    c. the value of his time streaming video games on YouTube minus the value of attending classes.
    d. nothing, since he valued streaming video games on YouTube more than attending classes.

ANSWER: a

57. Which of the following industries has a marginal cost that is close to zero?
    a. Automobile
    b. Aircraft
    c. Software
    d. Furniture

ANSWER: c

58. Which is the most accurate statement about trade?
    a. Trade can make every nation better off.
    b. Trade makes some nations better off and others worse off.
    c. Trading for a good can make a nation better off only if the nation cannot produce that good itself.
    d. Trade helps rich nations and hurts poor nations.

ANSWER: a

59. Which of the following statements about trade is false?
    a. Trade increases competition.
    b. With trade, one country must win and one country must lose.
    c. Bulgaria can benefit, potentially, from trade with any other country.
    d. Trade allows people to buy a greater variety of goods and services at lower cost.

ANSWER: b

Ch 01: MC Algo

60. If China decides to trade with France, we know that
    a. France will benefit, but trade with a less developed country could not benefit China.
    b. it will not benefit France because workers in China are more productive.
    c. France and China can both benefit.
    d. it will not benefit either country because their cultural differences are too vast.

ANSWER: c

61. Destiny is a graphic designer with a strong client list. Instead of spending hours cooking meals every week, she subscribes to a local meal prep service. She knows that she can earn more in the time saved than what she pays for the prepared meals. This scenario best illustrates which principle of economics?
    a. Trade can make everyone better off.
    b. Markets are usually a good way to organize economic activity.
    c. Governments can sometimes improve market outcomes.
    d. Prices rise when the government prints too much money.

ANSWER: a

62. Andrew is a college student who edits videos and Jordan is a tech-savvy friend who builds custom PCs. Alex edits a promo reel for Jordan's gaming channel in exchange for Jordan upgrading Alex's computer setup. Who benefits from this exchange?
    a. only Andrew is made better off by trade.
    b. only Alex is made better off by trade.
    c. both Andrew and Alex are made better off by trade.
    d. neither Andrew nor Alex are made better off by trade.

ANSWER: c

63. Trade between countries tends to
    a. reduce both competition and specialization.
    b. reduce competition and increase specialization.
    c. increase competition and reduce specialization.
    d. increase both competition and specialization.

ANSWER: d

64. Trade
    a. allows specialization, which increases costs.
    b. allows specialization, which reduces costs.
    c. reduces specialization, which increases costs.
    d. reduces specialization, which reduces costs.

ANSWER: b

65. Central planning refers to
    a. markets guiding economic activity. Today many countries that had this system have abandoned it.
    b. markets guiding economic activity. Today many countries that did not have this system have implemented it.
    c. government guiding economic activity. Today many countries that had this system have abandoned it.
    d. government guiding economic activity. Today many countries that did not have this system have implemented

it.

ANSWER: c

66. The basic principles of economics suggest that
   a. markets are seldom, if ever, a good way to organize economic activity.
   b. government should become involved in markets when trade between countries is involved.
   c. government should become involved in markets when those markets fail to produce efficient or fair outcomes.
   d. government should never become involved in markets.

ANSWER: c

67. Communist countries worked under the premise that
   a. people, when left on their own without government intervention, will find the best use of available resources.
   b. central planners were in the best position to determine the allocation of scarce resources in the economy.
   c. households and firms, guided by an "invisible hand," could achieve the most efficient allocation of scarce resources.
   d. allowing the market forces of supply and demand to operate with no government intervention would achieve the most efficient allocation of scarce resources.

ANSWER: b

68. Prior to the collapse of communism, communist countries worked on the premise that economic well-being could be best attained by
   a. a market economy.
   b. a strong reliance on prices and individuals' self-interests.
   c. a system of large privately owned firms.
   d. the actions of government central planners.

ANSWER: d

69. Which of the following observations was made famous by Adam Smith in his book *The Wealth of Nations?*
   a. There is no such thing as a free lunch.
   b. People buy more when prices are high than when prices are low.
   c. No matter how much people earn, they tend to spend more than they earn.
   d. Households and firms interacting in markets are guided by an "invisible hand" that leads them to desirable market outcomes.

