

Old Exam Questions Which Cover Chapter 1 Topics

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

- 1) All economics questions and problems arise because 1) _____
A) political parties always disagree.
B) people don't work hard enough.
C) the rich take too much and don't leave enough for the poor.
D) human wants exceed resources available.
- 2) Economists use the idea of rational choice to 2) _____
A) describe how people do not always do what is best.
B) explain how people may make mistakes by not using available information.
C) describe how average people do not properly use economic ideas.
D) explain how people use available resources to make the best choice.
- 3) Which of the following statements is **false**? 3) _____
A) Anytime you have to decide which action to take, you are facing an economic trade-off.
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) Economics is a social science that studies the trade-offs we are forced to make because of scarcity.
D) Every individual, no matter how rich or poor, is faced with making trade-offs.
- 4) Ted quits his \$60,000-a-year job to be a stay-at-home dad. What is the opportunity cost of his decision? 4) _____
A) the value he attributes to the joy of parenting
B) depends on the "going rate" for stay-at-home dads
C) at least \$60,000
D) 0 since he will no longer be earning a salary
- 5) Suppose that you are offered the chance to babysit Dr. Nelson's boys tonight. Dr. Nelson is willing to pay \$30 for the 3 hours of babysitting. If you don't babysit you would use a free ticket that you have to go to the Bob Dylan concert. If you had to buy a ticket for the concert, you would be willing to pay \$100. What is the opportunity cost of babysitting Dr. Nelson's boy? 5) _____
A) \$30 B) \$40 C) \$70 D) \$100 E) \$0
- 6) Which of the following most likely produces "equity" over "efficiency"? 6) _____
A) progressive income tax system B) flat income tax system
- 7) Which of the following is an example of **positive statement**? 7) _____
A) "An increase in the minimum wage causes higher fast food prices."
B) "The minimum wage law is a good law to have."
C) "Allowing public utilities to charge higher prices for electricity is wrong because a public agency should not earn profits."
D) "Current gas prices are shamefully high."
E) More than one of the above is a positive statement

- 8) Which of the following is a normative statement? 8) _____
- A) Fifteen percent of Americans do not have health insurance.
 - B) President Obama's healthcare plan is a bad idea.
 - C) The number of doctors in the US has risen by 10% over the past 5 years.
 - D) Some employers offer healthcare benefits.
 - E) None of the above is a normative statement.
- 9) Which of the following is a positive economic statement? 9) _____
- A) If the price of gasoline rises, a smaller quantity of it will be bought.
 - B) It would be a good outcome if everyone had the same standard of living.
 - C) The government should close income tax loopholes.
 - D) U.S. firms should not be allowed to outsource production of goods and services.
 - E) All of the above
- 10) A good theory is one that 10) _____
- A) describes the real world as closely as possible.
 - B) explains or predicts what it is designed to explain or predict.
 - C) has assumptions that mirror reality.
 - D) incorporates as many facts as possible.
 - E) All of the above are equally important
- 11) Which of the following statements is true about scarcity? 11) _____
- A) Scarcity is not a problem for the wealthy.
 - B) Scarcity refers to the situation in which unlimited wants exceed limited resources.
 - 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.
- 12) In economics, we assume that people are "rational". That is, economists believe that people 12) _____
- A) try to earn as much money as possible.
 - B) will not engage in activities such as smoking or gambling unless they are irrational.
 - C) only undertake actions if it is in their long-run interest to do so.
 - D) consider, from their personal perspective, the expected benefits and costs of actions and try to maximize their net benefits.
 - E) All of the above are correct
- 13) Consider the following statements: 13) _____
- a. Car owners purchase more gasoline from a gas station that sells gasoline at a lower price than other rival gas stations in the area.
 - b. Banks do not take steps to increase security since they believe it is less costly to allow some bank robberies than to install expensive security monitoring equipment.
 - c. Firms produce more of a particular DVD when its selling price rises.
- Which of the above statements demonstrates that economic agents respond to incentives?
- A) a only.
 - B) b only.
 - C) c only.
 - D) a and b.
 - E) a, b, and c.
- 14) Maria could go to school for a year and train to be an accountant at a cost of \$20,000 for her tuition and books. After the year, she can get a job earning \$60,000 per year. Maria also could not go to school and get a job earning \$25,000 per year right now. In terms of dollars, the opportunity cost of going to school for a year is 14) _____
- A) \$20,000.
 - B) \$30,000.
 - C) \$60,000
 - D) \$45,000.
 - E) \$25,000.

