

Chapter 1

The Central Idea

Multiple Choice

1. Economics is the study of how people deal with
 - a. unlimited resources.
 - b. too much money.
 - c. scarcity.
 - d. limited human wants.
 - e. a lack of choices.

c; Basic

OBJ: factual

SEC: 0. The Central Idea

TOP: Scarcity

MSC: Bloom's: Knowledge

2. The concept of scarcity refers to
 - a. a situation in which an item is very expensive.
 - b. a situation in which an item is available only in very small quantities.
 - c. a situation in which a resource is nonrenewable.
 - d. a situation in which people face a shortage in a particular market.
 - e. a situation in which the available resources are not enough to satisfy the wants of the people.

e; Moderate

OBJ: factual

SEC: 0. The Central Idea

TOP: Scarcity

MSC: Bloom's: Knowledge

3. Scarcity is a problem
 - a. only for poor countries.
 - b. only for economies under complete government control.
 - c. faced by all economies.
 - d. that can be eliminated as the economy grows.
 - e. not faced by free market economies.

c; Moderate

OBJ: factual

SEC: 0. The Central Idea

TOP: Scarcity

MSC: Bloom's: Knowledge

4. The basic economic problem is
 - a. a lack of money.
 - b. a lack of jobs.
 - c. poverty.

- d. scarcity.
- e. a rising standard of living.

d; Basic

OBJ: factual
SEC: 0. The Central Idea
TOP: Scarcity
MSC: Bloom's: Knowledge

5. Who faces the problem of scarcity?
- a. Only the rich
 - b. Only the poor
 - c. Only people living next to wealthy people
 - d. Everyone
 - e. Only people running a business

d; Moderate

OBJ: factual
SEC: 0. The Central Idea
TOP: Scarcity
MSC: Bloom's: Knowledge

6. A resource is not scarce if
- a. there is more of it than people want.
 - b. it can be found in any store.
 - c. people have enough money to pay for it.
 - d. it has a low opportunity cost.
 - e. its supply exceeds its demand.

a; Moderate

OBJ: factual
SEC: 0. The Central Idea
TOP: Scarcity
MSC: Bloom's: Knowledge

7. If a resource is always available when needed, then it
- a. will be more expensive than other resources.
 - b. is not scarce.
 - c. has a high opportunity cost.
 - d. it must be valuable.
 - e. is scarce.

b; Basic

OBJ: factual
SEC: 0. The Central Idea
TOP: Scarcity
MSC: Bloom's: Knowledge

8. The existence of scarcity implies that

- a. economic interaction is limited.
- b. people are not able to use all the available resources.
- c. people must make a choice.
- d. people will always be poor.
- e. rich people are better off than poor people.

c; Moderate

OBJ: conceptual
SEC: 0. The Central Idea
TOP: Scarcity
MSC: Bloom's: Analysis | AACSB: Analytic

9. Economics is a study of
- a. choices and interactions among people when resources are scarce.
 - b. how to eliminate scarcity.
 - c. how to make choices and interact in order to avoid scarcity.
 - d. how to avoid scarcity by making choices.
 - e. how to make money in stock markets.

a; Moderate

OBJ: factual
SEC: 0. The Central Idea
TOP: Economics
MSC: Bloom's: Knowledge

10. Economics deals with how
- a. individuals make decisions to use scarce resources in order to satisfy their unlimited wants.
 - b. to run a business successfully.
 - c. individuals become rich.
 - d. society can eliminate scarcity.
 - e. society creates more resources in order to raise its standard of living.

a; Moderate

OBJ: factual
SEC: 0. The Central Idea
TOP: Economics
MSC: Bloom's: Knowledge

11. From an economic perspective, people make decisions because of
- a. social custom.
 - b. genetics.
 - c. scarcity.
 - d. their own habit.
 - e. religion.

c; Basic

OBJ: conceptual
SEC: 0. The Central Idea

TOP: Scarcity
MSC: Bloom's: Knowledge

12. Which of the following statements about economic interaction is *not* true?
- It is a fact of economic life.
 - It requires a market.
 - It can occur within a family.
 - It makes our lives better.
 - It requires people to make sacrifices by giving up what they may have otherwise.

e; Moderate

OBJ: conceptual
SEC: 0. The Central Idea
TOP: Economic Interaction
MSC: Bloom's: Analysis | AACSB: Analytic

13. Buyers and sellers interact in a
- government.
 - face-to-face forum.
 - family.
 - market.
 - classroom.

d; Moderate

OBJ: factual
SEC: 0. The Central Idea
TOP: Market
MSC: Bloom's: Knowledge

14. A market is
- a place where firms meet to set prices.
 - an arrangement by which economic exchanges take place.
 - an organization controlled by a government.
 - a place where goods are produced.
 - anywhere people come close to each other.

b; Basic

OBJ: factual
SEC: 0. The Central Idea
TOP: Market
MSC: Bloom's: Knowledge

True/False Questions

15. Economics is the study of how individuals become wealthy.
False; Moderate

OBJ: factual
SEC: 0. The Central Idea
TOP: Economics

MSC: Bloom's: Knowledge

16. Scarcity applies to everyone regardless of income.

True; Moderate

OBJ: conceptual

SEC: 0. The Central Idea

TOP: Scarcity

MSC: Bloom's: Knowledge | AACSB: Analytic

17. Choices are made in order to avoid scarcity.

False; Moderate

OBJ: conceptual

SEC: 0. The Central Idea

TOP: Scarcity

MSC: Bloom's: Knowledge | AACSB: Analytic

18. Economic interactions occur only in the presence of government.

False; Basic

OBJ: factual

SEC: 0. The Central Idea

TOP: Economic Interaction

MSC: Bloom's: Knowledge

Multiple Choice

19. A budget constraint
- does not occur if there is scarcity.
 - is faced only by poor people.
 - is a way to overcome scarcity.
 - forces people to make choices.
 - prohibits consumers from spending.

d; Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Budget Constraint

MSC: Bloom's: Knowledge

20. People make decisions when doing something involves

- no benefits.
- only benefits.
- giving up nothing else.
- an opportunity cost.
- different types of resources.

d; Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Opportunity Cost
MSC: Bloom's: Knowledge | AACSB: Analytic

21. In economics, choices are made based on
- benefits but not costs.
 - opportunity costs.
 - producers.
 - emotion.
 - what is not available to the person making the choice.

b; Moderate

OBJ: conceptual
SEC: 1. Scarcity and Choice for Individuals
TOP: Opportunity Cost
MSC: Bloom's: Knowledge | AACSB: Analytic

22. The opportunity cost of a choice is the
- benefit associated with making that choice.
 - value of the next best activity not chosen.
 - fair market price of whatever is chosen.
 - dollar amount paid to purchase what is chosen.
 - consequence associated with failure.

b; Moderate

OBJ: factual
SEC: 1. Scarcity and Choice for Individuals
TOP: Opportunity Cost
MSC: Bloom's: Knowledge

23. Stephanie has only one hour to study for an exam in math or to complete an assignment in economics. For Stephanie, the opportunity cost of spending the hour completing the economics assignment is
- a lower grade in the math exam.
 - a higher grade in the math exam.
 - a lower grade in both the math exam and the economics assignment.
 - a higher grade in both the math exam and the economics assignment.
 - none because history and economics are unrelated.

a; Moderate

OBJ: factual
SEC: 1. Scarcity and Choice for Individuals
TOP: Opportunity Cost
MSC: Bloom's: Application | AACSB: Analytic

24. Aaron's budget is such that he can afford either a large-screen high-definition TV or a trip to Disney for his whole family, both of which cost the same. Which of the following statements about Aaron's opportunity cost is correct?
- The opportunity cost of the Disney trip is the money Aaron pays for the trip.
 - The opportunity cost of the Disney trip is the same as the opportunity cost of the TV because Aaron can afford only one or the other.
 - There is nothing to say about the opportunity cost because we don't know how much the

TV or the Disney trip costs.