ANSWER: d

70. The famous observation that households and firms interacting in markets act as if they are guided by an "invisible hand" that leads them to desirable market outcomes comes from whose 1776 book?
   a. David Ricardo
   b. Thorstein Veblen
   c. John Maynard Keynes
   d. Adam Smith

ANSWER: d

71. The "invisible hand" refers to

a. how central planners made economic decisions.
b. how the decisions of households and firms lead to desirable market outcomes.
c. the control that large firms have over the economy.
d. government regulations without which the economy would be less efficient.

ANSWER: b

72. The "invisible hands" ability to coordinate the decisions of the firms and households in the economy can be hindered by
a. government actions that distort prices.
b. increased competition in markets.
c. enforcement of property rights.
d. too much attention paid to efficiency.

ANSWER: a

73. In a market economy, who makes the decisions that guide most economic activity?
a. Firms only
b. Households only
c. Firms and households
d. Government

ANSWER: c

74. In a market economy, economic activity is guided by
a. the government.
b. public-interest groups.
c. central planners.
d. self-interest and prices.

ANSWER: d

75. Which of the following statements does *not* apply to a market economy?
a. Firms decide whom to hire and what to produce.
b. The "invisible hand" usually maximizes the income of society as a whole.
c. Households decide which firms to work for and what to buy with their incomes.
d. Government policies are the primary forces that guide the decisions of firms and households.

ANSWER: d

76. Prices direct economic activity in a market economy by
a. influencing the actions of buyers and sellers.
b. reducing scarcity of the goods and services produced.
c. reducing opportunity cost of goods and services produced.
d. allocating goods and services in the most equitable way.

ANSWER: a

77. If the government were to intervene in a market economy and fix the price of visiting a health care provider below the market price, then we would expect, relative to the market outcome,

a. an increase in the number of visits people want to make and an increase in the number of visits health care providers want to provide.
b. an increase in the number of visits people want to make and a decrease in the number of visits health care providers want to provide.
c. a decrease in the number of visits people want to make and an increase in the number of visits health care providers want to provide.
d. a decrease in the number of visits people want to make and a decrease in the number of visits health care providers want to provide.

ANSWER: b

78. If the government were to intervene and set a wage for unskilled labor above the market wage, then we would expect, relative to the market outcome,
a. an increase in the number of unskilled jobs available.
b. a decrease in the number of unskilled jobs available.
c. a decrease in the number of workers wanting unskilled jobs.
d. an increase in the number of businesses using unskilled workers.

ANSWER: b

79. When the government prevents prices from adjusting naturally to supply and demand, it
a. equates the amount buyers want to buy with the amount sellers want to sell.
b. adversely affects the allocation of resources.
c. improves equality and efficiency.
d. improves efficiency but reduces equality.

ANSWER: b

80. The ability of an individual to own and exercise control over scarce resources is called
a. market failure.
b. property rights.
c. externality.
d. market power.

ANSWER: b

81. The term used to describe a situation in which markets do not allocate resources efficiently is
a. economic meltdown.
b. market failure.
c. equilibrium.
d. the effect of the invisible hand.

ANSWER: b

82. The term *market failure* refers to
a. a situation in which the market on its own fails to allocate resources efficiently.
b. an unsuccessful advertising campaign which reduces demand for a product.
c. a situation in which competition among firms becomes ruthless.
d. a firm that is forced out of business because of losses.

ANSWER: a

83. Which of the following do economists *not* generally regard as a legitimate reason for the government to intervene in a market?
    a. To promote efficiency
    b. To promote equality
    c. To enforce property rights
    d. To protect an industry from foreign competition

ANSWER: d

84. Widespread respiratory illnesses have been linked to pollution from delivery trucks operating in major cities. While companies profit from quick deliveries, the health consequences affect many residents. This is an example of
    a. a market failure caused by an externality.
    b. a market failure caused by market power.
    c. a market failure caused by equality.
    d. no market failure.

ANSWER: a

85. If an externality is present in a market, economic efficiency may be enhanced by
    a. government intervention.
    b. a decrease in foreign competition.
    c. fewer market participants.
    d. weaker property rights.

ANSWER: a

86. Which of the following is an example of an externality?
    a. Kayla purchases a new handbag.
    b. Malik's rooster crows loudly during the night, waking his neighbors.
    c. Shemar sells a computer to Oakley, who uses the computer and then gives it to Tiana as a gift.
    d. Riley attends a musical.

