

Ch 1

1. Bad weather in Colombia can lead to
- A) more Canadians drinking coffee.
 - B) Canadians having to pay more for coffee.
 - C) wage increases for coffee shop employees.
 - D) the destruction of the Canadian coffee harvest.

Answer: B

2. In economics, choices must be made because we live in a world of
- A) unemployment.
 - B) scarcity.
 - C) greed.
 - D) unlimited resources.

Answer: B

3. Which of the following statements is *true* about scarcity?

- A) Scarcity refers to the situation in which unlimited wants exceed limited resources.
- B) Scarcity is not a problem for the wealthy.
- C) Scarcity is only a problem when a country has too large a population.
- D) Scarcity arises when there is a wide disparity in income distribution.

Answer: A

4. By definition, economics is the study of
- A) how to make money in the stock market.
 - B) how to make money in a market economy.
 - C) the choices people make to attain their goals, given their scarce resources.
 - D) supply and demand.

Answer: C

5. An economic _____ is a simplified version of some aspect of economic life used to analyze an economic issue.

- A) market
- B) trade-off
- C) variable
- D) model

Answer: D

6. Economists assume that individuals

- A) behave in unpredictable ways.
- B) will never take actions to help others.
- C) prefer to live in a society that values fairness above all else.
- D) are rational and respond to incentives.

Answer: D

7. In economics, the term _____ means "additional" or "extra."

- A) allocative
- B) marginal
- C) equity
- D) optimal

Answer: B

8. A grocery store sells a bag of potatoes at a fixed price of \$5.50. Which of the following is a term used by economists to describe the money received from the sale of an additional bag of potatoes?

- A) marginal revenue
- B) gross earnings
- C) pure profit
- D) marginal costs
- E) net benefit

Answer: A

9. Making "how much" decisions involves

- A) calculating the total benefits of the activity and determining if you are satisfied with that amount.
- B) calculating the total costs of the activity and determining if you can afford to incur that expenditure.
- C) calculating the average benefit and the average cost of an activity to determine if it is worthwhile undertaking that activity.
- D) determining the additional benefits and the additional costs of that activity.

Answer: D

10. The extra cost associated with undertaking an activity is called

- A) net loss.
- B) marginal cost.
- C) opportunity cost.

D) foregone cost.

Answer: B

11. DeShawn's Detailing is a service that details cars at customers' homes or places of work. DeShawn's cost for a basic detailing package is \$40 and he charges \$75 for this service. For a total price of \$90, DeShawn will also detail the car's engine, a service that adds an additional \$20 to the total cost of the package. What is the marginal cost of adding the engine detailing to the basic detailing package?

A) \$20

B) \$30

C) \$60

D) \$60 plus the value of his time

Answer: A

12. Society faces a trade-off in all of the following situations *except*

A) when deciding who will receive the goods and services produced.

B) when deciding what goods and services will be produced.

C) when deciding how goods and services will be produced.

D) when some previously unemployed workers find jobs.

Answer: D

13. Which of the following statements is *true*?

A) Anytime you have to decide which action to take you are experiencing economic equity.

B) Trade-offs do not apply when the consumers purchase a product for which there is excess supply, such as a stock clearance sale.

C) Every individual, no matter how rich or poor, is faced with making trade-offs.

D) Economics is a social science that studies the trade-offs we are forced to make because resources are unlimited.

Answer: C

14. Which of the following is *not* an example of an economic trade-off that a firm has to make?

A) whether it is cheaper to produce with more machines or with more workers

B) whether it is to outsource the production of a good or service

C) whether or not consumers will buy its products

D) whether it should produce more of its product

Answer: C

15.

| Hours Open | Total Revenue (dollars) |
|---------------|----------------------------|
|---------------|----------------------------|

| | |
|---|------|
| 1 | \$50 |
| 2 | 75 |
| 3 | 95 |
| 4 | 110 |
| 5 | 120 |
| 6 | 125 |

Lydia runs a small nail salon in the town of New Hope. She is debating whether she should extend her hours of operation. Lydia figures that her sales revenue will depend on the number of hours the nail salon is open, as shown in the table above. She would have to hire a worker for those hours at a wage rate of \$10 per hour.

Refer to Table above. Using marginal analysis, determine how many hours Lydia should extend her nail salon's hours of operations.

- A) 2 hours
- B) 3 hours
- C) 4 hours
- D) 5 hours

Answer: D

16. The Coffee Nook, a small cafe near campus, sells cappuccinos for \$2.50 and Russian tea cakes for \$1.00 each. What is the opportunity cost of buying a cappuccino?

- A) 2 1/2 Russian tea cakes
- B) 2/5 of a Russian tea cake
- C) \$2.50
- D) \$1.00

Answer: A

17. Arlene quits her \$125,000-a-year job to take care of her ailing parents. What is the opportunity cost of her decision?

- A) zero, since she will no longer be earning a salary
- B) It depends on the "going rate" for home-care providers.
- C) at least \$125,000
- D) the value she attributes to the satisfaction she receives from taking care of her parents

Answer: C

18. The distribution of income primarily determines which of the fundamental economic questions?

- A) What goods and services are to be produced?

- B) How the goods and services are to be produced?
- C) Who will receive the goods and services produced?
- D) How to plan the economy?

Answer: C

19. Automobile manufacturers produce a range of automobiles such as sports utility vehicles, luxury sedans, pickup trucks and compact cars. What fundamental economic question are they addressing by making this range of products?

- A) How will we produce goods that consumers want?
- B) Why produce a variety of automobiles?
- C) What will be produced?
- D) Who will automobiles be produced for?

Answer: C

20. Who, in a centrally planned economy, decides what goods and services will be produced with the scarce resources available in that economy?

- A) the government
- B) producers
- C) consumers
- D) consumers and producers
- E) the government, consumers and producers

Answer: A

21. If the marginal cost of producing a television is constant at \$200, then a firm should produce this item

- A) only if the marginal benefit it receives is greater than \$200 plus an acceptable profit margin.
- B) as long as the marginal benefit it receives is just equal to or greater than \$200.
- C) as long as its marginal cost does not rise.
- D) until the marginal benefit it receives reaches zero.

Answer: B

22. Allocative efficiency is achieved when firms produce goods and services

- A) at the lowest possible cost.
- B) that consumers value most.
- C) at the lowest opportunity cost.
- D) at a marginal cost of zero.

Answer: B

23. _____ increases economic efficiency because it forces firms to produce and sell goods and services as long as the additional benefit to consumers is greater than the additional cost of production.

- A) Competition
- B) Voluntary exchange
- C) Equity
- D) A centrally planned economy

Answer: A

24. Which of the following generates productive efficiency?

- A) competition among sellers
- B) competition among buyers
- C) government inspectors
- D) government production rules and regulations

Answer: A

25. Political candidates often hold fund raisers by charging "per plate" for dinner. Wendy purchased four tickets to a \$1,000 per plate dinner for a local city council candidate. Is this transaction economically efficient?

- A) No, political candidates should never be allowed to overcharge for a fund raising dinner.
- B) Yes, it was a voluntary exchange that benefited both parties.
- C) No, Wendy paid too much for four dinners.
- D) Yes, it is efficient only from the perspective of the candidate but not from the perspective of Wendy.

