

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) All economic questions arise from the fact that _____ 1) _____
A) inflation is inevitable. B) both wants and resources are unlimited.
C) unemployment is inevitable. D) resources are scarce.
- 2) The fundamental issue of economics is to _____ 2) _____
A) prove that market systems are superior to socialist systems.
B) choose the proper goods for a society to produce.
C) distribute income as equally as possible.
D) analyze choices that must be made because of the scarcity of resources.
E) prevent inflation and unemployment in market systems.
- 3) The opportunity cost of any action is _____ 3) _____
A) all the possible alternatives forgone.
B) the best alternative forgone.
C) the time required but not the monetary cost.
D) the monetary cost but not the time required.
- 4) In the production of goods and services, trade-offs exist because _____ 4) _____
A) not all production is efficient.
B) society has only a limited amount of productive resources.
C) buyers and sellers must often negotiate prices.
D) human wants and needs are limited at a particular point in time.
- 5) When an economy produces more houses and fewer typewriters, it is answering the _____ part _____ 5) _____
of one of the two big economic questions.
A) "what" B) "how" C) "where" D) "for whom"
- 6) When China builds a dam using few machines and a great deal of labor, it is answering the _____ 6) _____
_____ part of one of the two big economic questions.
A) "what" B) "how" C) "where" D) "for whom"
- 7) The fact that people with higher incomes get to consume more goods and services addresses the _____ 7) _____
_____ part of one of the two big economic questions.
A) "for whom" B) "when" C) "where" D) "how"
- 8) Which of the following is NOT a factor of production? _____ 8) _____
A) vans used by a bakery company for deliveries
B) a person developing a production schedule for a new product
C) 175 shares of Microsoft stock
D) wilderness areas that have yet to be developed
- 9) Which of the following statements is CORRECT? _____ 9) _____
A) The United States produces more goods than services.
B) The United States produces more services than goods.
C) The United States produces more agricultural goods than manufactured goods.
D) The United States produces an equal amount of goods and services.

- 10) The job that involves studying trends and fluctuations in interest rates and stock and bond prices and trying to predict the cost of borrowing and the returns on investments is a _____
A) market research analyst. B) financial analyst.
C) budget analyst. D) government analyst.
- 11) Which of the following college majors experience a higher mid-career salary than economics? _____
A) Finance B) Business
C) Statistics D) Chemical Engineering
- 12) Panasonic sends its HDTV salespeople to training sessions. This is an example of _____
A) a macroeconomic decision.
B) scarcity.
C) a firm investing in workers' human capital.
D) entrepreneurship.
- 13) When an action is chosen, the value of the best alternative NOT chosen is the _____
A) implicit cost. B) explicit cost.
C) accounting cost. D) opportunity cost.
- 14) Marginal benefit is the benefit _____
A) that your activity provides to someone else.
B) of an activity that exceeds its cost.
C) that arises from the secondary effects of an activity.
D) that arises from a small increase in an activity.
- 15) Marginal cost is the cost _____
A) that your activity imposes on someone else.
B) that arises from a small increase in an activity.
C) of an activity that exceeds its benefit.
D) that arises from the secondary effects of an activity.
- 16) Within a market economy, there is _____
A) little room for individual decision-making.
B) a complex planning agency.
C) a reliance on the price system to allocate resources.
D) significant centralization of economic power.
- 17) The U.S. economy _____
A) relies exclusively on the market mechanism.
B) is a mixed economy that relies heavily on the market mechanism.
C) relies exclusively on the command mechanism.
D) is a mixed economy that relies heavily on the command mechanism.
- 18) The determination of prices in individual markets is primarily a concern of _____
A) positive economics. B) negative economics.
C) macroeconomics. D) microeconomics.

19) Macroeconomics differs from microeconomics in that macroeconomics 19) _____
A) includes second round effects while microeconomics does not.
B) analyzes marginal as well as average benefits and costs.
C) studies the national economy while microeconomics analyzes the decisions of individual people and firms.
D) emphasizes relative prices instead of price indices.