ANSWER: b

87. The willingness of citizens to pay for vaccinations does not include the benefit society receives from having vaccinated citizens who cannot transmit an illness to others. This extra benefit society gets from vaccinating its citizens is known as
    a. productivity.
    b. an externality.
    c. market power.
    d. property rights.

ANSWER: b

88. Laws that restrict industrial noise are examples of government intervention that is intended to reduce
    a. efficiency.
    b. equality.

c. externalities.
d. productivity.

ANSWER: c

89. Which of these activities will most likely impose an external cost?
    a. A fitness influencer streams their workout from a crowded gym.
    b. A delivery driver vapes inside a shared office space.
    c. A new parent takes their baby for a walk in the park.
    d. A barista grabs a quick bite between shifts.

ANSWER: b

90. Which of these activities will most likely result in an external benefit?
    a. A college student buys a deck of cards to play solitaire in her dorm room.
    b. An elderly woman plants a flower garden on the vacant lot next to her house.
    c. An executive purchases a book to read on a business trip.
    d. A ten-year-old uses his allowance to buy new Nike shoes.

ANSWER: b

91. Market power refers to the
    a. power of a single person or small group to influence market prices.
    b. ability of a person or small group to successfully market new products.
    c. power of the government to regulate a market.
    d. importance of a certain market in relation to the overall economy.

ANSWER: a

92. Which of the following firms is likely to have the greatest market power?
    a. A utility company
    b. A farmer
    c. A grocery store
    d. A local electronics retailer

ANSWER: a

93. Productivity is defined as the
    a. amount of goods and services produced from each unit of labor input.
    b. number of workers required to produce a given amount of goods and services.
    c. amount of labor that can be saved by replacing workers with machines.
    d. actual amount of effort workers put into an hour of working time.

ANSWER: a

94. The primary determinant of a country's standard of living is
    a. the country's ability to prevail over foreign competition.
    b. the country's ability to produce goods and services.
    c. the total supply of money in the economy.
    d. the average age of the country's labor force.

ANSWER: b

95. The slow growth of U.S. incomes during the 1970s and 1980s can best be explained by
    a. unstable economic conditions in Eastern Europe.
    b. increased competition from abroad.
    c. a decline in the rate of increase in U.S. productivity.
    d. a strong U.S. dollar abroad, hurting U.S. exports.

ANSWER: c

96. Suppose that in Singapore total annual output is worth $700 million and people work 25 million hours. In Oman, total annual output is worth 650 million and people work 25 million hours. Productivity is higher
    a. in Singapore. Most variation in the standard of living across countries is due to differences in productivity.
    b. in Singapore. Differences in productivity explain very little of the variation in the standard of living across countries.
    c. in Oman. Most variation in the standard of living across countries is due to differences in productivity.
    d. in Oman. Differences in productivity explain very little of the variation in the standard of living across countries.

ANSWER: a

97. In a particular country in 1998, the average worker needed to work 25 hours to produce 40 units of output. In that same country in 2008, the average worker needed to work 40 hours to produce 68 units of output. In that country, the productivity of the average worker
    a. decreased by 1.7 percent between 1998 and 2008.
    b. remained unchanged between 1998 and 2008.
    c. increased by 4.75 percent between 1998 and 2008.
    d. increased by 6.25 percent between 1998 and 2008.

ANSWER: d

98. A worker in Thailand can earn $8 per day making cotton cloth on a hand loom. A worker in China can earn $78 per day making cotton cloth with a mechanical loom. What is the likely explanation for the difference in wages?
    a. China textile workers belong to a union, whereas Thailand textile workers do not belong to a union.
    b. There is little demand for cotton cloth in Thailand and great demand in China.
    c. Labor is more productive making cotton cloth with a mechanical loom than with a hand loom.
    d. Thailand has a low-wage policy to make its textile industry more competitive in world markets.

ANSWER: c

99. To improve living standards, policymakers should
    a. impose restrictions on foreign competition.
    b. formulate policies designed to increase productivity.
    c. impose tougher immigration policies.
    d. provide tax breaks for the middle class.

ANSWER: b

100. An increase in the overall level of prices in an economy is referred to as
    a. the income effect.

b. inflation.
c. deflation.
d. the substitution effect.

ANSWER: b

101. Large or persistent inflation is almost always caused by
a. excessive government spending.
b. excessive growth in the quantity of money.
c. foreign competition.
d. higher-than-normal levels of productivity.