Answer: B

26. In economics, the term "equity" means

- A) everyone has an equal standard of living.
- B) the hardest working individuals consume all they want.
- C) only elected officials have high standards of living.
- D) economic benefits are distributed fairly.

Answer: D

27. Which of the following is motivated by an equity concern?

- A) Some provinces and municipalities have transferred funds to food bank programs in order to increase benefits to lower-income families.
- B) Following the implementation of subsidies for energy conservation, household demand for rooftop solar panels increased quite significantly in BC.
- C) Some provinces allow automotive insurance companies to charge men and women different rates for insurance.
- D) Canada offers patent protection to pharmaceutical manufacturers to prevent others from

duplicating their products.

Answer: A

28. Which of the following is motivated by an efficiency concern?

- A) In 2013 the Alberta government handed out pre-paid credit and debit cards to flood victims.
- B) The right to purchase tickets to the Grey Cup is decided by a lottery.
- C) Organ transplant waiting lists ration scarce kidneys that would favour young patients over old in an effort to wring more life out of donated organs.
- D) The federal government Equalization program makes larger transfers to poor provinces than to wealthy ones.

Answer: C

29. Which of the following is an example of an efficiency-equity trade-off faced by economic agents?

- A) Provincial health programs are not cost effective. Instead of focusing on universal access to the health care system, money should be spent on programs that prevent disease first and treating disease second.
- B) Concerned about the falling birth rate, the French government has pledged more money for families with three children, in an effort to encourage working women to have more babies.
- C) Some Canadian universities are actively recruiting foreign students for their technology-based programs.
- D) Municipal sports programs must charge all participants the same price, even when participants don't live in the municipality.

Answer: A

30. The Sparkle Shop, a jewellery store in the mall, sells handmade necklaces for \$100.00 and machine-made necklaces for \$25.00 each. What is the opportunity cost of buying a handmade necklace?

- A) 4 machine-made necklaces
- B) 1/4 of a machine-made necklace
- C) \$100.00
- D) \$25.00

Answer: A

31. How are the fundamental economic decisions determined in North Korea?

- A) Individuals, firms, and the government interact in a market to make these economic decisions.
- B) These decisions are made by the country's elders who have had much experience in answering these questions.

- C) The government decides because North Korea is a centrally planned economy.
- D) The United Nations decides because North Korea is a developing economy.

Answer: C

32. Which of the following is a problem inherent in centrally planned economies?

- A) There are no problems and everyone, including consumers, is satisfied.
- B) There is too much production of low-cost, high-quality goods and services.
- C) Production managers are more concerned with satisfying government orders than with satisfying consumer wants.
- D) Unemployment is too high.

Answer: C

33. Dr. Goldfinger decides to invest in companies which he believes can "improve the productivity and allocative efficiency" of coffee shops. What would Dr. Goldfinger need to do to try to achieve *allocative efficiency*?

- A) Invest in companies that produce goods and services based on consumer preferences.
- B) Invest in companies that produce goods and services at the lowest possible cost.
- C) Invest in companies that fairly distribute their products and services.
- D) Invest in companies that produce up to the point where the marginal cost of the last unit produced is zero.

Answer: A

34. Which of the following is *not* an example of an efficiency-equity trade-off faced by economic agents?

- A) According to an article in the *American Journal of Public Health* by Edward Kaplan and Michael Merson of Yale University School of Medicine, the American government's current method of allocating HIV-prevention resources is not cost-effective. Instead of allocating resources to states in proportion to reported AIDS cases, resources should flow first to those activities that prevent more infections per dollar and then to less and less effective combinations of programs and populations until funds are exhausted, even if it means that some populations would be left without any prevention services.
- B) Concerned about the falling birth rate, the French government has pledged more money for families with three children, in an effort to encourage working women to have more babies.
- C) The growing demand for corn by ethanol producers has led to a surge in the price of tortillas, a staple in the Mexican diet. To quell public outcry over rising tortilla prices, the Mexican government released government corn stocks at prices well below the market and pressured states to impose price ceilings on tortillas.
- D) Some Canadian universities cut back on merit scholarships, since these programs siphon money from need-based programs, thus harming lower-income students with greater financial need.

Answer: B

35. Which of the following statements about positive economic analysis is *true*?

- A) Positive analysis uses an economic model to estimate the costs and benefits of different courses of action.
- B) There is much less disagreement among economists over normative economic analysis than over positive economic analysis.
- C) There is much more disagreement among economists over positive economic analysis than over normative economic analysis.
- D) Unlike positive economic analysis, normative economic analysis can be tested.

Answer: A

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

- A) People should not buy imported fruits and vegetables.
- B) The government should subsidize solar power for homeowners.
- C) Minimum wage laws cause unemployment.
- D) The level of immigration should not be limited by the government.

Answer: C

37. Which of the following is a normative economic statement?

- A) Rising global demand for diesel and heating oil has led to increases in the price of crude oil.
- B) With falling home prices and rising mortgage interest rates, the amount of foreclosures will increase.
- C) Provincial governments are considering raising the gasoline tax to promote the use of public transportation.
- D) Fashion designers should be allowed to copyright designs to promote innovation.

Answer: D

38. All of the following statements regarding minimum wage are positive, *except*:

- A) Early employment, even at minimum wage, can have a huge impact on life-long earnings.
- B) It is unfair that people working for the same firm get paid vastly different amounts.
- C) Minimum wage laws tend to give large firms an advantage over small ones.
- D) An increase in minimum wage can increase profits for firms.

Answer: B

Ch 2.

39. Scarcity

- A) stems from the incompatibility between limited resources and unlimited wants.
- B) can be overcome by discovering new resources.
- C) can be eliminated by rationing products.
- D) is a bigger problem in market economies than in socialist economies.

Answer: A

40. Toyota recently built an assembly plant in Woodstock, Ontario. At this plant, Toyota is able to take advantage of paying lower transportation costs on cars to be sold in Canada than it would from its Japanese assembly plants, but it also sacrifices the ease of supervising its Japanese workers, who generally have high skills levels and few labour disputes. In deciding to open the Woodstock plant, Toyota

- A) faced no trade-offs because employing lower-wage workers increased efficiency.
- B) faced a trade-off between cost and precision.
- C) adopted a negative technological change because it replaced high-skilled workers with low-skilled workers.
- D) eroded some of its competitiveness in the luxury car market because of its decreased cost of production.

Answer: B

41. The principle of opportunity cost is that

- A) in a market economy, taking advantage of profitable opportunities involves some money cost.
- B) the economic cost of using a factor of production is the alternative use of that factor that is given up.
- C) taking advantage of investment opportunities involves costs.
- D) the cost of production varies depending on the opportunity for technological application.

Answer: B

42. The production possibilities frontier shows the _____ combinations of two products that may be produced in a particular time period with available resources.

- A) minimum attainable
- B) maximum attainable
- C) only
- D) equitable

Answer: B

43. The production possibilities frontier model assumes which of the following?

- A) Labour, capital, land and natural resources are unlimited in quantity.
- B) The economy produces only two products.
- C) Any level of the two products that the economy produces is currently possible.
- D) The level of technology is variable.