20) Which of the following is not an example of macroeconomic analysis? 20) _____
A) studying the relationship between unemployment and inflation in the U.S.
B) analyzing the determination of equilibrium GNP.
C) studying the degree of product differentiation in an industry.
D) attempting to explain the rise in the rate of inflation in the 1970s.
E) All of the above are examples of macroeconomic analysis.

21) In economics, positive statements are about 21) _____
A) the way things ought to be.
B) the way things are.
C) first round effects, not second round effects.
D) second round effects, not first round effects.

22) The statement "An increase in the price of gasoline will cause a reduction in the amount purchased" is 22) _____
A) a political statement. B) a positive statement.
C) a normative statement. D) a scientific statement.

23) "As part of the financial crisis bailout plan in 2008, the Federal Reserve should not bail out banks that made risky loans." This is an example of 23) _____
A) a positive statement.
B) the Federal Reserve taking actions that are not at the margin.
C) opportunity costs.
D) a normative statement.

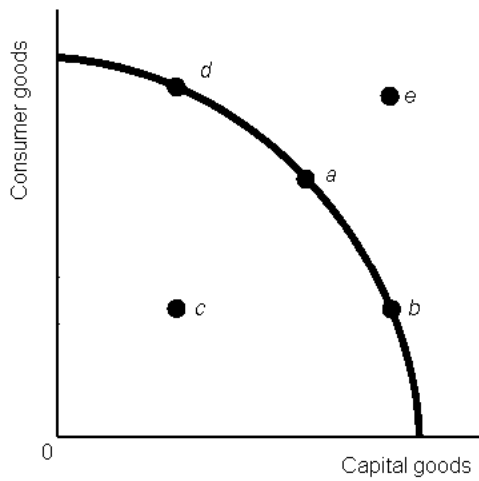
24) Which of the following is an example of a normative statement? 24) _____
A) Household consumption is the largest component of spending.
B) Government spending rose in the 1980s.
C) The business sector is the primary source of jobs.
D) Households should save more.

25) Consider the following events: 25) _____
I. Samsung hires associates to market their HDTV sets to Best Buy.
II. The Dallas Cowboys build a new football stadium.
III. Ebay fires 10 percent of its workforce.
IV. Ten million stocks were traded on the New York Stock Exchange in one day.
V. Pennsylvania builds a new state park.

Which of the events describe use of factors of production?

- A) I, II, III, and V B) II, IV, and V C) I and III only D) IV only

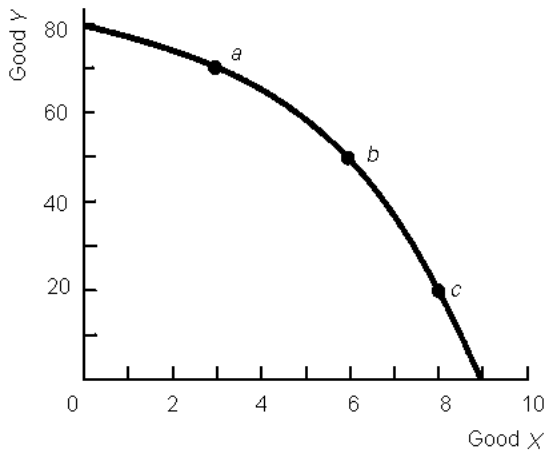
- 26) The birth of economics as an intellectual discipline can be dated fairly precisely in the eighteenth century with _____
 A) the opening of the London stock exchange.
 B) the publication of The Wealth of Nations.
 C) the introduction of paper currency.
 D) the development of the factory system.
- 27) The author of The Wealth of Nations is _____
 A) James Madison. B) Adam Smith.
 C) Thomas Carlyle. D) John Pierpont Morgan.
- 28) Which of the following is a normative statement? _____
 A) Low rents will restrict the supply of housing.
 B) Low rents are good because they make apartments more affordable.
 C) Housing costs are rising.
 D) Owners of apartment buildings are free to charge whatever rent they want.
- 29) Which of the following is a positive statement? _____
 A) The government must lower the price of a pizza so that more students can afford to buy it.
 B) The best level of taxation is zero percent because then people get to keep everything they earn.
 C) My economics class should last for two terms because it is my favorite class.
 D) An increase in tuition will cause fewer students to apply to college.
- 30) Most well-functioning markets coordinate individual decisions through _____
 A) regulation. B) prices. C) controls. D) advertising.
- 31) Human capital is _____
 A) all capital owned by individuals, but not by corporations or governments.
 B) all capital owned by individuals or corporations, but not by governments.
 C) machinery that meets or exceeds federal safety standards.
 D) the accumulated skill and knowledge of workers.
- 32) A point inside a production possibility frontier _____
 A) could indicate that some resources are unemployed.
 B) is unattainable.
 C) is better than points on the production possibility frontier.
 D) implies that too much capital and not enough labor are being used.
- 33) Output combinations inside a production possibility frontier _____
 A) are unattainable.
 B) are attainable only with the full utilization of all resources.
 C) are associated with unused resources.
 D) result in more rapid growth.