- d. The opportunity cost of the Disney trip is the loss from not being able to buy the TV.
- e. The opportunity cost of either the TV or the Disney trip is the total cost of the TV and the Disney trip.

d; Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Opportunity Cost

MSC: Bloom's: Application | AACSB: Analytic

25. Which of the following statements is *false*?
- a. There is an opportunity cost associated with any choice made.
 - b. If there is a budget constraint, there will be scarcity.
 - c. A person without a budget constraint does not face opportunity costs.
 - d. Opportunity costs occur because of scarce resources.
 - e. Because of scarcity, choices have to be made.

c; Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Opportunity Cost

MSC: Bloom's: Knowledge | AACSB: Analytic

26. An example of opportunity cost is the
- a. income that a person does not earn because she has retired and decided not to work at all.
 - b. pleasure that an economics student derives from studying economics.
 - c. Chinese food that you gave up when you chose to eat Italian food.
 - d. tuition you pay to attend college.
 - e. price paid for a concert ticket when you go to that concert.

c; Basic

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Opportunity Cost

MSC: Bloom's: Application | AACSB: Analytic

27. According to the textbook, the main reason for Mark Zuckerberg to leave college and to start a new company, Facebook, is that
- a. he had failed many courses in college.
 - b. the opportunity cost is higher for him to stay in college than to run Facebook.
 - c. the opportunity cost is lower for him to stay in college than to run Facebook.
 - d. the opportunity cost is zero for him to stay in college.
 - e. the opportunity cost is zero for him to run Facebook.

b; Moderate

OBJ: conceptual | factual

SEC: 1. Scarcity and Choice for Individuals

TOP: Opportunity Cost

MSC: Bloom's: Application | AACSB: Analytic

28. The opportunity cost of attending college
- is zero because the return is always positive.
 - includes the skills earned from attending college.
 - is the living expenses, which are the same whether the students attend college or not.
 - includes the lost incomes that would have been earned if the student had not attended college.
 - includes the scholarships for attending college.

d; Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Opportunity Cost

MSC: Bloom's: Application | AACSB: Analytic

29. Of the following individuals, who bears the highest opportunity cost of going to college?
- A pro-football player earning \$2 million a year
 - A high school graduate without a job
 - A high school dropout earning the minimum wage in a fast-food restaurant
 - A teenager who attends college and also works on campus
 - A retiree

a; Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Opportunity Cost

MSC: Bloom's: Application | AACSB: Analytic

30. When the economy is in recession, jobs are generally harder to find and more people go to college. We can conclude that the opportunity cost of
- going to college decreases when the economy is in recession.
 - going to college increases when the economy is in recession.
 - working increases when the economy is in recession.
 - working is zero when the economy is in recession.
 - going to college is always higher than the opportunity cost of working.

a; Challenging

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Opportunity Cost

MSC: Bloom's: Application | AACSB: Analytic

31. Maria has two options to spend her school break in the summer: get a summer job that pays \$3,000 or travel in Mexico. The opportunity cost of the summer job is that Maria
- can earn more than \$3,000.
 - can also travel in Mexico.
 - has to give up traveling in Mexico.
 - can save the money for traveling in Mexico.
 - has to work and travel at the same time.

c; Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals
TOP: Opportunity Cost
MSC: Bloom's: Application | AACSB: Analytic

Exhibit 1-1

Hours Spent on Economics	Economics Grade	Sociology Grade
0	35	95
1	70	85
2	80	55
3	90	15

32. Refer to Exhibit 1-1. Suppose that Adam has three hours to study for an exam in economics and another exam in sociology on the same day. The amount of time he spends studying economics and its relation to his grade in the two classes are shown in the table. The opportunity cost of increasing the time spent on studying economics from two hour to three hours is
- 55 points on the sociology grade.
 - 40 points on the sociology grade.
 - 15 points on the sociology grade.
 - 10 points on the sociology grade.
 - zero.

b; Moderate

OBJ: conceptual
SEC: 1. Scarcity and Choice for Individuals
TOP: Opportunity Cost
MSC: Bloom's: Application | AACSB: Application of Knowledge

33. Gains from voluntary trade arise because
- it reallocates goods between individuals.
 - it occurs in a household.
 - it reallocates goods between individuals in a way they both prefer.
 - it occurs in a market.
 - of the power involved.

c; Moderate

OBJ: factual
SEC: Gains from trade, specialization and trade
TOP: Gains from Trade
MSC: Bloom's: Knowledge

34. A voluntary exchange of existing consumer goods is beneficial because it
- makes those engaging in the exchange better off.
 - changes the total quantity of goods produced.
 - reallocates existing goods.
 - reduces scarcity.
 - requires choice.

a; Basic

OBJ: factual
SEC: Gains from trade, specialization and trade
TOP: Gains from Trade

MSC: Bloom's: Knowledge

True/False Questions

35. The opportunity cost for a student to attend college is zero if the student receives a scholarship.

False; Moderate

OBJ: conceptual
SEC: 1. Scarcity and Choice for Individuals
TOP: Opportunity Cost
MSC: Bloom's: Application | AACSB: Analytic

36. The opportunity cost of an activity is the total value of all activities that a person cannot do.

False; Moderate

OBJ: conceptual
SEC: 1. Scarcity and Choice for Individuals
TOP: Opportunity Cost
MSC: Bloom's: Knowledge

37. Gains from trade occur when there are differences in opportunity cost.

True; Moderate

OBJ: factual
SEC: Gains from trade, specialization and trade
TOP: Gains from Trade
MSC: Bloom's: Knowledge

38. A college student faces no opportunity cost if her parents pay her college tuition and her living expenses.

False; Moderate

OBJ: factual
SEC: 1. Scarcity and Choice for Individuals
TOP: Opportunity Cost
MSC: Bloom's: Analysis | AACSB: Analytic

39. Trade benefits people only when they together produce more goods or services.

False; Moderate

OBJ: factual
SEC: 1. Scarcity and Choice for Individuals
TOP: Gains from Trade
MSC: Bloom's: Knowledge

Multiple Choice Questions

Exhibit 1-2

Anne the Cook	Cook Full Time	Cook and Wait on Customers
Meals Cooked per Day	20	4
Customers Waited on per Day	0	4
<hr/>		
Sam the Waiter	Wait Full Time	Cook and Wait on Customers
Meals Cooked per Day	0	4
Customers Waited on per Day	20	4

40. According to Exhibit 1-2, if Sam did all the cooking as well as waited on tables, how many customers would he be able to serve per day?
- 4
 - Between 2 and 20
 - 0
 - 20
 - 5

a; Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Choices for Individual Producers

MSC: Bloom's: Application | AACSB: Application of Knowledge

41. According to Exhibit 1-2, if Anne spent all her time cooking, how many meals would she be able to prepare per day?
- 20
 - 2
 - 4
 - 40
 - 5

a; Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Choices for Individual Producers

MSC: Bloom's: Application | AACSB: Application of Knowledge

42. According to Exhibit 1-2, if Anne and Sam each worked separately, how many meals per day would be served by each of them?
- 40
 - 4
 - 2
 - 20
 - 5

b; Challenging

OBJ: conceptual
SEC: 1. Scarcity and Choice for Individuals
TOP: Choices for Individual Producers
MSC: Bloom's: Application | AACSB: Application of Knowledge

43. According to Exhibit 1-2, if Anne and Sam join forces, with Anne doing all the cooking and Sam doing all the serving, the number of customers served per day would be
- 40.
 - 4.
 - 20.
 - 8.
 - 5.

c; Moderate

OBJ: conceptual
SEC: 1. Scarcity and Choice for Individuals
TOP: Gains from Trade
MSC: Bloom's: Application | AACSB: Application of Knowledge

44. According to Exhibit 1-2, if Anne and Sam joined forces, the number of meals served would increase by
- 8.
 - 20.
 - 12.
 - 4.
 - 5.

c; Challenging

OBJ: conceptual
SEC: 1. Scarcity and Choice for Individuals
TOP: Gains from Trade
MSC: Bloom's: Application | AACSB: Application of Knowledge

45. _____ must exist in order for gains from trade to be realized.
- Governments
 - Markets
 - An increase in production
 - Economic interaction
 - Firms

d; Moderate

OBJ: factual
SEC: 1. Scarcity and Choice for Individuals
TOP: Gains from Trade
MSC: Bloom's: Knowledge

46. As a result of economic interaction,
- the number of available choices is reduced.
 - scarcity is increased.
 - opportunity costs increase.
 - people are able to specialize.

e. scarcity is eliminated.

d; Basic

OBJ: factual

SEC: 1. Scarcity and Choice for Individuals

TOP: Specialization

MSC: Bloom's: Knowledge

47. The division of labor enables
- people not to work at all.
 - the elimination of scarcity.
 - opportunity costs.
 - self-sufficiency.
 - specialization.

e; Basic

OBJ: factual

SEC: 1. Scarcity and Choice for Individuals

TOP: Division of Labor

MSC: Bloom's: Knowledge

48. Production can be increased whenever people
- engage in activities with a high opportunity cost.
 - specialize in whichever field they have a comparative advantage in.
 - specialize in whatever interests them.
 - do not allocate goods through trade.
 - make decisions according to societal needs.

b; Moderate

OBJ: factual

SEC: 1. Scarcity and Choice for Individuals

TOP: Comparative Advantage

MSC: Bloom's: Knowledge

49. If an individual is able to produce a good with a lower opportunity cost than someone else, then that individual has
- avoided opportunity costs.
 - an interaction advantage.
 - the advantage of producing all goods.
 - removed scarcity.
 - a comparative advantage.

e; Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Comparative Advantage

MSC: Bloom's: Knowledge

Exhibit 1-3

John		Jack	
Candy Bars	Ice Cream Bars	Candy Bars	Ice Cream Bars
0	16	0	6
1	12	1	4
2	8	2	2
3	0	3	0

50. Refer to Exhibit 1-3. Suppose John and Jack can produce the above combinations of candy bars and ice cream bars in one hour. John and Jack can maximize their total production if
- both produce candy bars.
 - both produce ice cream bars.
 - John produces both candy bars and ice cream bars, while Jack produces nothing.
 - Jack produces both candy bars and ice cream bars, while John produces nothing.
 - each of them produces what he has a comparative advantage in producing.

e; Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Comparative Advantage

MSC: Bloom's: Application | AACSB: Analytic

51. When people specialize in the activity in which they have a comparative advantage,
- there cannot be a division of labor, though production will increase.
 - there will likely be a division of labor as well as an increase in output.
 - there will be a gain from trade, but production will not be increased.
 - there will likely be a division of labor, and output will stay the same.
 - there will likely be a division of labor, and output will decline.

b; Moderate

OBJ: factual

SEC: 1. Scarcity and Choice for Individuals

TOP: Division of Labor

MSC: Bloom's: Knowledge

True/False Questions

52. The goods that individual producers specialize in are determined solely by the amounts of time and resources they need to produce those goods.