Answer: B

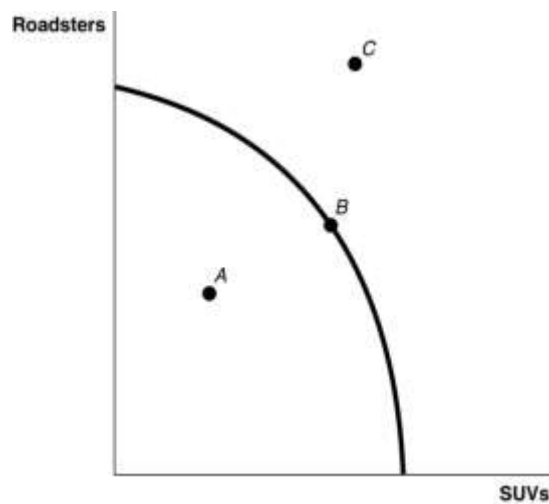
44. The attainable production points on a production possibility curve are
- A) the horizontal and vertical intercepts.
 - B) the points along the production possibilities frontier.
 - C) the points outside the area enclosed by the production possibilities frontier.
 - D) the points along and inside the production possibility frontier.

Answer: D

45. The points outside the production possibilities frontier are
- A) efficient.
 - B) attainable.
 - C) inefficient.
 - D) unattainable.

Answer: D

46.



- Refer to Figure .** Point B is
- A) technically efficient.
 - B) unattainable with current resources.
 - C) inefficient in that not all resources are being used.
 - D) the equilibrium output combination.

Answer: A

47. Refer to Figure 2.1. Point C is

- A) technically efficient.
- B) unattainable with current resources.
- C) inefficient in that not all resources are being used.
- D) is the equilibrium output combination.

Answer: B

48. You explain to your friend Haslina, who runs a catering service called "Meals in a Zip," about an economic theory that asserts that consumers will purchase less of a product at higher prices than they will at lower prices. She contends that the theory is incorrect because over the past two years she has raised the price of her catered meals and yet has seen a brisk increase in sales. How should you respond to Haslina?

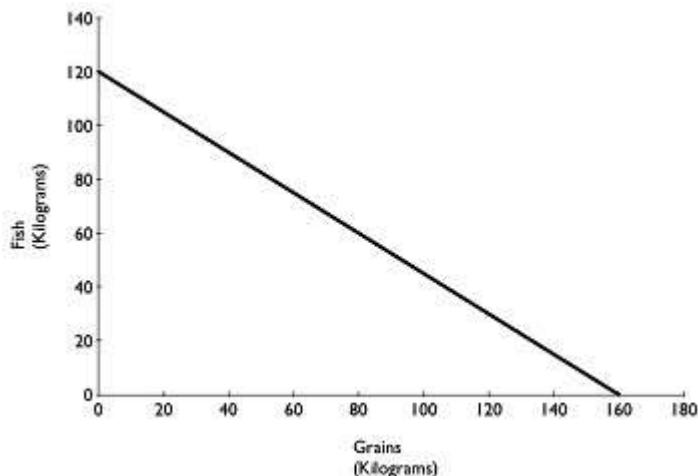
- A) Haslina is right; she has evidence to back her claim. The theory must be erroneous.
- B) I would explain to her that she is making the error of reverse causality: it is the increase in demand that has enabled her to raise her prices.
- C) I would explain to her that there are some omitted variables that have contributed to an increase in her sales such as changes in income.
- D) Haslina is making the mistake of assuming that correlation implies causation.

Answer: C

49. If the production possibilities frontier is _____, then opportunity costs are constant as more of one good is produced.

- A) bowed out
- B) bowed in
- C) nonlinear
- D) linear

Answer: D



50. *Refer to Figure .* What is the opportunity cost of one kilogram of grain?

- A) $\frac{3}{4}$ kilograms of fish
- B) 1.2 kilograms of fish
- C) $1\frac{1}{3}$ kilograms of fish
- D) 12 kilograms of fish

Answer: A

51. *Refer to Figure .* What is the opportunity cost of one kilogram of meat?

- A) $\frac{3}{4}$ kilogram of grain
- B) $1\frac{1}{3}$ kilograms of grain
- C) 1.6 kilograms of grain
- D) 16 kilograms of grain

Answer: B

52. A production possibilities frontier with a bowed outward shape indicates

- A) the possibility of inefficient production.
- B) constant opportunity costs as more and more of one good is produced.
- C) increasing opportunity costs as more and more of one good is produced.
- D) decreasing opportunity costs as more and more of one good is produced.

Answer: C

53. _____ opportunity cost implies that as more resources are applied to producing one good, that production increases by smaller and smaller amounts.

- A) Increasing
- B) Decreasing
- C) Constant
- D) Negative

Answer: A

Production choices for Tomaso's Trattoria

| Choice | Quantity of Pizzas Produced | Quantity of Calzones Produced |
|--------|-----------------------------|-------------------------------|
| A | 48 | 0 |
| B | 36 | 15 |
| C | 24 | 30 |

| | | |
|---|----|----|
| D | 12 | 45 |
| E | 0 | 60 |

54. Refer to Table . Assume Tomaso's Trattoria only produces pizzas and calzones. A combination of 24 pizzas and 30 calzones would appear

- A) along Tomaso's production possibilities frontier.
- B) inside Tomaso's production possibilities frontier.
- C) outside Tomaso's production possibilities frontier.
- D) at the horizontal intercept of Tomaso's production possibilities frontier.

Answer: A

55. Assume Tomaso's Trattoria only produces pizzas and calzones. A combination of 24 pizzas and 15 calzones would appear

- A) along Tomaso's production possibilities frontier.
- B) inside Tomaso's production possibilities frontier.
- C) outside Tomaso's production possibilities frontier.
- D) at the horizontal intercept of Tomaso's production possibilities frontier.

Answer: B

56. An outward shift of a nation's production possibilities frontier represents

- A) economic growth.
- B) rising prices of the two goods on the production possibilities frontier model.
- C) an impossible situation.
- D) a situation in which a country produces more of one good and less of another.

Answer: A

57. Economic decline (negative growth) is represented on a production possibilities frontier model by the production possibility frontier

- A) shifting outward.
- B) shifting inward.
- C) becoming steeper.
- D) becoming flatter.

Answer: B

58. Which of the following would shift a nation's production possibilities frontier outward?

- A) discovering a cheap way to convert sunshine into electricity
- B) an increase in demand for the nation's products
- C) a decrease in the unemployment rate
- D) a law requiring workers to retire at age 50

Answer: A

59. A production possibilities frontier with a bowed outward shape indicates

- A) the possibility of inefficient production.
- B) constant opportunity costs as more and more of one good is produced.
- C) increasing opportunity costs as more and more of one good is produced.
- D) decreasing opportunity costs as more and more of one good is produced.

Answer: C

60. Suppose there is no unemployment in the economy and society decides that it wants more of one good. Which of the following statements is *true*?

- A) It can only achieve this with an advance in technology.
- B) It can increase output without giving up another good.
- C) It can only achieve this with an increase in resource supplies.
- D) It will have to give up production and consumption of some other good.