ANSWER: b

102. In the short run, which of the following rates of growth in the money supply is likely to lead to the lowest level of unemployment in the economy?
a. 5 percent per year
b. 6 percent per year
c. 8 percent per year
d. 9 percent per year

ANSWER: d

103. In the short run, an increase in the money supply is likely to lead to
a. lower unemployment and lower inflation.
b. lower unemployment and higher inflation.
c. higher unemployment and lower inflation.
d. higher unemployment and higher inflation.

ANSWER: b

104. Suppose the Federal Reserve announces that it will be making a change to a key interest rate to increase the money supply. This is likely because
a. the Federal Reserve is worried about inflation.
b. the Federal Reserve is worried about unemployment.
c. the Federal Reserve is hoping to reduce the demand for goods and services.
d. the Federal Reserve is worried that the economy is growing too quickly.

ANSWER: b

105. Which of the following is the most correct statement about the relationship between inflation and unemployment?
a. In the short run, falling inflation is associated with falling unemployment.
b. In the short run, falling inflation is associated with rising unemployment.
c. In the long run, falling inflation is associated with falling unemployment.
d. In the long run, falling inflation is associated with rising unemployment.

ANSWER: b

106. Which of the following is an important cause of inflation in an economy?
a. Increases in productivity in the economy

b. The influence of positive externalities on the economy
c. Lack of property rights in the economy
d. Growth in the quantity of money in the economy

ANSWER: d

107. Which of the following claims is consistent with the views of mainstream economists?
a. If we increase the rate of inflation from 3 percent to 5 percent, then the rate of unemployment will temporarily fall.
b. If we increase the rate of inflation from 3 percent to 5 percent, then the rate of unemployment will temporarily rise.
c. If we increase the rate of inflation from 3 percent to 5 percent, then the rate of unemployment will permanently fall.
d. If we increase the rate of inflation from 3 percent to 5 percent, then the rate of unemployment will permanently rise.

ANSWER: a

108. For a very long time the country of Zeeland has had an inflation rate of 9 percent. Suddenly its inflation rate drops to 3 percent. The drop in the inflation rate
a. could be due to slower money supply growth. We would expect unemployment to be higher.
b. could be due to slower money supply growth. We would expect unemployment to be lower.
c. could be due to higher money supply growth. We would expect unemployment to be higher.
d. could be due to higher money supply growth. We would expect unemployment to be lower.

ANSWER: a

109. For a number of years, Country A had inflation of 3 percent but for the last five years has had inflation of 6 percent. Country B had inflation of 4 percent for many years, but very recently inflation unexpectedly rose to 9 percent. Other things the same, in which of the countries would the higher inflation rate be more likely to reduce unemployment?
a. Both Country A and Country B
b. Neither Country A nor Country B
c. Country A but not Country B
d. Country B but not Country A

ANSWER: d

110. During the 1990s, the United Kingdom experienced low levels of inflation while Turkey experienced high levels of inflation. A likely explanation of these facts is that
a. the United Kingdom has a better education system than Turkey.
b. the rate of growth of the quantity of money was slower in the United Kingdom than in Turkey.
c. workers in Turkey are more productive than workers in the United Kingdom.
d. there are more instances of market power in Turkey than in the United Kingdom.

ANSWER: b

111. In the short run, which of the following is *not* correct?
a. Increasing the money supply increases the demand for goods and services.
b. Increasing the money supply encourages firms to hire more workers.
c. Lowering the money supply leads to a higher level of unemployment.

d. Policies that encourage higher employment will also induce a lower rate of inflation.

ANSWER: d

112. The business cycle is the
    a. relationship between unemployment and inflation.
    b. irregular fluctuations in economic activity.
    c. positive relationship between the quantity of money in an economy and inflation.
    d. predictable changes in economic activity due to changes in government spending and taxes.

ANSWER: b

113. Both the production of goods and services and the unemployment rate are used to measure
    a. the business cycle.
    b. productivity.
    c. the interest rate.
    d. inflation.

