

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. 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

7. Fossil fuels are considered to be nonrenewable energy sources. Which of the following statements is correct?

- a. Fossil fuels are unlimited resources.

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- b. Fossil fuels are scarce resources.
- c. Fossil fuels are nonscarce resources.
- d. Fossil fuels are not resources.

ANSWER: b

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

- a. Bo can go swimming only if he takes his brother with him.
- b. Jada is starving and homeless.
- c. Alivia must put gas in her truck before she can drive it to school.
- d. Benjamin must decide between going to Florida or Brazil for summer vacation.

ANSWER: d

11. Candice is planning her activities for a hot summer day. She would like to go to the local swimming pool and see the latest blockbuster movie, but because she can only get tickets to the movie for the same time that the pool is open she can only choose one activity. This 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

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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

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

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- 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 the wealthy to the poor,

- a. efficiency is improved, but equality is not.
- b. both wealthy people and poor people 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 Fujita argues that replacing the federal income tax with a national sales tax would increase the level of output. Senator Watson objects that this policy would benefit the rich at the expense of the poor.

- a. Both senators' arguments are primarily about equality.
- b. Both senators' arguments are primarily about efficiency.
- c. Senator Fujita's argument is primarily about equality, while Senator Watson's argument is primarily about efficiency.
- d. Senator Fujita's argument is primarily about efficiency, while Senator Watson's argument is primarily about equality.

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ANSWER: d

24. Suppose the government taxes the wealthy at a higher rate than it taxes the poor and then develops programs to redistribute the tax revenue from the wealthy to the poor. 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 \$650 as a birthday gift. You can spend it today or you can put the money in a savings account for a year and earn 2 percent interest. The opportunity cost of spending the money today, in terms of what you could have after one year, is

- a. \$0.
- b. \$13.00.
- c. \$652.00.
- d. \$663.00.

ANSWER: d

27. When computing the opportunity cost of attending a professional football game 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. Alana decides to spend 2 hours working overtime rather than going shopping with her friends. She earns \$11 per hour for overtime work. Her opportunity cost of working is

- a. the \$22 she earns working.
- b. the \$22 minus the enjoyment she would have received from going shopping.
- c. the enjoyment she would have received had she gone shopping.
- d. nothing, since she would have received less than \$22 worth of enjoyment from going shopping.

ANSWER: c

29. Consider Miray's decision to go to college. If she goes to college, she will spend \$24,000 on tuition, \$12,000 on room and board, and \$1,900 on books. If she does not go to college, she will earn \$16,000 working in a store and spend \$8,000 on room and board. Miray's cost of going to college is

- a. \$37,900.

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- b. \$45,900.
- c. \$53,900.
- d. \$61,900.

ANSWER: b

30. For which of the following individuals would the opportunity cost of going to college be highest?
- a. A promising young mathematician who will command a high salary once she earns her college degree
 - b. A student with average grades who has never held a job
 - c. A famous, highly paid actor who wants to take time away from show business to finish college and earn a degree
 - d. A student who is the best player on his college basketball team, but who lacks the skills necessary to play professional basketball

ANSWER: c

31. Chloe's college raises the cost of room and board per semester. This increase raises Chloe's opportunity cost of attending college
- a. even if the amount she would have to pay for room and board if she didn't attend college rose by the same amount. An increase in opportunity cost reduces Chloe's incentive to attend college.
 - b. even if the amount she would have to pay for room and board if she didn't attend college rose by the same amount. An increase in opportunity cost increases Chloe's incentive to attend college.
 - c. only if the amount she would have to pay for room and board if she didn't attend college rose by less than the increase in the amount her college charges. An increase in opportunity cost reduces Chloe's incentive to attend college.
 - d. only if the amount she would have to pay for room and board if she didn't attend college rose by less than the increase in the amount her college charges. An increase in opportunity cost increases Chloe's incentive to attend college.

ANSWER: c

32. Suppose your college institutes a new policy requiring you to pay for a permit to park your car in a campus parking lot.
- a. The cost of the parking permit is not part of the opportunity cost of attending college if you would not have to pay for parking otherwise.
 - b. The cost of the parking permit is part of the opportunity cost of attending college if you would not have to pay for parking otherwise.
 - c. Only half of the cost of the parking permit is part of the opportunity cost of attending college.
 - d. The cost of the parking permit is not part of the opportunity cost of attending college under any circumstances.

ANSWER: b

33. You have driven 850 miles on a vacation and then you notice that you are only 50 miles from an attraction you hadn't known about, but would really like to see. In computing the opportunity cost of visiting this attraction you had not planned to visit, you should include
- a. both the cost of driving the first 850 miles and the next 50 miles.
 - b. the cost of driving the first 850 miles, but not the cost of driving the next 50 miles.
 - c. the cost of driving the next 50 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 50 miles.

ANSWER: c

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34. Savion's aunt gave him \$25 for his birthday with the condition that Savion buys himself something. In deciding how to spend the money, Savion narrows his options down to four choices: Option 1, Option 2, Option 3, and Option 4. Each option costs \$25. Finally, he decides on Option 2. The opportunity cost of this decision is
- the value to Savion of the option he would have chosen had Option 2 not been available.
 - the value to Savion of Options 1, 3, and 4 combined.
 - the average of the values to Savion of Options 1, 3, and 4.
 - \$25.

ANSWER: a

35. A rational decisionmaker
- ignores marginal changes and focuses instead on "the big picture."
 - ignores the likely effects of government policies when he or she makes choices.
 - takes an action only if the marginal benefit of that action exceeds the marginal cost of that action.
 - 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
- make those decisions that do not impose a marginal cost.
 - evaluate how easily a decision can be reversed if problems arise.
 - compare the marginal costs and marginal benefits of each decision.
 - 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
- the marginal cost of producing an extra diamond far exceeds the marginal cost of producing an extra bottle of water.
 - the marginal benefit of an extra diamond far exceeds the marginal benefit of an extra bottle of water.
 - producers of diamonds have a much greater ability to manipulate diamond prices than producers of water have to manipulate water prices.
 - 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 fourth pair of shoes is
- the same as the total benefit he gets from purchasing four pairs of shoes.
 - more than the marginal cost of purchasing the fourth pair of shoes.
 - the total benefit he gets from purchasing four pairs of shoes minus the total benefit he gets from purchasing three pairs of shoes.
 - the total benefit he gets from purchasing five pairs of shoes minus the total benefit he gets from purchasing four pairs of shoes.

ANSWER: c

39. After much consideration, you have chosen Ireland over Spain 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