False; Moderate

OBJ: factual

SEC: 1. Scarcity and Choice for Individuals

TOP: Choices for Individual Producers

MSC: Bloom's: Knowledge

53. Trade enables people to specialize in activities in which they have a comparative advantage.

True; Moderate

OBJ: factual

SEC: 1. Scarcity and Choice for Individuals

TOP: Specialization

MSC: Bloom's: Knowledge

54. A division of labor occurs when some workers do all tasks while others do nothing.

False; Basic

OBJ: factual

SEC: 1. Scarcity and Choice for Individuals

TOP: Division of Labor

MSC: Bloom's: Knowledge

55. It is impossible for two people to increase their total production if one has a comparative advantage in the production of one particular good.

False; Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Comparative Advantage

MSC: Bloom's: Analysis | AACSB: Analytic

Multiple Choice Questions

56. Which of the following statements is *true*?
- There are no gains from trade between people in different countries because, with international trade, it's the countries that trade, and not its people, that realize the gains.
 - Trade between people in different countries cannot occur.
 - Trade between people in different countries can occur, but it will not result in an increase in consumer satisfaction.
 - Trade between people in different countries can occur, but it will not lead them to better utilize their comparative advantage.
 - Trade between people in different countries can occur, and the gains that occur are the same as the gains from trade within a country.

e; Moderate

OBJ: factual

SEC: 1. Scarcity and Choice for Individuals

TOP: International Trade

MSC: Bloom's: Knowledge | AACSB: Analytic

57. A country trades with other countries because
- it can gain in production and consumption.
 - it wants to improve foreign relations.
 - its government can earn taxes on imported goods.
 - it has an excess production capacity.
 - its residents always prefer imported goods to domestic goods.

a; Basic

OBJ: factual

SEC: 1. Scarcity and Choice for Individuals

TOP: International Trade

MSC: Bloom's: Knowledge

True/False Questions

58. Trade always results in a gain for one or both participants in the trade

True; Basic

OBJ: factual

SEC: 1. Scarcity and Choice for Individuals

TOP: International Trade

MSC: Bloom's: Knowledge

59. International trade exists only when a country can gain a trade advantage over another country.

False; Basic

OBJ: factual

SEC: 1. Scarcity and Choice for Individuals

TOP: International Trade

MSC: Bloom's: Knowledge

Short Answer Questions

60. In general, what is economics the study of?

ANSWER:

Economics is the study of choices made when scarcity exists, as well as the interaction between people when they make these choices.

Basic

OBJ: factual

SEC: The Study of economics, and definitions in economics

TOP: Economics

MSC: Bloom's: Knowledge

61. What is the relationship among economic interaction, specialization, comparative advantage, and gains from trade?

ANSWER:

Economic interaction enables people to exchange their goods and services. People can then specialize in whichever area they are most proficient. As a result, there is a division of labor. If this specialization results in each of them producing one good or service with fewer resources than the others, then each person who specializes has a comparative advantage in that task. This enables production to occur more efficiently, which means more will be produced.

Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Gains from Trade

MSC: Bloom's: Comprehension

62. Explain how trade between two different countries is similar to trade occurring between two individuals within a country.

ANSWER:

Trade between two countries is similar to trade within a country because it enables people either to better satisfy their preferences for goods and services by trading or to better utilize their comparative advantage.

Moderate

OBJ: conceptual
SEC: 1. Scarcity and Choice for Individuals
TOP: International Trade
MSC: Bloom's: Analysis | AACSB: Analytic

63. Why is it reasonable to assume that when trade is voluntary, those involved in the trade will gain?

ANSWER:

As long as the decision to trade is voluntary, it will not be rational for individuals to engage in trade unless the lives of those engaged in the exchange are somehow enhanced. Otherwise, they will not engage in trade.

Basic

OBJ: conceptual
SEC: 1. Scarcity and Choice for Individuals
TOP: Gains from Trade
MSC: Bloom's: Analysis | AACSB: Analytic

64. What is division of labor, and why is this a reason for economic interaction?

ANSWER:

A division of labor occurs when different workers specialize in different tasks. If workers produce the goods for which they have a comparative advantage, this specialization increases the gains from interaction.

Basic

OBJ: conceptual
SEC: 1. Scarcity and Choice for Individuals
TOP: Division of Labor
MSC: Bloom's: Knowledge | AACSB: Analytic

65. What is the meaning of comparative advantage?

ANSWER:

An individual or a group has a comparative advantage in producing one good relative to another if it can produce it more efficiently (i.e., with less time, resources, or effort) than another individual or group.

Moderate

OBJ: factual
SEC: 1. Scarcity and Choice for Individuals
TOP: Comparative Advantage
MSC: Bloom's: Knowledge

66. After purchasing a can of soda from a convenience store, David complained that the store had charged too much for the soda. Comment.

ANSWER:

If David purchased the soda on a voluntary basis (in other words, nobody forced him to purchase the soda from the store), then the exchange of his money for the can of soda had to be to his advantage. Otherwise, he would not have made the purchase.

Challenging

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals
 TOP: Gains from Trade
 MSC: Bloom's: Application | AACSB: Analytic

67. The table below depicts the choices George and Sarah face when deciding whether to cook, wait on tables, or both.

George the Cook	Cook Full Time	Cook and Wait on Customers
Meals Cooked per Day	25	6
Customers Waited on per Day	0	6
Sarah the Waitress	Wait Full Time	Cook and Wait on Customers
Meals Cooked per Day	0	4
Customers Waited on per Day	0	6

- (A) In which area, if any, does Sarah have a comparative advantage? In which area does George have a comparative advantage?
 (B) If George and Sarah do not get together, how many customers will be served?
 (C) If George and Sarah do get together, how many customers will be served? What will be the gain resulting from this exchange?

ANSWER:

- (A) Sarah has a comparative advantage in waiting tables. George has a comparative advantage in cooking.
 (B) A total of 10 customers will be served.
 (C) Twenty-five customers will be served. The net gain from this exchange of services is 15 more meals being served.

Challenging

OBJ: conceptual
 SEC: 1. Scarcity and Choice for Individuals
 TOP: Gains from Trade
 MSC: Bloom's: Application | AACSB: Application of Knowledge

Multiple Choice Questions

68. Resources include all of the following *except*
- Money
 - Workers
 - Land
 - Machinery
 - Factories

a; Moderate

OBJ: factual
 SEC: 1. Scarcity and Choice for Individuals

TOP: Resources
MSC: Bloom's: Knowledge | AACSB: Analytic

69. Choices are made whenever
- money is limited.
 - there are too many alternatives.
 - resources are limited relative to human wants.
 - the society has abundant resources.
 - different people in an economy want different things.

c; Moderate

OBJ: factual
SEC: 1. Scarcity and Choice for Individuals
TOP: Scarcity
MSC: Bloom's: Knowledge

True/False Questions

70. Choices are necessary only for individuals but not for the economy as a whole.
False; Moderate

OBJ: factual
SEC: 1. Scarcity and Choice for Individuals
TOP: Choice
MSC: Bloom's: Knowledge

Multiple Choice Questions

71. If available resources are being used efficiently,
- a society can increase the production of one good or service only by decreasing the production of some other good or service.
 - society need no longer worry about tradeoffs.
 - a society can increase the production of one good or service only by increasing the production of some other good or service.
 - resources are no longer limited.
 - scarcity is no longer a problem.

a; Moderate

OBJ: conceptual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Production Possibilities
MSC: Bloom's: Knowledge | AACSB: Analytic