ANSWER: a

Ch 01: True False Short Answer and Essay

1. Scarcity means that there is less of a good or resource available than people wish to have.
   a. True
   b. False

ANSWER: True

2. Economics is exclusively the study of how evenly goods and services are distributed within society.
   a. True
   b. False

ANSWER: False

3. Economics is the study of how society allocates its unlimited resources.
   a. True
   b. False

ANSWER: False

4. Because resources are scarce, a society cannot give all individuals the standard of living to which each aspires.
   a. True
   b. False

ANSWER: True

5. Equality means distributing society's resources in the most efficient manner.
   a. True
   b. False

ANSWER: False

6. Economists study how people make decisions.
   a. True
   b. False

ANSWER: True

7. With careful planning, we can usually get something that we like without having to give up something else that we like.
   a. True
   b. False

ANSWER: False

8. Choosing not to attend a music festival so that you can study for your economics exam is an example of a tradeoff.
   a. True
   b. False

ANSWER: True

9. The classic tradeoff between "guns and butter" states that when a society spends more on national defense, it has less to spend on consumer goods to raise the standard of living.
   a. True
   b. False

ANSWER: True

Ch 01: True False Short Answer and Essay

10. Efficiency means everyone in the economy should receive an equal share of the goods and services produced.
    a. True
    b. False

ANSWER: False

11. Equality refers to how the pie is divided, and efficiency refers to the size of the economic pie.
    a. True
    b. False

ANSWER: True

12. Government policies that improve equality usually increase efficiency at the same time.
    a. True
    b. False

ANSWER: False

13. Using income tax revenue to fund the welfare system illustrates the conflict between efficiency and equality.
    a. True
    b. False

ANSWER: True

14. An individual deciding how to allocate one's limited time is dealing with both scarcity and trade-offs.
    a. True
    b. False

ANSWER: True

15. The cost of an action is measured in terms of foregone opportunities.
    a. True
    b. False

ANSWER: True

16. Tuition is the single-largest cost of attending college for most students.
    a. True
    b. False

ANSWER: False

17. If wages for accountants rose, then accountants' leisure time would have a lower opportunity cost.
    a. True
    b. False

ANSWER: False

18. A marginal change is a small incremental adjustment to an existing plan of action.
    a. True
    b. False

ANSWER: True

19. An increase in the marginal cost of an activity necessarily means that people will no longer engage in any of that activity.
    a. True
    b. False

ANSWER: False

20. If the average cost of transporting a passenger on the train from Chicago to St. Louis is $75, it would be irrational for the railroad to allow any passenger to ride for less than $75.
    a. True
    b. False

ANSWER: False

21. The fact that people are willing to pay much more for a diamond, which is not needed for survival, than they are willing to pay for a cup of water, which is needed for survival, is an example of irrational behavior.
    a. True
    b. False

ANSWER: False

22. A rational decision maker takes an action if and only if the marginal cost exceeds the marginal benefit.
    a. True
    b. False

ANSWER: False

23. Suppose one county in Missouri decides it wants to reduce alcohol consumption, so the county passes a law that raises the price of a bottle of beer by $1. As a result, people drive to other counties to drink alcohol, which results in an increase in drunk driving. This illustrates the principle that people respond to incentives.
    a. True
    b. False

ANSWER: True

24. A tax on gasoline is an incentive that encourages people to drive smaller and more fuel-efficient cars.
    a. True
    b. False

ANSWER: True

25. To say people respond to incentives means that people may alter their decisions when the costs and benefits of an action change.
    a. True
    b. False

ANSWER: True

26. Trade allows each person to specialize in the activities he or she does best, thus increasing each individual's productivity.
    a. True
    b. False

ANSWER: True

27. Trade with any nation can be mutually beneficial.
    a. True
    b. False

ANSWER: True

28. Trade can make everyone better off except in the case where one person is better at doing everything.
    a. True
    b. False

ANSWER: False

29. The invisible hand ensures that economic prosperity is distributed equally.
    a. True
    b. False

ANSWER: False

30. A market economy cannot produce a socially desirable outcome because individuals are motivated by their own selfish interests.
    a. True
    b. False

ANSWER: False

31. Communist countries worked on the premise that government officials were in the best position to allocate the economy's scarce resources.
    a. True
    b. False

ANSWER: True

32. The government can potentially improve market outcomes if market inequalities or market failure exists.
    a. True
    b. False

ANSWER: True

33. One way that governments can improve market outcomes is to ensure that individuals are able to own and exercise control over their scarce resources.
    a. True
    b. False