- 15) Pepe's Pizza Company is the owner of the building in which it is located. Pepe could rent out the building for \$4000 a month if he didn't use it for his restaurant. Bethany's Bakery pays \$4000 a month in rent for the building that she uses for her restaurant. Who faces the higher opportunity cost of the building they use for their restaurant? 15) _____
- A) Bethany
 - B) Pepe
 - C) Neither -- their opportunity costs for the buildings are equal
- 16) Which of the following correctly describes the relationship between *economic efficiency* and *economic equity*? 16) _____
- A) There is usually no conflict between the two goals.
 - B) There is often a trade-off between the two goals.
 - C) They are both automatically achieved in a free market economy.
 - D) Increased efficiency usually goes hand in hand with increased equity.
- 17) Which of the following statements concerning "equity" over "efficiency" is true? 17) _____
- A) It's usually the case that actions which increase equity cause increases in efficiency
 - B) Efficiency refers to how equally our economic rewards are distributed.
 - C) Equity refers to making our economic rewards as large as possible.
 - D) It's usually the case that actions which increase equity cause decreases in efficiency
 - E) More than one of the above is correct
- 18) Economics promotes which of the following as the way to make the best decision? 18) _____
- A) Continue an enjoyable activity until you cannot afford to pursue it.
 - B) Continue an enjoyable activity until it is no longer enjoyable.
 - C) Continue an enjoyable activity as long as you do not have to pay for it.
 - D) Continue an enjoyable activity up to the point where its marginal benefit equals its marginal cost.
- 19) Which of the following is a positive economic statement? 19) _____
- A) SUVs result in more emissions of CO₂ per mile driven than do compact cars.
 - B) The government ought to subsidize the purchase of compact cars.
 - C) It is wrong for people to buy SUVs.
 - D) The government should mandate the production of electric automobiles.
 - E) More than one of the above
- 20) Which of the following is a macroeconomics question? 20) _____
- A) How is the production quantity of digital cameras determined?
 - B) What determines the unemployment rate?
 - C) What factors determine the price of iPhones?
 - D) What determines the wages and benefits of flight attendants?
- 21) The three fundamental questions that any economy must address are 21) _____
- A) Who gets jobs; what wages do workers earn; and who owns what property?
 - B) What will be the prices of goods and services; how will these goods and services be produced; and who will receive them?
 - C) How much will be saved; what will be produced; and how can these goods and services be fairly distributed?
 - D) What goods and services to produce; how will these goods and services be produced; and who receives them?

22) In a market economy, those who are willing and able to buy what is produced 22) _____
A) solely determine what is produced.
B) receive the most of what is produced.
C) receives what the government allows them to receive.

23) Allocative efficiency is achieved when 23) _____
A) there are no shortages or surpluses in the market.
B) goods and services are fairly distributed among consumers in an economy.
C) firms produce the goods and services that consumers value most.
D) firms produce goods and services at the lowest cost.

24) As land prices increase over time, what changes are likely to occur in burial practices (other things equal)? 24) _____

As the opportunity cost of traditional burial _____, we should expect to see
_____ traditional burials and _____ cremations.

- | | |
|-----------------------------|-----------------------------|
| A) increases ; fewer ; more | B) increases ; more ; fewer |
| C) decreases ; fewer ; more | D) decreases ; more ; fewer |

25) In a market economy, _____ ultimately decide "what goods get produced", and _____ ultimately decide "how goods get produced". 25) _____
A) governments ; governments
B) consumers ; producers
C) producers ; producers
D) producers ; governments
E) producers ; consumers

26) If you own a building and you decide to use that building to open a restaurant: 26) _____
A) there is an opportunity cost of using this building for a restaurant because it could have been used in other ways.
B) the only cost relevant to this decision is the price you paid for the building.
C) there is no opportunity cost of using this building for a restaurant because you own it.

Table 1-1

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.