72. Suppose that an economy produces only two goods: computers and movies. If the economy at all times utilizes all its resources, and it decides to use more of its available resources to produce computers,
- the production of movies will drop.
 - the production of both movies and computers will drop.
 - the production of movies will rise.
 - the production of movies will not change but the production of computers will increase.
 - then will be no change in the production of either computers or movies.

a; Moderate

OBJ: conceptual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Production Possibilities
MSC: Bloom's: Application | AACSB: Analytic

73. Josie has two classes: Biology and math. She finds out that the grades for both classes has improved without spending more time studying. Using the production possibilities curve, Josie's situation can be represented by
- moving from a point on the production possibilities curve to a point inside the curve.
 - a movement along the curve from the axis for biology to the axis for math.
 - a movement along the curve from the axis for math to the axis for biology.
 - an inward shift of the curve.
 - an outward shift of the curve.

e; Moderate

OBJ: conceptual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Production Possibilities Curve
MSC: Bloom's: Application | AACSB: Analytic

True/False Questions

74. A movement along the production possibilities curve shows how an economy increases its output with more resources.

False; Moderate

OBJ: conceptual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Production Possibilities
MSC: Bloom's: Knowledge

Multiple Choice Questions

75. Which of the following does a production possibilities curve best illustrate?
- The concept of achieving an impossible goal
 - The concept of unlimited possibilities
 - The concept of an opportunity cost
 - The elimination of scarcity
 - The concept of economic interaction

c; Basic

OBJ: factual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Opportunity Cost
MSC: Bloom's: Knowledge

76. If an economy produces only movies and computers, then the opportunity cost of producing more movies is
- the value of forgone computer production.
 - the value of more computer production.
 - the value of movie production minus the value of computer production
 - the total value of movie and computer production.

e. zero because computers and movies are unrelated.

a; Basic

OBJ: factual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Opportunity Cost

MSC: Bloom's: Application | AACSB: Analytic

77. If an economy produces only smartphones and toys, then producing more and more smartphones will most likely require
- giving up a decreasing amount of the production of toys.
 - giving up an increasing amount of the production of toys.
 - gaining an increasing amount of the production of toys.
 - gaining a decreasing amount of the production of toys.
 - no change in toy production.

b; Moderate

OBJ: factual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Opportunity Cost

MSC: Bloom's: Knowledge | AACSB: Analytic

Exhibit 1-4

Production Possibilities for Computers and TV Sets		
Combination	Computers	TV Sets
A	0	6
B	15	5
C	25	4
D	33	3
E	39	2
F	42	1
G	43	0

78. Refer to Exhibit 1-4. The opportunity cost of producing the first TV set is
- 15 units of computers.
 - 5 units of computers.
 - 43 units of computers.
 - 42 units of computers.
 - 1 unit of computers.

e; Moderate

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Opportunity Cost

MSC: Bloom's: Application | AACSB: Application of Knowledge

79. Refer to Exhibit 1-4. The opportunity cost of producing the sixth TV set is
- 15 units of computers.

- b. 5 units of computers.
- c. 43 units of computers.
- d. 42 units of computers.
- e. 1 unit of computers.

a; Moderate

OBJ: conceptual
 SEC: 2. Scarcity and Choice for the Economy as a Whole
 TOP: Opportunity Cost
 MSC: Bloom's: Application | AACSB: Application of Knowledge

True/False Questions

80. The typical production possibilities schedule shows that the opportunity cost for producing more of one good requires giving up an increasing amount of production of another good.

True; Moderate

OBJ: conceptual
 SEC: 2. Scarcity and Choice for the Economy as a Whole
 TOP: Opportunity Cost
 MSC: Bloom's: Knowledge

Multiple Choice Questions

Exhibit 1-5

Production Possibilities for Computers and TV Sets		
Combination	Computers	TV Sets
A	0	6
B	15	5
C	25	4
D	33	3
E	39	2
F	42	1
G	43	0

81. Refer to Exhibit 1-5. The production possibilities curve representing the given schedule would be a
- a. negatively sloped curve that bows outward.
 - b. negatively sloped straight line.
 - c. positively sloped curve that bows outward.
 - d. positively sloped curve that bows inward.
 - e. positively sloped straight line.

a; Moderate

OBJ: conceptual
 SEC: 2. Scarcity and Choice for the Economy as a Whole
 TOP: Production Possibilities Curve
 MSC: Bloom's: Knowledge | AACSB: Application of Knowledge

82. A production possibilities curve shows

- a. what happens to the amount of available resources if it is not possible to produce a good.
- b. what can be produced with unlimited resources.
- c. what happens as available resources in an economy are moved from producing one type of good to another type, or vice versa.
- d. the choice between producing some goods versus other goods with unlimited resources.
- e. the different kinds of products that a firm can produce.

c; Moderate

OBJ: factual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Knowledge

83. When an economy is operating on its production possibilities curve, more production of one good means less production of another because
- a. wants are unlimited.
 - b. resources are limited.
 - c. some resources are not employed.
 - d. wants are limited.
 - e. resources are not perfectly adaptable to alternative uses.

b; Moderate

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Knowledge

84. Which of the following is held constant when constructing a production possibilities curve for the economy?
- a. The opportunity cost
 - b. The price level
 - c. The amount of resources
 - d. The combination of goods produced
 - e. The costs of resources used in production

c; Moderate

OBJ: factual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Analysis | AACSB: Analytic

85. A point lying inside the production possibilities curve
- a. indicates that resources are not being fully or efficiently used.
 - b. illustrates resources being used to their fullest potential.
 - c. requires more resources than are presently available.
 - d. represents an increase in resources.
 - e. is not an attainable combination.

a; Basic

OBJ: factual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Inefficient Points
MSC: Bloom's: Knowledge

86. Given a production possibilities curve for defense goods and nondefense goods, if a nation is producing at a point inside the production possibilities curve, then
- too many resources are being used for nondefense goods.
 - only new technology will increase the production of defense or nondefense goods.
 - too many resources are being used for defense goods.
 - society is maximizing output from the limited number of resources.
 - it is possible to increase defense goods production without sacrificing nondefense goods production.

e; Moderate

OBJ: conceptual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Inefficient Points
MSC: Bloom's: Application | AACSB: Analytic

87. Suppose a financial crisis prevents many companies to get loans so that their production levels fall as they are unable to purchase the same amount of inputs as before. We can conclude that the economy is
- operating on the production possibility curve.
 - operating outside the production possibility curve.
 - operating inside the production possibility curve.
 - efficient.
 - experiencing economic growth.

c; Moderate

OBJ: conceptual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Inefficient Points
MSC: Bloom's: Analysis | AACSB: Analytic

88. Inefficient use of a nation's resources would
- be depicted as a point inside or below a production possibilities curve.
 - be depicted as a point on a production possibilities curve.
 - shift a production possibilities curve outward.
 - cause the economy's production possibilities curve to bow inward.
 - be depicted as a point outside or above a production possibilities curve.

a; Basic

OBJ: conceptual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Inefficient Points
MSC: Bloom's: Knowledge | AACSB: Analytic

89. Given a production possibilities curve for defense goods and nondefense goods, a production point outside the curve
- cannot be attained with the current level of resources and technology.
 - may be attained by shifting resources to defense goods.
 - may be attained by acquiring new technology.
 - may be attained if new resources are discovered.
 - may be attained by acquiring both new technology and greater resources.

b; Moderate

OBJ: factual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Points outside the Curve

MSC: Bloom's: Analysis | AACSB: Analytic

90. If firms adopt a technology that can increase production without increasing labor or other resource inputs, then
- the production possibilities curve remains unchanged.
 - the production possibilities curve shifts inward.
 - there is movement along the production possibilities curve.
 - society does not face a new set of tradeoffs.
 - points that were previously unattainable to society may now be attainable.

e; Moderate

OBJ: factual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Growth and the Production Possibilities Curve

MSC: Bloom's: Analysis | AACSB: Analytic

Exhibit 1-6

Production Possibilities for Computers and TV Sets		
Combination	Computers	TV Sets
A	0	6
B	15	5
C	25	4
D	33	3
E	39	2
F	42	1
G	43	0

91. Refer to the production possibilities schedule in Exhibit 1-6. A combination of 20 units of computers and 2 TV sets
- requires an infusion of technological know-how.
 - illustrates underemployment of resources.
 - is possible only with full and efficient use of all resources.
 - is unattainable because it requires resources that are not available.
 - cannot be produced with the current supply of resources.

b; Challenging

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Inefficient Points

MSC: Bloom's: Application | AACSB: Application of Knowledge

92. Refer to the production possibilities schedule in Exhibit 1-6. A combination of 40 units of computers and 4 TV sets

- a. cannot be produced with the current supply of resources.
- b. is possible only with full and efficient use of all resources.
- c. has never been and never will be produced.
- d. illustrates underemployment of resources.
- e. will not satisfy the consumers' demands.

