

Old Exam Questions Which Cover Chapter 10 Topics

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

- 1) The observation that people tend to value something more highly when they own it than when they don't is called the _____
A) path dependent effect. B) wealth effect.
C) endowment effect. D) endorsement effect.
- 2) Consider the following hypothetical scenarios: _____
Scenario A: You are about to purchase a pair of 7 for All Mankind jeans for \$175 and a t-shirt for \$45. The sales attendant at the store tells you that the pair of jeans you wish to buy is on sale for \$160 at another store, located about a 20-minute drive away.
Scenario B: You are about to purchase a pair of 7 for All Mankind jeans for \$175 and a t-shirt for \$45. The sales attendant at the store tells you that the t-shirt you wish to buy is on sale for \$30 at another store, located about a 20-minute drive away.
Based on standard economic theory, under which scenario would you make the 20-minute trip to the other store?
A) Scenario B because a \$15 saving amounts to a substantial discount (about 33 percent)
B) Scenario A because the pair of jeans is a very expensive item and \$15 saving is quite substantial
C) in either scenario if I think a \$15 savings is worth the 20-minute trip
D) in none of these scenarios if I think the \$15 saving is not worth the 20-minute trip
E) C and D are correct answers.
- 3) Arnold Kim began blogging about Apple products during his fourth year of medical school. Kim's Website, MacRumors.com, became so successful that he decided to give up his medical career and work full time on his Website, despite the nearly \$200,000 he had invested in his education. In making his decision, Kim decided to ignore the money and time he spent on his education. Economists would say that Kim made a _____
A) poor decision since he had already invested his time and money on his medical career.
B) poor decision since doctors are in greater demand than bloggers.
C) hasty decision by not waiting to recoup his financial investment before giving up his medical career.
D) rational decision to ignore these sunk costs.
- 4) Grace Makutsi finally bought a pair of blue shoes that she had been coveting for a long time. In less than a week she discovered that the shoes were uncomfortable. Grace went back to wearing her old pair and stashed away the new pair. When asked by her friend why does she not simply give away the new pair, she said: "But I paid so much for them." Grace's behavior _____
A) is rational because the more you pay for an item the more valuable it is.
B) is rational: she should not discard a valuable item.
C) ignores the fact that the purchase price is now a sunk cost and has no bearing on whether she should give them away or not.
- 5) Which of the following best describes the "endowment effect" (from Behavioral Economics) ? _____
A) People that are endowed with more innate intelligence tend to be more successful in life.
B) People want things that they don't have, and don't care much about things that they do have.
C) People tend to value more highly things that they have, than things they do not have.
D) The rich countries of the world are typically the ones that have the most natural resources.

Answer Key

Testname: 201 CHAPTER 10 (ABBREVIATED) OLD EXAM QUESTIONS

- 1) C
- 2) E
- 3) D
- 4) C
- 5) C