ANSWER: True

34. Market failure refers to a situation in which the market does not allocate resources efficiently.
    a. True
    b. False

ANSWER: True

Ch 01: True False Short Answer and Essay

35. Market power and externalities are two possible causes of market failure.
    a. True
    b. False

ANSWER: True

36. Market failure occurs when no individual has the ability to substantially influence market prices.
    a. True
    b. False

ANSWER: False

37. Productivity is defined as the quantity of goods and services produced from each unit of labor input.
    a. True
    b. False

ANSWER: True

38. Inflation is the primary determinant of a country's living standards.
    a. True
    b. False

ANSWER: False

39. Inflation increases the value of money.
    a. True
    b. False

ANSWER: False

40. Inflation measures the increase in the quantity of goods and services produced from each hour of a worker's time.
    a. True
    b. False

ANSWER: False

41. Variations in the standard of living across countries is due almost entirely to differences in each nation's total output of goods and services.
    a. True
    b. False

ANSWER: False

42. In the short-run, society faces a tradeoff between inflation and unemployment.
    a. True
    b. False

ANSWER: True

43. In the long run the primary effect of increasing the quantity of money is higher prices.
    a. True
    b. False

ANSWER: True

Name:____ Class:_________________________ Date:_____________

Ch 01: True False Short Answer and Essay

44. The business cycle refers to fluctuations in economic activity such as employment and production.
 a. True
 b. False

ANSWER: True

45. The opportunity cost of working one hour is the sum of the values you would have received from all other activities you could have done in that hour.
 a. True
 b. False

ANSWER: False

46. The opportunity cost of working out for one hour is the value of the next-best activity that you could have done in that hour.
 a. True
 b. False

ANSWER: True

47. Inflation and unemployment both increase as the money supply increases.
 a. True
 b. False

ANSWER: False

48. A rational decision maker takes an action if and only if the marginal benefit exceeds the marginal cost.
 a. True
 b. False

ANSWER: True

49. The "invisible hand" influences market behavior through trade.
 a. True
 b. False

ANSWER: False

50. Economics is the study of ______ .
ANSWER: how society manages its scarce resources.

51. The term ______ refers to the size of the economic pie, and the term ______ refers to how the pie is divided.
ANSWER: efficiency; equality

52. Explain how government policies that redistribute income from the rich to the poor might reduce efficiency.
ANSWER: They reduce the reward for working hard. As a result, people work less and produce fewer goods and services.

Scenario 1-1
You have the afternoon free. You have a choice between going to the movies with a friend or studying economics for three hours. If you go to the movies, you will spend $12.00 on a ticket and $8.50 on popcorn. If you choose to study economics for three hours, you will raise your exam grade by 15 points.

Ch 01: True False Short Answer and Essay

53. **Refer to Scenario 1-1.** What is your opportunity cost of going to the movies?
ANSWER: $20.50 and 15 points on your exam grade

54. **Refer to Scenario 1-1.** What is your opportunity cost of studying economics?
ANSWER: The enjoyment you would have received from going to the movies with your friend.

Scenario 1-2
Suppose that you have a choice between going to the movies with a friend for two hours or working at your job. If you go to the movies, you will spend $12 on a ticket and $10 on popcorn. If you choose to work, you will earn $15 an hour.

55. **Refer to Scenario 1-2.** What is your opportunity cost of going to the movies?
ANSWER: $52

56. **Refer to Scenario 1-2.** What is your opportunity cost of working?
ANSWER: The enjoyment you would have received from going to the movies with your friend.

57. Charlie quits his job at a technology firm, which he earns $55,000 a year, to pursue a three-year doctoral program. His annual school expenses are $35,000 for tuition, $2,500 for books, $12,000 for rent, and $4,000 for food. What is his opportunity cost of attending the three-year doctoral program?
ANSWER: $277,500

58. Give an example of a trade-off faced by society.
ANSWER: Efficiency and equality; a clean environment and a high level of income; guns and butter (national defense and consumer goods)

Scenario 1-3
It costs a company $48,000 to produce 1,200 smartwatches. If the company produces one more smartwatch, the total cost rises to $48,045. The company is currently producing 1,200 smartwatches.