Answer: D

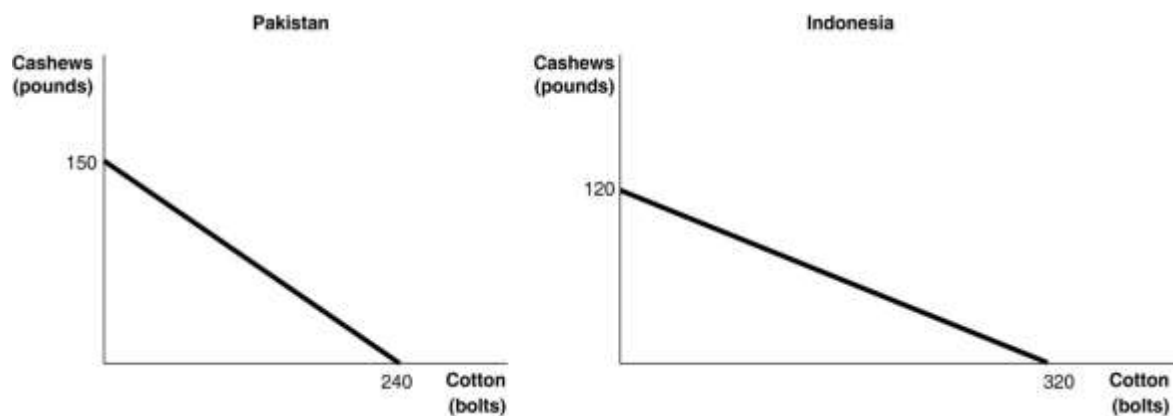


Figure shows the production possibilities frontiers for Pakistan and Indonesia. Each country produces two goods, cotton and cashews.

61. *Refer to Figure .* What is the opportunity cost of producing 1 bolt of cotton in Pakistan?

- A) $\frac{3}{8}$ of a pound of cashews
- B) $\frac{5}{8}$ of a pound of cashews

- C) 1 $\frac{3}{5}$ pounds of cashews
- D) 150 pounds of cashews

Answer: B

62. Refer to Figure . What is the opportunity cost of producing 1 bolt of cotton in Indonesia?

- A) $\frac{3}{8}$ of a pound of cashews
- B) $\frac{5}{8}$ of a pound of cashews
- C) 2 $\frac{2}{3}$ pounds of cashews
- D) 120 pounds of cashews

Answer: A

63. Refer to Figure . What is the opportunity cost of producing 1 pound of cashews in Pakistan?

- A) $\frac{3}{8}$ of a bolt of cotton
- B) $\frac{5}{8}$ of a bolt of cotton
- C) 1 $\frac{3}{5}$ bolts of cotton
- D) 240 bolts of cotton

Answer: C

64. Refer to Figure What is the opportunity cost of producing 1 pound of cashews in Indonesia?

- A) $\frac{3}{8}$ of a bolt of cotton
- B) $\frac{5}{8}$ of a bolt of cotton
- C) 2 $\frac{2}{3}$ bolts of cotton
- D) 320 bolts of cotton

Answer: C

65. Refer to Figure . Which country has a comparative advantage in the production of cashews?

- A) Indonesia
- B) They have equal productive abilities.
- C) Pakistan
- D) neither country

Answer: C

66. If the best surgeon in town is also the best at cleaning swimming pools, then according to economic reasoning, this person should

- A) pursue the activity he enjoys more.
- B) specialize in cleaning swimming pools because it is more labour-intensive.
- C) split his time evenly between being a surgeon and cleaning swimming pools.
- D) specialize in being a surgeon because its opportunity cost is lower.

Answer: D

67. The _____ demonstrates the roles played by households and firms in the market system.

- A) production possibilities frontier
- B) circular flow model
- C) theory of comparative advantage
- D) business cycle

Answer: B

68. Households

- A) have no influence on the circular flow in a market economy.
- B) purchase resources in the factor market.
- C) sell goods in the product market.
- D) sell resources in the factor market.

Answer: D

69. In the circular flow model, producers

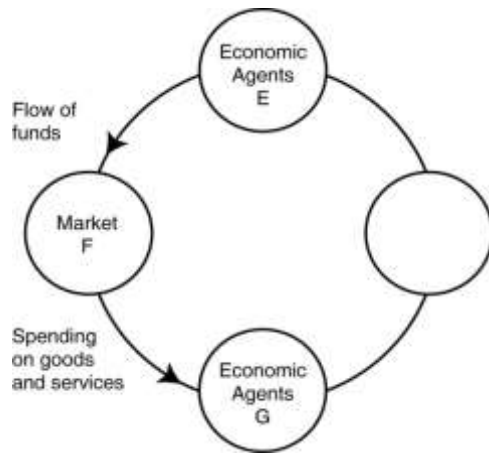
- A) sell goods and services in the input market.
- B) and households spend earnings from resource sales on goods and services in the factor market.
- C) hire resources sold by households in the factor market.
- D) spend earnings from resource sales on goods and services in the product market.

Answer: C

70. What is the opportunity cost of a provincial government raising taxes to pay for increased spending on health care?

- A) less private consumption
- B) more private consumption
- C) lower tax revenue
- D) cuts to other government programs

Answer: A



71. Refer to Figure . One segment of the circular flow diagram in the figure shows the flow of funds from economic agents *E* to market *F*. Who are economic agents *E* and what is market *F*?

- A) *E* = households; *F* = product markets
- B) *E* = firms; *F* = product markets
- C) *E* = households; *F* = factor markets
- D) *E* = firms; *F* = factor markets

Answer: A

72. Adam Smith's invisible hand refers to

- A) the government's unobtrusive role in ensuring that the economy functions efficiently.
- B) property ownership laws and the rule of the court system.
- C) the process by which individuals acting in their own self-interest bring about a market outcome that benefits society as a whole.
- D) the laws of nature that influence economics decisions.

Answer: C

73. The primary purpose of _____ is to encourage the expenditure of funds on research and development to create new products.

- A) centrally planned economies
- B) government-run health care
- C) nationalizing oil companies
- D) patents and copyrights

Answer: D

75. A successful market economy requires

- A) a government-controlled banking system and government price controls.
- B) well-defined property rights and an independent court system to adjudicate disputes based on the law.
- C) generous unemployment benefits and paid medical leave for everyone in the labour force.
- D) an equitable distribution of income and limits on immigration.

Answer: B

76. Which of the following statements about an entrepreneur is *true*?

- A) An entrepreneur purchases other factors of production in the output market.
- B) An entrepreneur develops the vision for the firm and funds the producing unit.
- C) An entrepreneur sells entrepreneurial services in the output market.
- D) An entrepreneur does not face personal risk.

Answer: B

77. The circular flow model demonstrates

- A) the role of the government in overseeing the market system.
- B) the roles played by households and firms in the market system.
- C) how shortages and surpluses are eliminated in a market.
- D) how demand and supply for goods and services are brought into equilibrium.

Answer: B

78. Which of the following is *not* an example of spending on goods and services in the circular flow model?

- A) Amanda purchases a new electric guitar to pursue her hobby seriously.
- B) Chaitanya buys a new spa pedicure chair for her expanding nail salon business.
- C) Hernan buys a pizza at Papa C's.
- D) Lenny buys a new digital camera to take pictures at his son's graduation.

Answer: B

79. If property rights are not well enforced, which of the following is *not* likely to occur?

- A) Fewer goods and services will be produced.
- B) Economic efficiency will be reduced.
- C) An economy will produce inside its production possibilities frontier.
- D) A significant number of people will be willing to risk their funds by investing them in local businesses.