a; Challenging

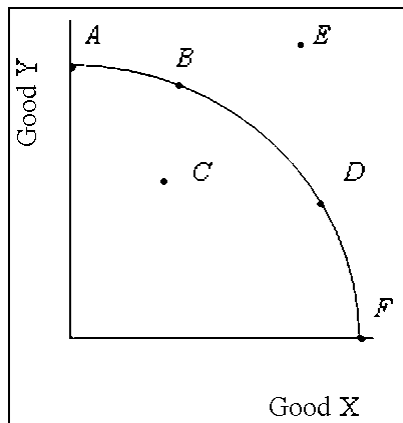
OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Impossible Points

MSC: Bloom's: Application | AACSB: Analytic

Exhibit 1-7



93. Refer to Exhibit 1-7. A movement from Point B to Point D indicates
- a. a gain in Good X and a loss in Good Y.
 - b. a gain in Good Y and a loss in Good X.
 - c. a gain in both Good X and Good Y.
 - d. a loss in both Good X and Good Y.
 - e. no change in the production of Good X or Good Y.

a; Moderate

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Application | AACSB: Analytic

94. Refer to Exhibit 1-7. The production possibilities curve indicates that
- a. it is possible to produce more of one good without sacrificing some of the other good only if production occurs at a point inside the production possibilities curve.
 - b. Good X is an input in the production of Good Y.
 - c. producing an additional unit of Good X requires producing an additional unit of Good Y.
 - d. more resources exist than the economy can efficiently use.
 - e. the economy is experiencing decreasing opportunity costs.

a; Moderate

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve
MSC: Bloom's: Application | AACSB: Analytic

95. Refer to Exhibit 1-7. Assume the economy is operating at Point *C*. This indicates that
- the only way the economy could move toward a point such as *D* is by discovering new resources.
 - the economy is efficiently using all its resources.
 - there is no excess resource capacity in the economy.
 - it is possible for the economy to produce more of Good X and Good Y with the given resources.
 - it is possible for the economy to produce more of Good X only if it produces less of Good Y.

d; Moderate

OBJ: conceptual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Production Possibilities Curve
MSC: Bloom's: Application | AACSB: Analytic

96. Refer to Exhibit 1-7. Point *C*
- occurs when resources are not efficiently allocated.
 - may be attained with a sufficient improvement in technology.
 - can be obtained with existing resources.
 - is impossible to attain, even in the future.
 - shows the most efficient use of valuable resources.

a; Moderate

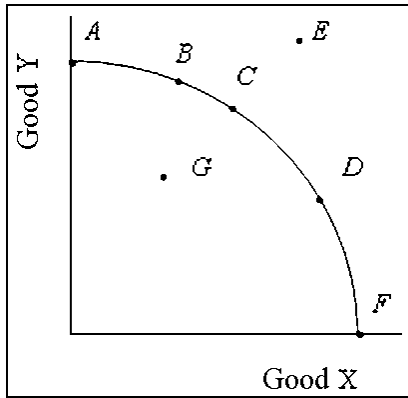
OBJ: conceptual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Production Possibilities Curve
MSC: Bloom's: Analysis | AACSB: Analytic

97. Refer to Exhibit 1-7. Point *E*
- occurs when resources are not efficiently allocated.
 - may be attained with a sufficient improvement in technology.
 - can be attained with existing resources.
 - is impossible to attain, even in the future.
 - shows the most efficient use of valuable resources.

b; Moderate

OBJ: conceptual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Shifts in Production Possibilities Curve
MSC: Bloom's: Analysis | AACSB: Analytic

Exhibit 1-8



98. Refer to Exhibit 1-8. The optimal point for the economy is
- D.*
 - C.*
 - B.*
 - E.*
 - impossible to determine from the given information.

e; Challenging

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Analysis | AACSB: Analytic

99. Refer to Exhibit 1-8. Point *C* is more efficient than Point
- A.*
 - B.*
 - D.*
 - E.*
 - G.*

e; Moderate

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Analysis | AACSB: Analytic

100. If society begins by producing 3 units of X and 4 units of Y and then alters production so that it is now producing 4 units of X and 4 units of Y, and we know that the quantity and quality of resources were unchanged and that technology did not change, then
- society has moved along the production possibilities curve.
 - the combination of 3 units of X and 4 units of Y are best represented by a point inside the production possibilities curve.
 - the combination of 3 units of X and 4 units of Y are best represented by a point outside the production possibilities curve.
 - resources were being fully utilized at 3 units of X and 4 units of Y.
 - resources were being efficiently utilized at 3 units of X and 4 units of Y.

b; Moderate

OBJ: factual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Analysis | AACSB: Analytic

101. A point outside the production possibilities curve
- represents inefficient use of resources.
 - may be due to unemployment.
 - represents more resources than are currently available.
 - is attainable if all resources are used efficiently.
 - is not attainable regardless of the amount of resources.

c; Basic

OBJ: factual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Knowledge

102. Economic growth can be shown by
- a shift of the production possibilities curve outward.
 - a point inside the production possibilities curve.
 - movement along the production possibilities curve.
 - a shift of the production possibilities curve inward.
 - changing the shape of the production possibilities curve.

a; Moderate

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Shifts in Production Possibilities Curve

MSC: Bloom's: Knowledge

103. For an economy to attain what is currently impossible is
- a problem involving choice and scarcity, the choice being between current consumption and investment.
 - an economic problem but is never taken seriously.
 - an economic problem of supply and demand.
 - not an economic problem because one cannot choose something that does not exist.
 - not an economic problem because future production is not a viable alternative to current production.

a; Moderate

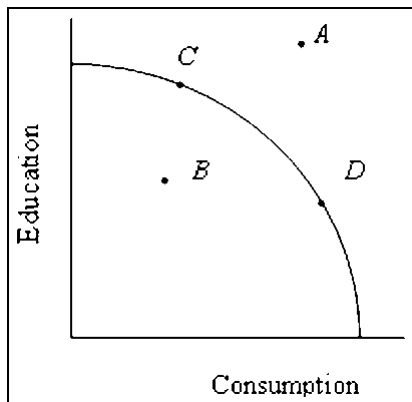
OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Analysis | AACSB: Analytic

Exhibit 1-9



104. Refer to Exhibit 1-9. The attainment of Point A in the future
- is more likely to occur if the economy chooses more education.
 - can occur, but why it can is not understood.
 - is impossible.
 - is more likely to occur if the economy initially moves to Point B to conserve resources.
 - is more likely to occur if the economy chooses more consumption.

a; Moderate

OBJ: factual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Analysis | AACSB: Analytic

105. Refer to Exhibit 1-9. Which of the following is more likely to lead to the economy's attainment of Point A?
- A decrease in education expenditures
 - Increased consumption
 - An increase in the working-age population
 - A depletion of resources
 - None of these because Point A is impossible to attain

c; Moderate

OBJ: factual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Analysis | AACSB: Analytic

106. Refer to Exhibit 1-9. Suppose the amount of energy available to the economy declines. Which of the following is the most likely to happen?
- A movement from Point D to Point C along the curve
 - A movement from Point C to Point D along the curve
 - A shift to Point B
 - A shift to Point A
 - A shift from Point A to Point B

c; Moderate

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Shifts in Production Possibilities Curve

MSC: Bloom's: Analysis | AACSB: Analytic

107. Refer to Exhibit 1-9. If the economy depicted is at Point *B*, then
- more consumption can be produced, but at the expense of education.
 - any further increase in education will involve a decrease in consumption.
 - any further increase in consumption will involve a decrease in education.
 - any further increase in either consumption or education will benefit everyone.
 - any further increase in either consumption or education will hurt everyone.

d; Moderate

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Analysis | AACSB: Analytic

108. Refer to Exhibit 1-9. A movement of the economy from Point *C* to Point *A*
- will benefit no one.
 - occurs when everyone can win.
 - cannot occur.
 - occurs when some people win only if others lose.
 - occurs when everyone loses.

b; Moderate

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Analysis | AACSB: Analytic

True/False Questions

109. Any point on the production possibilities curve represents the fact that resources are efficiently allocated.

True; Moderate

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Knowledge

110. Moving from a point on the production possibilities curve to another point on the same curve implies a gain in production efficiency.

False; Moderate

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Analysis | AACSB: Analytic

111. The production possibilities curve is immovable, meaning that it is fixed regardless of the availability of resources.

False; Moderate

OBJ: factual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Production Possibilities Curve
MSC: Bloom's: Knowledge | AACSB: Analytic

112. Economic growth in the future can be encouraged by tradeoffs made today.
True; Moderate

OBJ: conceptual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Production Possibilities Curve
MSC: Bloom's: Knowledge | AACSB: Analytic

113. The movement from a point inside a production possibilities curve to a point outside the curve is likely to result in no change in an economy's total production.
False; Moderate

OBJ: conceptual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Production Possibilities Curve
MSC: Bloom's: Knowledge | AACSB: Analytic

Short Answer Questions

114. What explains the occurrence of increasing opportunity costs?

ANSWER:

Increasing opportunity costs occur because resources are better suited for one type of production compared to another.