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- 34) In Figure 3.1, moving from point d to point a requires 34) _____
- A) technological change.
 - B) a decrease in unemployment.
 - C) reducing the output of consumption goods in order to boost the output of capital goods.
 - D) both capital accumulation and a decrease in unemployment.
- 35) If Sam is producing at a point on his production possibility frontier, then he 35) _____
- A) cannot produce any more of either good.
 - B) can produce more of one good only by producing less of the other.
 - C) will be unable to gain from trade.
 - D) is not subject to scarcity.

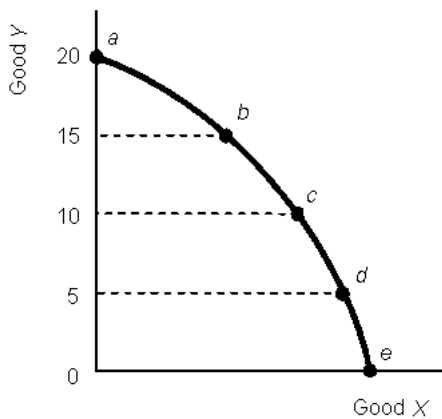
Figure 3.3



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- 36) As output moves from point a to point b to point c along the PPF in Figure 3.3 the opportunity cost of one more unit of good X _____ 36) _____
- A) rises. The opportunity cost of one more unit of good Y also rises.
 - B) rises. The opportunity cost of one more unit of good Y falls.
 - C) falls. The opportunity cost of one more unit of good Y rises.
 - D) falls. The opportunity cost of one more unit of good Y also falls.
- 37) When the production possibility frontier bows outward from the origin, _____ 37) _____
- A) some of society's resources are unemployed.
 - B) opportunity costs are constant.
 - C) opportunity costs are increasing.
 - D) opportunity costs are decreasing.

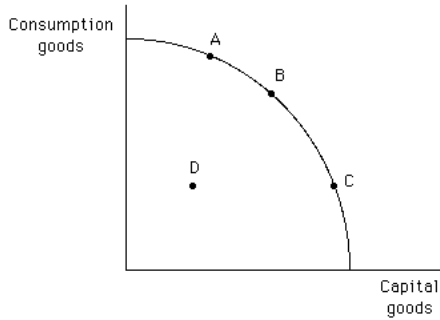
Figure 3.4



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- 38) Refer to the production possibility frontier in Figure 3.4. Which of the following movements requires the largest opportunity cost per extra unit of Y? _____ 38) _____
- A) From e to d.
 - B) From d to c.
 - C) From c to b.
 - D) From b to a.