Answer: D

80. A successful market economy requires well-defined property rights and

- A) balanced supplies of all factors of production.
- B) an independent court system to adjudicate disputes based on the law.
- C) detailed government regulations.
- D) a safety net to ensure that those who cannot participate in the market economy can earn an income.

Answer: B

Ch3

81. Following the successful launch of Red Bull in the Canadian market in 2004, companies such as Coca Cola, Pepsi, and many others have introduced products to compete with Red Bull. The energy drinks introduced to compete with Red Bull would be considered

- A) complements to Red Bull.

- B) substitutes for Red Bull.
- C) inferior goods compared to Red Bull.
- D) normal goods compared to Red Bull.

Answer: B

82. The demand by all the consumers of a given good or service is the _____ for the good or service.

- A) market demand
- B) quantity demanded
- C) law of demand
- D) scheduled demand

Answer: A

83. If, in response to an increase in the price of chocolate, the quantity demanded of chocolate decreases economists would describe this as

- A) a decrease in demand.
- B) a decrease in quantity demanded.
- C) a change in consumer income.
- D) a decrease in consumers' taste for chocolate.

Answer: B

84. By drawing a demand curve with _____ on the vertical axis and _____ on the horizontal axis, economists assume that the most important determinant of the demand for a good is the _____ of the good.

- A) quantity; price; quantity
- B) price; quantity; quantity
- C) price; quantity; price
- D) quantity; price; price

Answer: C

85. The income effect of a price change refers to the impact of a change in

- A) income on the price of a good.
- B) demand when income changes.
- C) the quantity demanded when income changes.
- D) the price of a good on a consumer's purchasing power.

Answer: D

86. If a demand curve shifts to the right, then

- A) demand has increased.
- B) quantity demanded has increased.

- C) demand has decreased.
D) quantity demanded has decreased.
Answer: A

| Loose Leaf Tea Price per kg (dollars) | Sunil's Quantity Demanded (kgs) | Mia's Quantity Demanded (kgs) | Rest of Market Quantity Demanded (kgs) | Market Quantity Demanded (kgs) |
|--|--|--|---|---|
| \$8 | 4 | 0 | 30 | |
| 6 | 7 | 2 | 40 | |
| 5 | 9 | 3 | 51 | |
| 4 | 12 | 5 | 64 | |
| 3 | 15 | 8 | 90 | |

87. Refer to Table . The table above shows the demand schedules for loose-leaf tea of two individuals (Sunil and Mia) and the rest of the market. At a price of \$5, the quantity demanded in the market would be

- A) 51 kgs.
B) 63 kgs.
C) 76 kgs
D) 146 kgs.

Answer: B

88. Refer to Table. The table above shows the demand schedules for loose-leaf tea of two individuals (Sunil and Mia) and the rest of the market. If the price of loose-leaf tea rises from \$3 to \$4, the market quantity demanded would

- A) decrease by 32 kgs.
B) increase by 64 kgs.
C) increase by 32 kgs.
D) decrease by 64 kgs.

Answer: A

89. The income effect of a price change refers to the impact of a change in

- A) income on the price of a good.
B) demand when income changes.
C) the quantity demanded when income changes.
D) the price of a good on a consumer's purchasing power.

Answer: D

90. Which of the following will shift the demand curve for a good?

- A) a change in the technology used to produce the good
B) an increase in the price of the good

- C) a decrease in the price of a complementary good
- D) a decrease in the price of the good

Answer: C

91. A movement along the demand curve for toothpaste would be caused by

- A) a change in the price of toothbrushes.
- B) a change in consumer income.
- C) a change in the price of toothpaste.
- D) a change in population.

Answer: C

92. The _____ effect refers to the change in quantity demanded for a good that results from the effect of a change in the good's price on consumer's purchasing power.

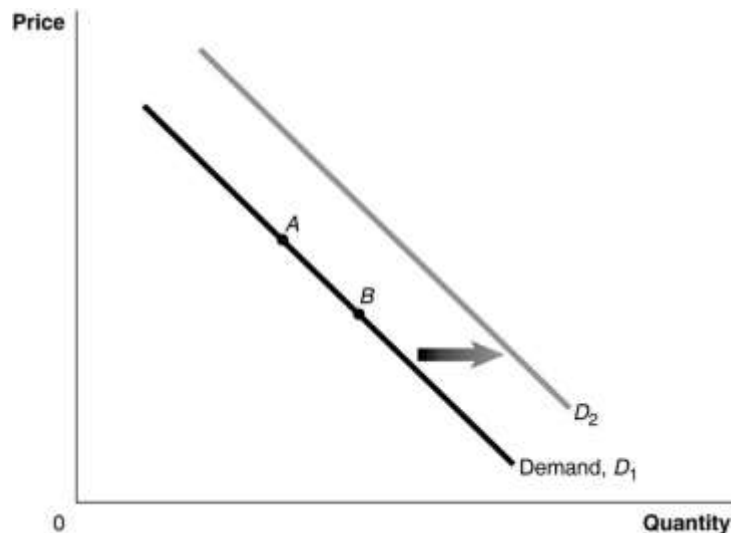
- A) *ceteris paribus*
- B) population
- C) substitution
- D) income

Answer: D

93. If an increase in income leads to a decrease in the demand for popcorn, then popcorn is

- A) an inferior good.
- B) a neutral good.
- C) a necessity.
- D) a normal good.

Answer: A



94. Refer to Figure . An increase in population would be represented by a movement from

- A) A to B .
- B) B to A .
- C) D_1 to D_2 .
- D) D_2 to D_1 .

Answer: C

95. Refer to Figure . A case in which consumers no longer cared for a product would be represented by a movement from

- A) A to B .
- B) B to A .
- C) D_1 to D_2 .
- D) D_2 to D_1 .

Answer: D

96. When deciding on which new products to develop, a firm must devote people, time, and money to designing a new product. Because any firm has only limited resources, it

- A) should wait until its competitors develop a similar product before deciding on devoting resources to its own product development.
- B) is not able to develop more than one new product at a time.
- C) must be certain that the product it chooses to develop will be successful or it will not be able to stay in business.
- D) faces a trade-off, because resources used to develop one product will not be available to develop another product.

Answer: D

97. For each of the following pairs of products, state which are complements, which are substitutes, and which are unrelated.

- a. digital camera and memory stick
- b. 7Up and Mountain Dew
- c. swimsuits and flip-flops
- d. Tylenol and cat food
- e. photocopier and paper

Answer:

- a. complements
- b. substitutes
- c. complements
- d. unrelated
- e. complements

98. Holding everything else constant, a decrease in the price of GPS systems will result in

- A) a decrease in the quantity of GPS systems demanded.
- B) an increase in the demand for GPS systems.
- C) a decrease in the supply of GPS systems.
- D) an increase in the quantity of GPS systems demanded.

Answer: D

99. If the price of potato chips falls, the substitution effect due to the price change will cause

- A) an increase in the demand for potato chips.
- B) an increase in the demand for corn chips, a substitute for potato chips.
- C) an increase in the quantity of potato chips demanded.
- D) a decrease in the quantity of potato chips demanded.

Answer: C

100. If consumers view tablet computers as good replacements for _____, demand will most likely be greater than if consumers view tablet computers as good replacements for _____.