Moderate

OBJ: factual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Opportunity Cost
MSC: Bloom's: Knowledge

115. Does the production possibilities curve represent the economy in which some people win only if others lose? Explain.

ANSWER:

There are two reasons why the production possibilities curve does not necessarily mean some people win only if others lose. First, if the production possibilities curve shifts outward, then it is possible to produce more of both goods. In addition, if the economy is producing in the inefficient region, then more of both goods can be produced if the economy becomes more efficient.

Challenging

OBJ: conceptual
SEC: 2. Scarcity and Choice for the Economy as a Whole
TOP: Production Possibilities Curve
MSC: Bloom's: Evaluation | AACSB: Analytic

116. Is it possible for an economy to make tradeoffs in the present in order to attain what is currently unattainable? Explain.

ANSWER:

Yes, it is possible for an economy to make tradeoffs today in order to attain what is currently unattainable. If an economy wants to grow, it might want to increase output of machinery and/or education at the expense of current consumption in order to have more resources in the future.

Moderate

OBJ: factual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

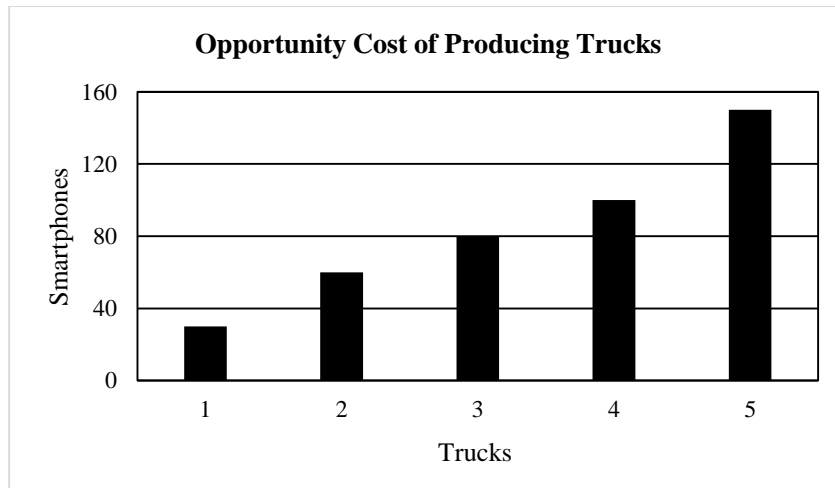
MSC: Bloom's: Analysis | AACSB: Analytic

117. Suppose an economy can produce either smartphones or trucks. The production possibilities for this economy are shown in the table below. Show that this production possibilities schedule depicts increasing opportunity costs.

Production Possibilities for Smartphones and Trucks		
Combination	Smartphones	Trucks
A	0	5
B	150	4
C	250	3
D	330	2
E	390	1
F	420	0

ANSWER:

A chart such as the one below shows that for each additional truck produced, the amount of smartphones that needs to be given up increases as truck production increases.



Moderate

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Opportunity Cost

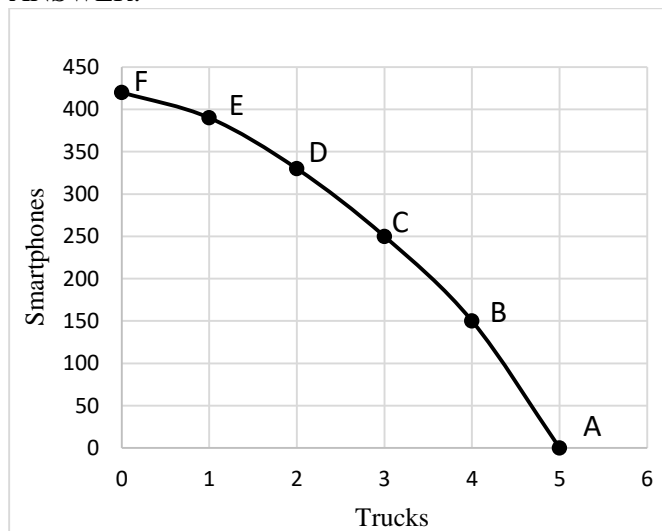
MSC: Bloom's: Application | AACSB: Application of Knowledge

118. Using the information in the table below, draw a production possibilities curve.

Production Possibilities for Smartphones and Trucks		
Combination	Smartphones	Trucks
A	0	5
B	150	4
C	250	3
D	330	2
E	390	1
F	420	0

- (A) With this graph, depict the point that would show the combination of 300 smartphones and 1 tablets.
- (B) With this graph, depict the point that would show the combination of 250 radios and 5 tablets.
- (C) With this graph, depict the point that would show the combination of 250 radios and 3 tablets.

ANSWER:



A production possibilities curve that is bowed out should be drawn. The answer to part (A) should show a point inside the curve. The answer to part (B) should show a point outside the curve. The answer to part (C) should show a point along the curve.

Moderate

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Application | AACSB: Application of Knowledge

Multiple Choice Questions

119. The three essential questions that every economy must solve are
- what, how many, and for whom?
 - how, what, and where?
 - what, how, and for whom?

- d. what, how much, and for whom?
- e. where, how, and for whom?

c; Basic

OBJ: factual
SEC: 3. Market Economies and the Price System
TOP: Three Economic Questions
MSC: Bloom's: Knowledge

120. In a pure market economy, the what, how, and for whom problems are determined by
- a. consumers only.
 - b. firms only.
 - c. the government.
 - d. both consumers and firms.
 - e. no one.

d; Basic

OBJ: factual
SEC: 3. Market Economies and the Price System
TOP: Market Economies
MSC: Bloom's: Knowledge

121. In a command economy, the what, how, and for whom problems are determined by
- a. consumers.
 - b. firms.
 - c. the government.
 - d. both consumers and firms.
 - e. markets.

c; Basic

OBJ: factual
SEC: 3. Market Economies and the Price System
TOP: Command Economy
MSC: Bloom's: Knowledge

122. Which of the following statements is *false*?
- a. In a centrally planned economy, decisions concerning the three essential questions are made by those who control the government.
 - b. In a market economy, firms do not interact with consumers.
 - c. The two alternative approaches to the three essential questions are market economies and command economies.
 - d. In a market economy, decisions concerning the three essential questions result from interactions taking place in markets.
 - e. In both centrally planned and market economies, the three essential economic questions are what, how, and for whom.

b; Moderate

OBJ: factual
SEC: 3. Market Economies and the Price System
TOP: Market vs. Command Economy
MSC: Bloom's: Knowledge

123. The key elements of a market economy include all of the following *except*
- freely determined prices.
 - property rights.
 - freedom to trade at home.
 - freedom to trade with another country.
 - strong government intervention.

e; Moderate

OBJ: factual

SEC: 3. Market Economies and the Price System

TOP: Role of Government

MSC: Bloom's: Knowledge

124. In a market economy, prices are
- mainly transfer prices.
 - affordable by all consumers.
 - determined by the government.
 - freely determined.
 - determined solely by firms and not by consumers.

d; Basic

OBJ: factual

SEC: 3. Market Economies and the Price System

TOP: Market Price

MSC: Bloom's: Knowledge

125. When a country like North Korea is characterized as a command economy, it's because most prices are
- determined in the market, and they usually lead to market failures.
 - set by the government, which usually leads to inefficiencies.
 - determined in the market, and they result in efficient outcomes.
 - set by the government, and they result in efficient outcomes.
 - determined in the market, and they usually lead to inefficiencies.

b; Moderate

OBJ: factual

SEC: 3. Market Economies and the Price System

TOP: Price Determination

MSC: Bloom's: Analysis | AACSB: Analytic

126. Establishing property rights
- is a characteristic of most centrally planned economies.
 - provides incentives.
 - is the most important feature of a centrally planned economy.
 - is not necessary for a market economy to function.
 - is a key obstacle for the economy to grow over time.

b; Basic

OBJ: factual

SEC: 3. Market Economies and the Price System

TOP: Property Rights

MSC: Bloom's: Knowledge

127. Without property rights,
- people would have more of an incentive to specialize, and the economy would become more efficient.
 - there would be more inventions.
 - people would not have an incentive to specialize.
 - a market economy would become more efficient.
 - people would have more of an incentive to specialize.

c; Moderate

OBJ: conceptual

SEC: 3. Market Economies and the Price System

TOP: Property Rights

MSC: Bloom's: Knowledge

128. Economic interaction with other countries
- benefits only small countries that cannot produce everything.
 - benefits only large countries that have a comparative advantage in producing everything.
 - can benefit no country.
 - can benefit small or large countries.
 - benefits only small countries that have a comparative disadvantage.