- 27) Refer to Table 1-1. What is Lydia's marginal benefit if she decides to stay open for two hours instead of one hour? 27) _____
 A) \$25 B) \$125 C) \$75 D) \$50
- 28) Which of the following is an example of irrational behavior (according to our definition of rationality)? 28) _____
 A) John doesn't save for this retirement.
 B) Inez smokes a pack of cigarettes a day despite knowing that it will harm her health.
 C) Lucas estimates that he'll get \$600 of benefit from buying a pair of downhill skis and the price of the skis is \$700. He decides to buy the skis.
 D) Steven loses an average of \$500 each week playing the lottery.
 E) All of the above are examples of irrational behavior.
- 29) Which of the following is an example of a normative statement? 29) _____
 A) The average rate of inflation in the United States during the 1990s was 3 percent.
 B) Setting forest fires in national parks should be made illegal by both federal laws and state laws.
 C) Wearing a seatbelt reduces the likelihood of injuries to passengers during a car crash.
 D) State governments providing tuition vouchers for top students has increased college enrollment.
 E) More than one of the above is correct
- 30) *Allocative efficiency* is achieved when 30) _____
 A) there are no shortages or surpluses in the market.
 B) goods and services are fairly distributed among consumers in an economy.
 C) firms produce goods and services at the lowest cost.
 D) firms produce the goods and services that consumers value most.

- 31) This afternoon, Charles can either study for his economics exam, play flag football with his friends, or work and earn \$40.00. Although Charles believes his grades are a big priority, he decides to go to work and does not seriously consider playing flag football. The opportunity cost of going to work is 31) _____
- A) the value of studying for his economics exam and \$40.00.
 - B) playing flag football with his friends.
 - C) \$40.00.
 - D) studying for his economics exam.
- 32) Which of the following is a microeconomic (as opposed to a macroeconomic) question? 32) _____
- A) What determines the national unemployment rate?
 - B) What determines the wages and benefits of flight attendants?
 - C) How is the quantity of digital cameras produced determined?
 - D) What factors determine the price of iPhones?
 - E) More than one of the above is correct
- 33) Which of the following is NOT one of the basic questions that an economic system attempts to answer? 33) _____
- A) How to eliminate choices?
 - B) What to produce?
 - C) For whom will goods and services be produced?
 - D) How many goods and services will be produced?
- 34) Which of the following statements is TRUE about scarcity? 34) _____
- A) Scarcity exists only when supply is insufficient to meet demand.
 - B) Scarcity exists only when a shortage exists.
 - C) Scarcity can be eliminated when a country becomes richer.
 - D) Both rich and poor people face the problem of scarcity.
- 35) Lionel's Lawn Care is a company that maintains residential yards. Lionel's cost for his standard package of mowing, edging, and trimming is \$15, and he charges \$25 for this service. For a total price of \$40, Lionel will also trim shrubs, a service that adds an additional \$10 to the total cost of the standard package. What is Lionel's marginal benefit of adding the shrub-trimming service to the standard package? 35) _____
- A) \$25 B) \$40 C) \$15 D) \$10
- 36) When goods and services are produced at the lowest possible cost, _____ occurs. 36) _____
- A) efficient central planning
 - B) equity
 - C) allocative efficiency
 - D) productive efficiency
- 37) Samia has decided that with the two hours in between classes she can do one of 3 things. She has ranked her choices, from highest to lowest as, (1) chat with her friends, (2) study economics or (3) take a nap. The opportunity cost of chatting with her friends is 37) _____
- A) the value of studying economics, the next best use of time.
 - B) the combined value of studying economics and taking a nap.
 - C) the value of chatting with her friends.
 - D) zero since she does not pay her friends to talk to her.