- A) e-readers; laptop computers
- B) e-readers; desktop computers
- C) desktop computers; computers in general
- D) laptop computers; e-readers

Answer: D

101. A supply schedule

- A) is a table that shows the relationship between the price of a product and the quantity of the product supplied.
- B) is a curve that shows the relationship between the price of a product and the quantity of the product supplied.
- C) is the relationship between the supply of a good and the cost of producing the good.
- D) is a table that shows the relationship between the price of a product and the quantity of the product that producers and consumers are willing to exchange.

Answer: A

102. If, in the market for oranges, the supply has increased, then

- A) the supply curve for oranges has shifted to the right.
- B) the supply curve for oranges has shifted to the left.
- C) there has been a movement upwards along the supply curve for oranges.
- D) there has been a movement downwards along the supply curve for oranges.

Answer: A

103. What is the difference between an "increase in supply" and an "increase in quantity supplied"?

- A) There is no difference between the two terms; they both refer to a shift of the supply curve.
- B) There is no difference between the two terms; they both refer to a movement along a given

supply curve.

C) An "increase in supply" means the supply curve has shifted to the right while an "increase in quantity supplied" means at any given price supply has increased.

D) An "increase in supply" means the supply curve has shifted to the right while an "increase in quantity supplied" refers to a movement along a given supply curve in response to an increase in price.

Answer: D

104. Which of the following would cause a decrease in the supply of milk?

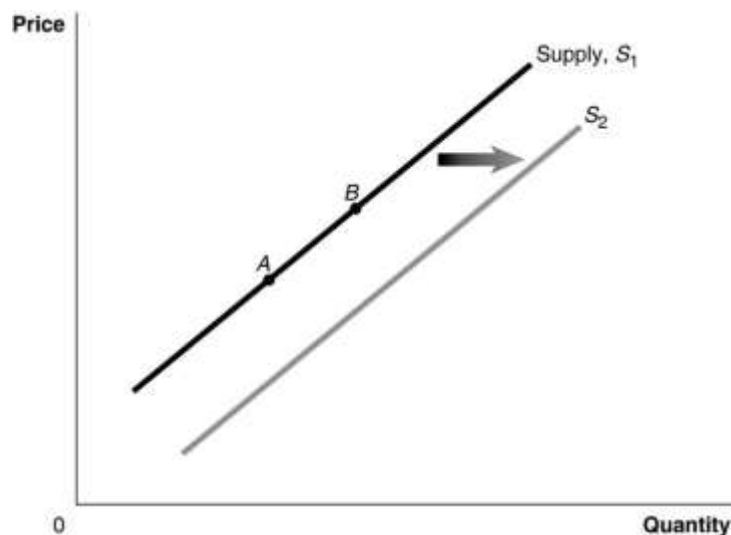
A) an increase in the price of cookies (assuming that milk and cookies are complements)

B) a decrease in the price of milk

C) an increase the price of a product that producers sell instead of milk

D) an increase in the number of firms that produce milk

Answer: C



105. Refer to Figure . An increase in price of inputs would be represented by a movement from

A) A to B.

B) B to A.

C) S_1 to S_2 .

D) S_2 to S_1 .

Answer: D

106. Refer to Figure . An increase in the number of firms in the market would be represented by a movement from

A) A to B.

- B) B to A .
- C) S_1 to S_2 .
- D) S_2 to S_1 .

Answer: C

107. If Canada bans the importation of beluga caviar (the most prized of caviars) from the Caspian Sea, what happens in the market for caviar in Canada?

- A) The supply curve shifted to the left.
- B) The supply curve shifted to the right.
- C) The demand curve shifted to the right.
- D) The demand curve shifted to the left.

Answer: A

108. Danielle Ocean pays for monthly pool maintenance for her home swimming pool. Last week the owner of the pool service informed Danielle that she will have to raise her monthly service fee because of increases in the price of pool chemicals. How is the market for pool maintenance services affected by this?

- A) There is an increase in the supply of pool maintenance services.
- B) There is a decrease in the demand for pool maintenance services.
- C) There is a decrease in the quantity of pool maintenance services supplied.
- D) There is a decrease in the supply of pool maintenance services.

Answer: D

109. The popularity of digital cameras has enticed large discount stores like Walmart and Costco to offer digital photo printing services. How does this affect the digital photo printing market?

- A) The demand curve for digital photo printing services shifts to the right.
- B) The demand curve for digital photo printing services shifts to the left.
- C) The supply curve for digital photo printing services shifts to the right.
- D) The supply curve for digital photo printing services shifts to the left.

Answer: C

110. Which of the following would shift the supply curve for MP3 players to the right?

- A) an increase in the price of a substitute in production
- B) an increase in consumer income (assuming that all MP3 players are normal goods)
- C) a decrease in the number of firms that produce MP3 players
- D) a decrease in the price of an input used to produce MP3 players

Answer: D

111. Indicate whether each of the following situations would shift the supply curve to the left, to the right, or not at all.

- a. An increase in the number of firms in the market
- b. An increase in the current price of the product

- c. A decrease in productivity
- d. An increase in the expected future price of a product
- e. A decrease in the price of an input

Answer:

- a. Shift to the right
- b. No shift
- c. Shift to the left
- d. Shift to the left
- e. Shift to the right

112. Last month, the Tecumseh Corporation supplied 400 units of three-ring binders at \$6 per unit. This month, the company supplied the same quantity of binders at \$4 per unit. Based on this evidence, Tecumseh has experienced

- A) a decrease in supply.
- B) an increase in supply.
- C) an increase in the quantity supplied.
- D) a decrease in the quantity supplied.

Answer: B

113. Farmers can plant either wheat or lentils in their fields. Which of the following would cause the supply of lentils to increase?

- A) an increase in the price of lentils
- B) a decrease in the price of wheat
- C) an increase in the demand for wheat
- D) an increase in the price of soybean seeds

Answer: B

114. Which of the following would shift the supply curve for energy drinks to the left?

- A) a decrease in the expected future price of energy drinks
- B) an increase in consumer income (assuming that energy drinks are normal goods)
- C) a decrease in the number of firms that produce energy drinks
- D) a decrease in the price of an input used to produce energy drinks

Answer: C

115. Indicate whether each of the following situations would shift the supply curve to the left, to the right, or not at all.

- a. an increase in the price of an input
- b. an increase in productivity
- c. an increase in the price of a substitute in production
- d. a decrease in the expected future price of a product
- e. a decrease in the current price of the product

Answer:

- a. shift to the left
- b. shift to the right
- c. shift to the left
- d. shift to the right
- e. no shift

116. Which of the following is the correct way to describe equilibrium in a market?

- A) At equilibrium, demand equals supply.
- B) At equilibrium, quantity demanded equals quantity supplied.
- C) At equilibrium, market forces no longer apply.
- D) At equilibrium, scarcity is eliminated.