d; Basic

OBJ: conceptual

SEC: 3. Market Economies and the Price System

TOP: Foreign Trade

MSC: Bloom's: Knowledge

129. Market failure
- caused the collapse of centrally planned economies in Eastern Europe.
 - is the consequence of government involvement in the economy.
 - is something that never happens in a market economy.
 - occurs when the market is unable to allocate resources correctly.
 - occurs only when supply exceeds demand.

d; Basic

OBJ: factual

SEC: 3. Market Economies and the Price System

TOP: Market Failure

MSC: Bloom's: Knowledge

130. The role of government in a market system
- includes encouraging market failures.
 - does not exist.
 - is restricted to establishing property rights.
 - includes improving situations that would otherwise result in a government failure.
 - includes improving situations that would otherwise result in a market failure.

e; Moderate

OBJ: conceptual

SEC: 3. Market Economies and the Price System

TOP: Role of Government

MSC: Bloom's: Knowledge

131. A government failure results when
- the government allows a market failure to occur.
 - the government establishes property rights.
 - the market economy does not provide good answers to the three questions.
 - government intervention is unable to correct a market failure.
 - the government intervenes in a market economy.

d; Moderate

OBJ: factual

SEC: 3. Market Economies and the Price System

TOP: Government Failure

MSC: Bloom's: Evaluation

132. Transaction costs are the costs of
- bribing government officials.
 - buying and selling in a market.
 - doing something within an organization.
 - avoiding any economic interactions.
 - producing a product instead of buying it from someone else.

b; Basic

OBJ: factual

SEC: 3. Market Economies and the Price System

TOP: Transaction Costs

MSC: Bloom's: Knowledge

133. Economic interaction occurs in firms as opposed to markets
- because markets are too competitive.
 - because this is what the government wants.
 - in order to lower transaction costs.
 - in order to increase transaction costs.
 - if workers want to increase wages but not product prices.

c; Moderate

OBJ: factual

SEC: 3. Market Economies and the Price System

TOP: Transaction Costs

MSC: Bloom's: Knowledge

True/False Questions

134. Property rights to inventions discourage people and firms to produce inventions.

False; Basic

OBJ: factual

SEC: 3. Market Economies and the Price System

TOP: Property Rights

MSC: Bloom's: Knowledge

135. There is no legitimate role for government in a market economy.

False; Basic

OBJ: factual

SEC: 3. Market Economies and the Price System

TOP: Role of Government

MSC: Bloom's: Knowledge

136. The government can improve market conditions in case of a market failure.

True; Basic

OBJ: factual

SEC: 3. Market Economies and the Price System

TOP: Market Failure

MSC: Bloom's: Knowledge

137. Property rights are not necessary for a market economy to function.

False; Moderate

OBJ: factual

SEC: 3. Market Economies and the Price System

TOP: Property Rights

MSC: Bloom's: Knowledge

138. A centrally planned economy is also called a market economy.

False; Moderate

OBJ: factual

SEC: 3. Market Economies and the Price System

TOP: Market vs. Command Economy

MSC: Bloom's: Knowledge

Multiple Choice Questions

139. What does a market economy use to determine the “what is produced, how, and for whom” problems?

- a. A price system
- b. The government
- c. An election
- d. A tax system
- e. Command and control

a; Basic

OBJ: factual

SEC: 3. Market Economies and the Price System

TOP: Price Signals

MSC: Bloom's: Knowledge

140. To say that a change in taste causes prices to rise is to claim that

- a. transfer prices are a more accurate gauge of economic activity than market prices.
- b. prices are a signal.
- c. the economy has full information.
- d. prices would not change if people did not know the exact reason for the price change.

e. price changes cannot be predicted.

b; Moderate

OBJ: conceptual

SEC: 3. Market Economies and the Price System

TOP: Price Signals

MSC: Bloom's: Analysis | AACSB: Analytic

141. If an increase in the price of lemonade causes more people to sell lemonade, then it can be argued that the price increase
- acted as a transfer price.
 - caused a redistribution of income.
 - caused a market failure
 - reduced competition.
 - acted as an incentive.

e; Moderate

OBJ: conceptual

SEC: 3. Market Economies and the Price System

TOP: Incentives

MSC: Bloom's: Application | AACSB: Analytic

142. If an increase in the price of lemonade results in people with lemonade stands having more income, then it can be argued that the price increase
- acted as an incentive.
 - resulted in a redistribution of income.
 - acted as a transfer price.
 - reduced competition.
 - acted a signal.

b; Moderate

OBJ: conceptual

SEC: 3. Market Economies and the Price System

TOP: Income Distribution

MSC: Bloom's: Knowledge

143. Which of the following refers to a decline in production and employment that lasts for six months or more?
- Financial crisis
 - Economic growth
 - Market failure
 - Government failure
 - Recession

e; Basic

OBJ: conceptual

SEC: 3. Market Economies and the Price System

TOP: Recession

MSC: Bloom's: Knowledge

Short Answer Questions

144. What role do property rights play in a market economy?

ANSWER:

Property rights enable people to keep what they earn and not be overly concerned with what they have being taken away by others. This enables people to allocate more time to production as opposed to protecting what they have.

Property rights also provide incentives in the sense that they give people the right to the earnings from their work, as well as making them responsible for whatever losses they may incur in their endeavors.

Moderate

OBJ: factual

SEC: 3. Market Economies and the Price System

TOP: Property Rights

MSC: Bloom's: Knowledge

145. What does a company need to take into consideration when deciding whether to set up its own IT department or to contract for maintenance on its computer equipment?

ANSWER:

The company needs to consider transaction costs. These costs are incurred when trying to find a company to do computer maintenance services; they also include the cost associated with reaching an agreement on the price.

Moderate

OBJ: conceptual

SEC: 3. Market Economies and the Price System

TOP: Transaction Costs

MSC: Bloom's: Analysis | AACSB: Analytic

146. Answer the questions below:

- (A) What three questions need to be answered to determine the best possible point along an economy's production possibilities curve?
- (B) What are the two different approaches to answering part (A), and how do these different approaches answer it?

ANSWER:

- (A) The three questions that need to be answered are: What goods and services are to be produced? How are they to be produced? For whom are they to be produced?
- (B) The two different approaches to answering these three questions are a market economy and a command (centrally planned) economy. Answers to these questions in a market economy result from the interaction of firms, consumers, governments, and other organizations in markets. In a command economy, these questions are answered by those who control the government.

Challenging

OBJ: conceptual

SEC: 3. Market Economies and the Price System

TOP: Three Economic Questions

MSC: Bloom's: Knowledge | AACSB: Analytic

147. What is the role of government in a market economy?

ANSWER:

There are three aspects to the government's role in a market economy. The first is to establish property rights. The second concerns addressing market failures. The third pertains to maintaining overall economic stability, such as a stable price level and preventing unemployment from becoming too high.

Moderate

OBJ: conceptual

SEC: 3. Market Economies and the Price System

TOP: The Role of Government

MSC: Bloom's: Knowledge

148. Amy has only \$50 to spend for her weekend entertainment. She can go to a college football game for \$50, or she can go to the movies for \$10. Explain the problem of scarcity and choice in this context. What will Amy consider as she decides whether to go to the football game or the movie?

ANSWER:

The scarcity represented by the limited budget means that Amy can either go to one football game or to the movies five times, and therefore a choice between them must be made. Amy will consider how intense her preferences are to see the football game and compare this to the ticket price. She will compare the additional satisfaction per dollar spent on the football game versus going to the movies.

Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Opportunity Cost

MSC: Bloom's: Analysis | AACSB: Analytic

149. James is a computer genius earning \$2 million last year while working at a software company. He is also planning to enroll as an MBA student at Stanford University. What is his opportunity cost of earning the graduate MBA degree? How does it compare to your opportunity cost of a year in college?

ANSWER:

One of the opportunity costs of one more year of college is the yearly earnings one has to give up in order to attend college. Therefore, the opportunity cost for James, who has been earning \$2 million a year, is higher than the opportunity cost of anyone earning much less.

Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Opportunity Cost

MSC: Bloom's: Analysis | AACSB: Analytic

150. John is a high school student. He has ranked his three options of what he can do during the Christmas school break in the following order: (1) work in a fast-food restaurant full-time and earn \$2,000; (2) work in a department store for the first two weeks of the break and earn \$1,000, and spend the rest of the break traveling; and (3) work in his father's shoe factory full-time and earn \$1,500. What is the opportunity cost of his choice?

ANSWER:

John's first choice is to work full-time in a fast-food restaurant. His next best opportunity is working for part of the Christmas break and traveling for the remainder of the break. Therefore, the opportunity cost of his first choice is the \$1,000 he would have received from working in a department store as well as the time he could have used for traveling.