59. **Refer to Scenario 1-3.** What is the company's average cost?
ANSWER: $40

60. **Refer to Scenario 1-3.** What is the company's marginal cost?
ANSWER: $45

61. **Refer to Scenario 1-3.** A customer is willing to pay $55 for the 1,201th smartwatch. Should the company produce and sell it? Explain.
ANSWER: No, because the marginal cost ($45) is less than the marginal benefit ($55).

62. **Refer to Scenario 1-3.** What is the minimum price the company will charge for the 1,201th calculator?
ANSWER: $45

Scenario 1-4 You have the afternoon free. You have a choice between going to the movies with a friend or studying economics for three hours. If you go to the movies, you will spend $12.00 on a ticket and $4.75 on popcorn. If you choose to study economics for three hours, you will raise your exam grade by 15 points.

63. **Refer to Scenario 1-4.** What is your opportunity cost of going to the movies?
ANSWER: $16.75 and 15 points on your exam grade

Ch 01: True False Short Answer and Essay

64. **Refer to Scenario 1-4.** What is your opportunity cost of studying economics?
ANSWER: The enjoyment you would have received from going to the movies with your friend.

65. What is another word for "marginal"?
ANSWER: incremental; additional

Scenario 1-5
Suppose that you have a choice between going to the movies with a friend for three hours or working at your job. If you go to the movies, you will spend $12 on a ticket and $6 on popcorn. If you choose to work, you will earn $10 an hour.

66. **Refer to Scenario 1-5.** What is your opportunity cost of going to the movies?
ANSWER: $48

67. **Refer to Scenario 1-5.** What is your opportunity cost of working?
ANSWER: The enjoyment you would have received from going to the movies with your friend.

Scenario 1-6
It costs a company $30,000 to produce 600 fitness trackers. The company's cost will be $30,070 if it produces an additional fitness tracker. The company is currently producing 600 fitness trackers.

68. **Refer to Scenario 1-6.** What is the company's average cost?
ANSWER: $50

69. **Refer to Scenario 1-6.** What is the company's marginal cost?
ANSWER: $70

70. **Refer to Scenario 1-6.** A customer is willing to pay $60 for the 601st fitness tracker. Should the company produce and sell it? Explain.
ANSWER: No, because the marginal cost ($70) exceeds the marginal benefit ($60).

71. **Refer to Scenario 1-6.** What is the minimum price that would induce this company to produce the 601st fitness tracker?
ANSWER: $70

72. Tracy quits her job, which she earns $45,000 per year, to attend a one-year master's program in data science. Her annual college expenses are $28,000 for tuition and fees, $1,500 for laptop and software costs, $1,200 for books, and $9,000 for food and rent. What is her opportunity cost of attending college for the year?
ANSWER: $75,700

73. Melinda quits her job at a bank, which pays $30,000 a year, to enroll in a two-year graduate program. Her annual school expenses are $22,000 for tuition and fees and $2,000 for books. What is her opportunity cost of attending the two-year graduate program?
ANSWER: $108,000

74. What does the term "marginal change" mean?
ANSWER: A small incremental adjustment to a plan of action

75. Rational people make decisions "at the margin" by comparing ______.

ANSWER: marginal costs and marginal benefits

76. In a centrally-planned economy, economic activity is guided by ______.
ANSWER: the government

77. Explain how trade with other countries is beneficial.
ANSWER: Trade allows countries to specialize in what they do best, which increases total output.

78. What are the two basic types of economies?
ANSWER: Centrally planned economies and market economies

79. What is the main difference between a centrally planned economy and a market economy?
ANSWER: In a market economy, decisions are guided by prices and individual self-interest. In a centrally planned economy, economic activity is guided by the government.

80. Economists use the term ______ to refer to a situation in which the market on its own fails to produce an efficient allocation of resources.
ANSWER: market failure

81. What are the two possible causes of market failure?
ANSWER: Externality and market power

82. Explain the concept of externality and give an example.
ANSWER: The impact of one person's actions on the well-being of a bystander; pollution

83. What are the two reasons for the government to intervene in a market?
ANSWER: To promote efficiency and equality

84. What does the "invisible hand" refers to?
ANSWER: How the decisions of self-interested households and firms lead to desirable market outcomes.

85. Invisible hand is a term used by the economist ______ in his 1776 book *An Inquiry into the Nature and Causes of the Wealth of Nations*.
ANSWER: Adam Smith

86. What do prices reflect in a market economy?
ANSWER: The value of a good to society and the cost to society of making the good

87. Explain the concept of market failure.
ANSWER: Market failure is a situation in which the market on its own fails to produce an efficient allocation of resources.