Figure 3.7



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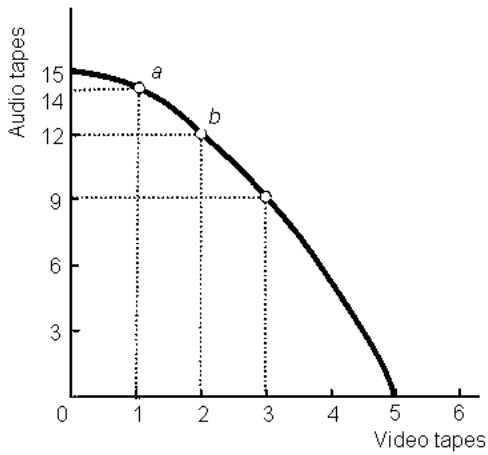
- 39) The production possibilities frontier in Figure 3.7 will shift out the most rapidly if point _____
 A) A is selected. B) B is selected. C) C is selected. D) D is selected.

Table 3.1

Point	Production of X	Production of Y
a	0	40
b	4	36
c	8	28
d	12	16
e	16	0

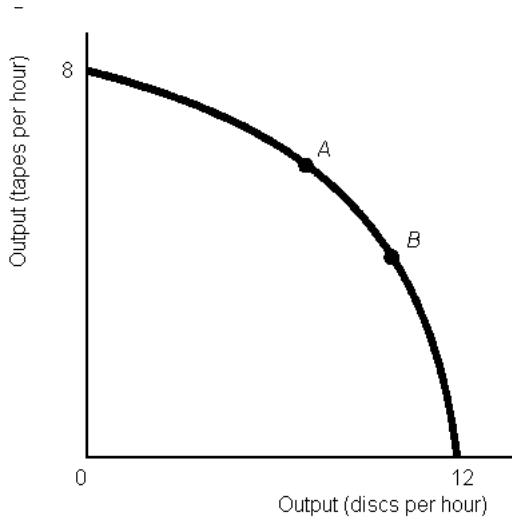
- 40) Refer to Table 3.1. The opportunity cost of increasing the production of Y from 16 to 36 units is _____
 A) 4 units of X. B) 8 units of X. C) 10 units of X. D) 12 units of X.
- 41) When the production possibility frontier is a straight line, _____
 A) opportunity cost is increasing. B) opportunity cost is constant.
 C) opportunity cost is decreasing. D) resources are not scarce.
- 42) Generally, opportunity costs increase and the production possibility frontier bows outward. Why? _____
 A) Unemployment is inevitable.
 B) Scarce resources are not equally useful in all activities.
 C) Technology is slow to change.
 D) Labor is scarcer than capital.
- 43) After Hurricane Andrew devastated part of South Florida in August 1992, we can be reasonably sure that the production possibility frontier for that area temporarily _____
 A) shifted in, toward the origin. B) shifted out, away from the origin.
 C) became flatter. D) became steeper.
- 44) Technological progress tends to make the production possibility frontier _____
 A) shift inward toward the origin. B) become more linear and less bowed.
 C) shift outward from the origin. D) become less linear and more bowed.
- 45) Production points inside the PPF are _____
 A) efficient but not attainable. B) efficient and attainable.
 C) inefficient and not attainable. D) inefficient and attainable.

- 46) A nation produces at a point inside its PPF _____
 A) when it trades with other nations. B) when it produces inefficiently.
 C) when its PPF is bowed out. D) never.
- 47) A nation consumes at a point outside its PPF _____
 A) when it trades with other nations. B) when it produces inefficiently.
 C) when its PPF is bowed out. D) never.
- 48) An increase in the nation's labor force will _____
 A) shift the PPF outward.
 B) cause a movement along the PPF up and to the left.
 C) cause a movement along the PPF down and to the right.
 D) move the nation from producing within the PPF to producing at a point closer to the PPF.



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- 49) In Figure 3.9, at point a what is the opportunity cost of producing one more audio tape? _____
 A) 1 video tape. B) 2 video tapes.
 C) 14 video tapes. D) There is no opportunity cost.



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50) In Figure 3.10, point A is _____, and point B is _____
 A) attainable, attainable.
 C) unattainable, attainable.

B) attainable, unattainable.
 D) unattainable, unattainable.

50) _____

- 1) _____
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