Moderate

OBJ: conceptual
SEC: 1. Scarcity and Choice for Individuals
TOP: Opportunity Cost
MSC: Bloom's: Analysis | AACSB: Analytic

151. Suppose you have two hotdog sausages and your friend has two hotdog buns. Explain how you can both gain from trade. Is this gain from trade through better allocation or greater production?

ANSWER:

You can trade one of your hotdog sausages for one of your friend's hotdog buns. As a result, both you and your friend can gain from the exchange. This gain is through better allocation rather than greater production.

Moderate

OBJ: conceptual
SEC: 1. Scarcity and Choice for Individuals
TOP: Gains from Trade
MSC: Bloom's: Analysis | AACSB: Analytic

152. Suppose Ashley and Allison can produce the following combinations of pizza and cakes in a day:

Ashley		Allison	
Pizza	Cakes	Pizza	Cakes
0	5	0	10
1	4	1	8
2	3	2	6
3	2	3	4
4	1	4	2
5	0	5	0

- (A) If Ashley and Allison are both currently producing 2 pizzas per day, how many cakes are they producing? What is the total production of pizzas and cakes between them?
(B) Is there a possibility for increasing production? Why or why not?
(C) Suppose that Ashley completely specializes in producing pizzas and Allison completely specializes in producing cakes. What will be the total production of pizzas and cakes?

ANSWER:

- (A) Ashley is producing 3 cakes and Allison is producing 6 cakes. Total production will be 4 pizzas and 9 cakes.
(B) Gains from trade are possible because they have different comparative advantages and different relative efficiencies in the production of pizzas and cakes.
(C) Total production will be 5 pizzas and 10 cakes per day.

Moderate

OBJ: conceptual
SEC: 1. Scarcity and Choice for Individuals
TOP: Comparative Advantage
MSC: Bloom's: Application | AACSB: Application of Knowledge

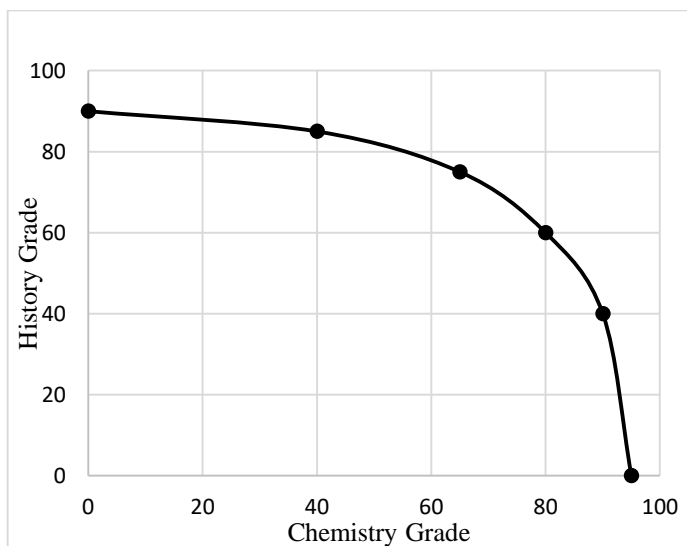
153. Suppose you must divide your time between studying for your chemistry final exam and writing a final paper for your history class. The time and the grades in the two classes are as follows:

Fraction of Time Spent on Chemistry	Chemistry	History
100%	95	0
80%	90	40
60%	80	60
40%	65	75
20%	40	85
0%	0	90

- (A) Draw a tradeoff curve for the chemistry grade versus the economics grade.
(B) What is the opportunity cost of increasing the time spent on chemistry from 60 to 80 percent? What is the opportunity cost of increasing the time spent on history from 80 to 100 percent?
(C) Are there increasing opportunity costs from spending more time on chemistry? Explain.

ANSWER:

- (A) A tradeoff curve for the chemistry grade versus the history grade is shown in the following graph.



- (B) Twenty points on the chemistry grade; 45 points on the history grade.
(C) There are increasing opportunity costs from spending more time on chemistry because, as more time is spent on chemistry, an increasing number of history points must be given up.

Moderate

OBJ: conceptual

SEC: 1. Scarcity and Choice for Individuals

TOP: Tradeoffs

MSC: Bloom's: Application | AACSB: Application of Knowledge

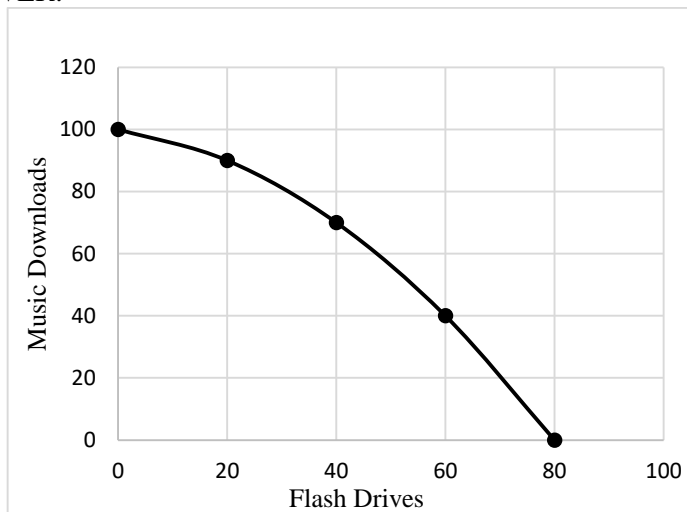
154. A small country produces only two goods, music downloads and flash drives. Given its limited resources, this country has the following production possibilities:

Music Downloads	Flash Drives
0	80
40	60
70	40
90	20
100	0

- (A) Draw the production possibilities curve.
(B) Suppose this country improves its technology for producing music downloads, but technology remains the same for the production of flash drives. What happens to the production possibility curve? How does this change affect the opportunity cost of increasing production of flash drives?

ANSWER:

(A)



- (B) The production possibilities curve shifts out in the direction of music downloads, but the total quantity of flash drives that can be produced remains the same. This change causes the production possibilities curve to be steeper when music download production is on the vertical axis and therefore decreases the opportunity cost of increasing music download production.

Moderate

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

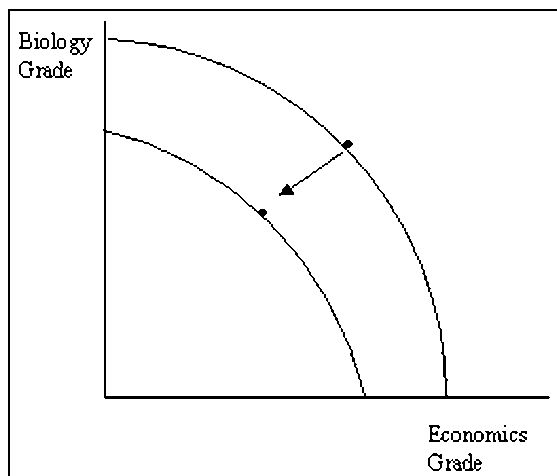
TOP: Production Possibilities Curve

MSC: Bloom's: Application | AACSB: Application of Knowledge

155. Amy's parents tell her that the grades of the two courses (biology and economics) she takes will decline if she chooses to work a full-time job while going to college. How might this be possible? How would you represent this situation graphically using the production possibilities curve?

ANSWER:

It is possible for Amy to have a lower grade in both biology and economics if she spends more time working and less time studying both subjects. This can be represented by a shift of the production possibilities curve inward.



Moderate

OBJ: conceptual

SEC: 2. Scarcity and Choice for the Economy as a Whole

TOP: Production Possibilities Curve

MSC: Bloom's: Analysis | AACSB: Analytic

156. Suppose increased production of CD players in Asia causes the price of CD players to decline all over the world. Explain how this change in price signals information to U.S. producers, provides incentives to U.S. producers, and affects the distribution of income.

ANSWER:

A decrease in the price of CD players signals U.S. producers that CD players are now less scarce. A lower price decreases profits, thereby providing incentives for U.S. producers to produce fewer CD players. It also redistributes income away from U.S. producers and toward consumers.

Moderate

OBJ: conceptual

SEC: 3. Market Economies and the Price System

TOP: Price Signals

MSC: Bloom's: Analysis | AACSB: Analytic

157. Explain how a market economy works to enable the production and allocation of smartphones.

ANSWER:

Prices in the smartphone market are free to vary, people have property rights to the smartphones they buy, companies sell smartphones, the government does not regulate the use of smartphones, and smartphone production takes place within firms with many workers. A higher price, for instance, will allocate smartphones to the consumers who are willing to pay the price and away from those who are not willing or cannot afford to pay that price.

Moderate

OBJ: conceptual

SEC: 3. Market Economies and the Price System

TOP: Market Economies

MSC: Bloom's: Analysis | AACSB: Analytic