Answer: B

117. At a product's equilibrium price,

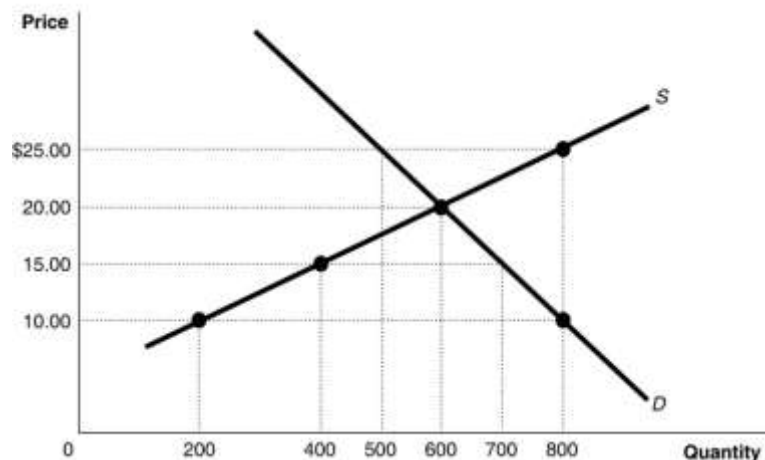
- A) the product's demand curve is the same as the product's supply curve.
- B) the quantity of the product demanded is greater than the quantity of the product supplied.
- C) the quantity of the product demanded is less than the quantity of the product supplied.
- D) the product's demand curve crosses the product's supply curve.

Answer: D

118. In 2011, floods damaged a large portion of the wheat crop in the prairie provinces. As a result of this, many farmers were not able to supply wheat to the market. As a result of the flooding, what would we expect to see in the market for wheat at the original equilibrium price?

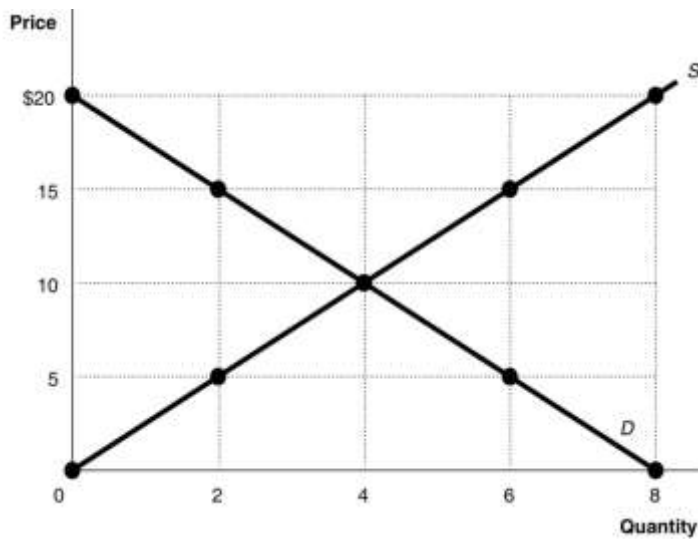
- A) a surplus of wheat
- B) the quantity demanded equal to the quantity supplied
- C) a shortage of wheat
- D) an increase in the demand for wheat

Answer: C



- 119. Refer to Figure .** If the price is \$10,
- A) there would be a surplus of 600 units.
 - B) there would be a shortage of 600 units.
 - C) there would be a surplus of 200 units.
 - D) there would be a shortage of 200 units.
- Answer: B

- 120. Refer to Figure .** At a price of \$10, how many units will be sold?
- A) 200
 - B) 400
 - C) 600
 - D) 800
- Answer: A



- 121. Refer to Figure .** At a price of \$15,
- A) there would be a surplus of 4 units.
 - B) there would be a shortage of 2 units.
 - C) there would be a surplus of 6 units.
 - D) there would be a shortage of 4 units.
- Answer: A

122. *Refer to Figure .* At a price of \$5, the quantity sold

- A) is 2 units.
- B) is 4 units.
- C) is 6 units.
- D) cannot be determined.

Answer: A

123. *Refer to Figure .* In a free market such as that depicted above, a surplus is eliminated by

- A) a price increase, increasing the supply and decreasing the demand.
- B) a price decrease, decreasing the supply and increasing the demand.
- C) a price decrease, decreasing the quantity supplied and increasing the quantity demanded.
- D) a price increase, increasing the quantity supplied and decreasing the quantity demanded.

Answer: C

124. Auctions in recent years have resulted in higher prices paid for Jacques Plante (goalie) hockey cards than Sidney Crosby (forward) rookie cards. What is a reason for this difference in price?

- A) There is a surplus of Plante hockey cards and a shortage of Crosby rookie cards.
- B) Many people are more fascinated by hockey goalies than by hockey forwards.
- C) There are more Crosby rookie cards available for collectors to buy than there are Plante cards.
- D) Plante was the first goalie to wear a mask in a game; the demand for his cards rose as wealthy former goalies attempted to buy them as thanks for still having teeth.

Answer: C

125. If the quantity demanded for a product exceeds the quantity supplied, the market price will rise until

- A) the quantity demanded equals the quantity supplied. The product will then no longer be scarce.
- B) quantity demanded equals quantity supplied. The equilibrium price will then be greater than the market price.
- C) only wealthy consumers will be able to afford the product.
- D) quantity demanded equals quantity supplied. The market price will then equal the equilibrium price.

Answer: D

126. Olive oil producers want to sell more olive oil at a higher price. Which of the following events would have this effect?

- A) an increase in the price of olive oil presses
- B) a decrease in the cost of transporting olive oil to markets
- C) an increase in the price of land used to plant olives
- D) Research finds that consumption of olive oil reduces the risk of heart disease.

Answer: D

127. Which of the following would cause both the equilibrium price and equilibrium quantity of cotton (assume that cotton is a normal good) to increase?

- A) an increase in consumer income
- B) a drought that sharply reduces cotton output
- C) a decrease in consumer income
- D) unusually good weather that results in a bumper crop of cotton

Answer: A

128. Assume that the hourly price for the services of tarot card readers has risen and sales of these services have also risen. One can conclude that

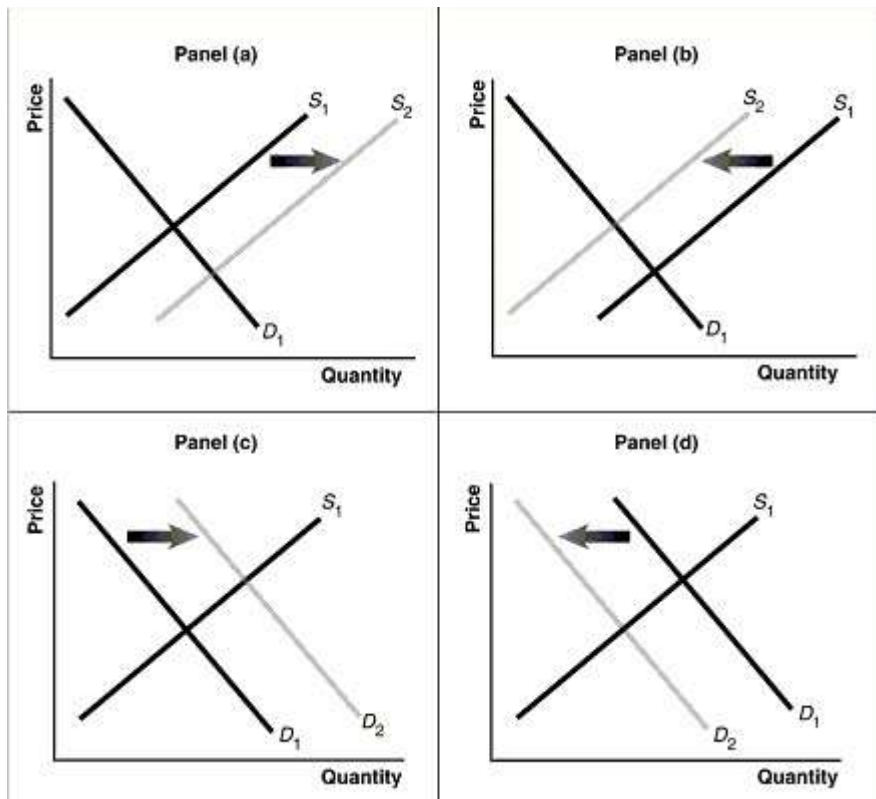
- A) the law of demand has been violated.
- B) the number of tarot card readers has increased.
- C) the demand for tarot card readers has increased.
- D) tarot card readers are deliberately charging high prices because they provide services for superstitious clients.