88. Economists use the term ______ to refer to the ability of a single person (or a small group) to have a substantial influence on market prices.
ANSWER: market power

89. Give an example of government intervention that is intended to reduce an externality.

ANSWER: Laws that restrict the smoking of cigarettes in public places

90. Give an example of government intervention that is intended to improve equality.
ANSWER: The income tax; the welfare system

91. Economists use the term ______ to refer to an increase in the overall level of prices in the economy.
ANSWER: Inflation

92. In the short run, an increase in the money supply is likely to lead to ______ inflation and ______ unemployment.
ANSWER: higher; lower

93. Economists use the term ______ to refer to fluctuations in economic activity, such as employment and production.
ANSWER: business cycle

94. Consider two countries, Muria and Zenya. In Muria total annual output is worth $800 million and people work 40 million hours. In Zenya total annual output is worth $900 million and people work 50 million hours. In which country is productivity higher?
ANSWER: In Muria

95. Suppose that in France total annual output is worth $600 million and people work 40 million hours. In Italy total annual output is worth $700 million and people work 50 million hours. In which country do people enjoy a higher standard of living?
ANSWER: In France. Almost all variation in the standard of living across countries is due to differences in productivity.

96. What are the two short-run effects of increasing the quantity of nation's money?
ANSWER: Higher inflation and lower unemployment

97. How does the study of economics depend upon the phenomenon of scarcity?
ANSWER: Because economics is the study of how society allocates its scarce resources, if there were no scarcity, there would be no need for economics. Everyone could have all the goods and services they wanted. No one would have to make decisions based on tradeoffs, because there would be no opportunity cost associated with the decision. (It is difficult to conceive of a situation where time is not scarce, however).

98. One tradeoff society faces is between efficiency and equality. Define each term. If the U.S. government redistributes income from the rich to the poor, explain how this action affects equality as well as efficiency in the economy.
ANSWER: Efficiency is the property of society getting the most it can from its scarce resources. Equality is defined as the property of distributing economic prosperity evenly among the members of society. Often, these two goals conflict. When the government redistributes income from the rich to the poor, it reduces the reward for working hard. Fewer goods and services are produced and the economic pie gets smaller. When the government tries to cut the economic pie into more equal slices, the pie gets smaller. Policies aimed at achieving a more equal distribution of economic well-being, such as the welfare system, try to help those members of society who are most in need. The individual income tax asks the financially successful to contribute more than others to support the government.

99. Define opportunity cost. What is the opportunity cost to you of attending college? What was your opportunity cost of coming to class today?
ANSWER: Whatever must be given up to obtain some item it its opportunity cost. Basically, this would be a person's second choice. The opportunity cost of a person attending college is the value of the best alternative use of that person's time, as well as the additional costs the person incurs by making the choice to attend college. For

most students this would be the income the student gives up by not working plus the cost of tuition and books, and any other costs they incur by attending college that they would not incur if they chose not to attend college. A student's opportunity cost of coming to class was the value of the best opportunity the student gave up. (For most students, that seems to be sleep.)

100. With the understanding that people respond to incentives, outline the possible outcome for teachers if the K-12 school year is extended to 11 months per year instead of the existing 9 months per year.

ANSWER: The concept of working longer per year would be perceived by many teachers as a definite increase in the cost of teaching. Even with additional compensation, many teachers look at summers off as a major benefit of the education profession. If this benefit were eliminated or diminished, some teachers may perceive that the marginal cost of teaching would now be greater than the marginal benefit and would choose to leave teaching.

101. Under what conditions might government intervention in a market economy improve the economy’s performance?

ANSWER: If there is a market failure, such as an externality or monopoly, government regulation might improve the well-being of society by promoting efficiency. If the distribution of income or wealth is considered to be unfair by society, government intervention might achieve a more just distribution of economic well-being.

102. Explain how an attempt by the government to lower inflation could cause unemployment to increase in the short-run.

ANSWER: To lower inflation, the government may choose to reduce the money supply in the economy. When the money supply is reduced, prices don't adjust immediately. Lower spending, combined with prices that are too high, reduces sales and causes workers to be laid off. Hence, the lower price level is associated with higher unemployment.