- 38) Because resources are limited: 38) _____
 A) the availability of goods will be limited but the availability of services will not.
 B) firms will be forced out of business.
 C) people must make choices.
 D) only the very wealthy can get everything they want.
- 39) Which of the following is normative statement? 39) _____
 A) "Income tax reductions cause the budget deficit to rise."
 B) "Monopolies are more innovative than other firms."
 C) "If tariffs on imported steel are raised, sales of US automakers will fall."
 D) "The tax burden on the poor in the US is too great."
 E) None of the above
- 40) Which of the following is an example of irrational behavior? 40) _____
 A) Turning down a job as an executive (which pays a salary of \$80,000) for a job as a white-water rafting guide (which pays a salary of \$18,000).
 B) Borrowing the maximum possible amount of money available from student loans, so that you can get the maximum enjoyment out of your college years.
 C) Choosing to get an MBA despite the fact that your marginal benefit of more schooling is less than your marginal cost.
 D) All of the above
- 41) An economy in which the interaction of individual buyers and sellers determines what to produce, how to produce, and who gets the products is a: 41) _____
 A) centrally planned economy. B) public goods economy.
 C) market-based economy. D) socialist economy.
- 42) Markets promote 42) _____
 A) competition and voluntary exchange. B) voluntary exchange and equality.
 C) equity and competition. D) equity and equality.

Table 1-2

Hours Open	Total Revenue (dollars)
1	\$25
2	45
3	70
4	90
5	105
6	110

Thuy Anh runs a small flower shop in the town of Florabunda. She is debating whether she should extend her hours of operation. Thuy Anh figures that her sales revenue will depend on the number of hours the flower shop is open as shown in the table above. She would have to hire a worker for those hours at a wage rate of \$16 per hour.

- 43) Refer to Table 1-2. Thuy Anh's **marginal benefit** of staying open for three hours instead of two hours is _____, and her **marginal cost** of doing so is _____. 43) _____
 A) \$25 ; \$16 B) \$70 ; \$16 C) \$9 ; \$9 D) \$70 ; \$48 E) \$9 ; \$48

- 44) A recent study (this is true) found that people that watch Fox News are less informed about current events than people that don't watch any news at all. Which of the following is a correct interpretation? 44) _____
- A) There is no causal relationship between watching Fox News and understanding current events.
 - B) Watching Fox News reduces people's knowledge about current events.
 - C) Either of the above may be true – we can't know without more information.
- 45) A mixed economic system is best described an economy with a mix of 45) _____
- A) for-profit organizations and not-for-profit organizations.
 - B) state and federal governments.
 - C) free markets and government control.
 - D) domestic and foreign buyers.
- 46) Which of the following is a positive (as opposed to a "normative") question? 46) _____
- A) Policymakers should act now to increase the minimum wage.
 - B) The minimum wage isn't a good policy.
 - C) Without the minimum wage, firms will unfairly exploit workers by paying low wages.
 - D) Raising the minimum wage results in higher teenage unemployment.
 - E) More than one of the above is correct
- 47) Serena could go to school for a year and train to be an accountant at a cost of \$30,000 for her tuition and books. After the year, she can get a job earning \$80,000 per year. She also could not go to school and get a job earning \$35,000 per year right now. Her room and board is \$15,000 per year, and she would incur this expense whether or not she attends college. In terms of dollars, the opportunity cost of going to school for a year is 47) _____
- A) \$30,000. B) \$45,000. C) \$80,000 D) \$40,000. E) \$65,000.
- 48) Macroeconomics deals with _____ while microeconomics deals with _____. 48) _____
- A) choices of rich people; choices of poor people
 - B) economywide choices; choices of individuals
 - C) choices that involve money; choices that does not involve money
 - D) choices important to people; choices not important to people
- 49) In economic analysis, people's resources are 49) _____
- A) unlimited and their wants are limited.
 - B) limited and their wants are also limited.
 - C) limited and their wants are unlimited.
 - D) unlimited and their wants are also unlimited.

Answer Key

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- 1) D
- 2) D
- 3) B
- 4) C
- 5) D
- 6) A
- 7) A
- 8) B
- 9) A
- 10) B
- 11) B
- 12) D
- 13) E
- 14) D
- 15) C
- 16) B
- 17) D
- 18) D
- 19) A
- 20) B
- 21) D
- 22) B
- 23) C
- 24) A
- 25) B
- 26) A
- 27) A
- 28) C
- 29) B
- 30) D
- 31) D
- 32) E
- 33) A
- 34) D
- 35) C
- 36) D
- 37) A
- 38) C
- 39) D
- 40) C
- 41) C
- 42) A
- 43) A
- 44) C
- 45) C
- 46) D
- 47) E
- 48) B
- 49) C