Answer: C

129. Prices of BC Merlot wine (assume that this is a normal good) have risen steadily in recent years. Over this same period, prices for French oak barrels used for wine storage have dropped and consumer incomes have risen. Which of the following best explains the rising prices of BC Merlots?

- A) The supply curve for Merlot has shifted to the right while the demand curve for Merlot has shifted to the left.
- B) The demand curve for Merlot has shifted to the right more than the supply curve has shifted to the right.
- C) The demand curve and the supply curve for Merlot have both shifted to the left.
- D) The supply curve for Merlot has shifted to the right more than the demand curve has shifted to the right.

Answer: B



130. Refer to Figure . Assume that the graphs in this figure represent the demand and supply curves for bicycle helmets. Which panel best describes what happens in this market if there is a substantial increase in the price of bicycles?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: D

131. **Refer to Figure .** Assume that the graphs in this figure represent the demand and supply curves for women's clothing. Which panel best describes what happens in this market when the wages of seamstresses rise?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: B

132. **Refer to Figure .** Assume that the graphs in this figure represent the demand and supply curves for Fruitopia, a soft drink. Which panel describes what happens in the market for Fruitopia when the price of Snapple, a substitute product, decreases?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: D

133. If the demand for Sidney Crosby hockey cards is greater than the demand for Jacques Plante hockey cards, what would have to be true for the market equilibrium prices for these hockey cards to be equal?

- A) The supply of Crosby hockey cards would have to be less than the supply of Plante hockey cards.
- B) The supply of Plante hockey cards would have to be less than the supply of Crosby hockey cards.
- C) The supply of Crosby hockey cards and the supply of Plante hockey cards would have to be equal.
- D) If the demand for Crosby hockey cards is greater than the demand for Plante hockey cards, the market equilibrium price for Crosby hockey cards will always be greater than the market equilibrium price for Plante hockey cards.

Answer: B

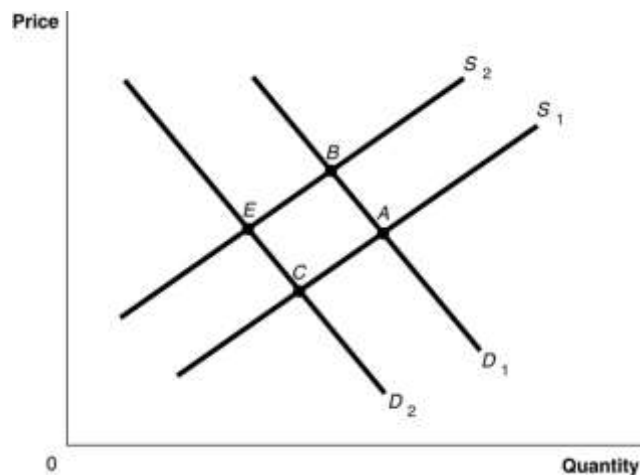
134. Positive technological change in the production of LCD televisions caused the price of LCD televisions to fall. Holding everything else constant, how would this affect the market for Blu-ray players (a complement to LCD televisions)?

- A) The supply of blu-ray players would increase and the equilibrium price of blu-ray players would decrease.
- B) The demand for blu-ray players would increase and the equilibrium price of blu-ray players would increase.

C) The demand for blu-ray players would decrease because consumers could afford to buy fewer LCD televisions and blu-ray players.

D) The demand for blu-ray players would increase and the equilibrium price of blu-ray players would decrease.

Answer: B



135. Refer to Figure . The graph in this figure illustrates an initial competitive equilibrium in the market for apples at the intersection of D_1 and S_1 (point A). If worms eat half the apple crop, how will the market equilibrium point change?

A) The equilibrium point will move from A to B.

B) The equilibrium point will move from A to C.

C) There will be no change in the equilibrium point.

D) The equilibrium point will move from A to E.

Answer: A

136. Refer to Figure. The graph in this figure illustrates an initial competitive equilibrium in the market for apples at the intersection of D_2 and S_2 (point E). Which of the following changes would cause the equilibrium to change to point A?

A) a positive change in the technology used to produce apples and decrease in the price of oranges, a substitute for apples

B) an increase in the wages of apple workers and a decrease in the price of oranges, a substitute for apples

C) an increase in the number of apple producers and a decrease in the number of apple trees as a result of disease

D) a decrease in the wages of apple workers and an increase in the price of oranges, a substitute for apples

Answer: D

137. Refer to Figure . The graph in this figure illustrates an initial competitive equilibrium in the market for apples at the intersection of D_1 and S_1 (point A). If there is an increase in the wages of apple workers and an increase in the price of oranges, a substitute for apples, the equilibrium could move to which point?

A) none of the points shown

B) B

C) C

D) E

Answer: A

138. Which of the following statements is *true*?

A) An increase in demand causes a change in equilibrium price; the change in price does not cause a further change in demand or supply.

B) A decrease in supply causes equilibrium price to rise; the increase in price then results in a decrease in demand.

C) If both demand and supply increase, there must be an increase in equilibrium price; equilibrium quantity may either increase or decrease.

D) If demand decreases and supply increases, one cannot determine if equilibrium price will increase or decrease without knowing which change is greater.

Answer: A

139. A decrease in the equilibrium price for a product will result

A) when the quantity demanded for the product exceeds the quantity supplied.

B) when there is a decrease in supply and a decrease in demand for the product.

C) when there is an increase in supply and a decrease in demand for the product.

D) when there is a decrease in demand and a decrease in the number of firms producing the product.

Answer: C

140. In recent years the cost of producing wines in Canada has increased, largely due to rising rent for vineyards. At the same time, an increasing number of Canadians say they prefer wine to beer. Which of the following best explains the effect of these events on the wine market?

A) The supply curve has shifted to the left and the demand curve has shifted to the right. As a result, there has been an increase in the equilibrium quantity and an uncertain effect on the equilibrium price.

B) Both the supply and demand curves have shifted to the right. As a result, there has been an increase in the equilibrium price and an uncertain effect on the equilibrium quantity.

C) Both the supply and demand curves have shifted to the right. As a result, there has been an increase in both the equilibrium price and the equilibrium quantity.

D) The supply curve has shifted to the left and the demand curve has shifted to the right. As a

result, there has been an increase in the equilibrium price and an uncertain effect on the equilibrium quantity.

Answer: D