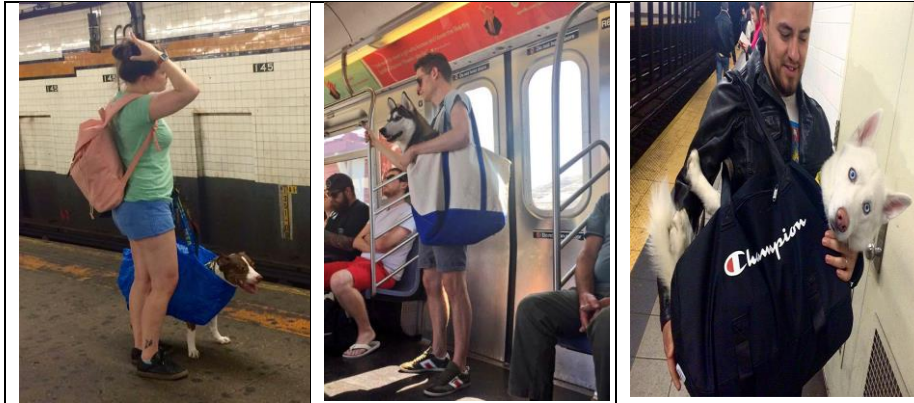


## CH 1 Q and A

1. The New York City Subway banned dogs unless they fit in a bag. Here is the rule, “No person may bring any animal on or into any conveyance or facility unless enclosed in a container.” But the rules do not say anything about the size of the animal, and as you can see from these pictures, some people got creative to avoid paying a fine.



This is an example of

- A) a shift in demand
- B) a shift in supply
- C) an unintended consequence
- D) comparative advantage

2. What economic concept does this meme of Dwight (from The Office) highlight?



- A) Trade creates value
- B) Price elasticity of demand
- C) Opportunity cost
- D) Incentives

3. Economists believe that trade

- A) causes some to lose while others win.
- B) unjustly benefits the privileged.
- C) causes outsourcing of jobs, which lowers the standard of living.
- D) is a win-win proposition.

4. **How does money make the circular flow model more efficient?**  
A) Having a common medium of exchange, like money, eliminates the need to barter.  
B) Money makes the product market more important than the resource market.  
C) Neither the product nor resource market can exist without money.  
D) Money gives firms an advantage over households since they have more money.
5. **An example of a direct negative incentive is:**  
A) providing a commission for sales.  
B) awarding a promotion for hard work.  
C) threatening to fire those who do not perform well.  
D) providing an orientation for new employees.
6. **A car insurance company is willing to offer accident-free drivers a discount. This is an example of**  
A) a positive incentive.  
B) a negative incentive.  
C) an opportunity cost.  
D) a comparative advantage.
7. **Legislation that requires children under age two to sit in infant seats on airplanes has made air travel safer but also more expensive for families. Which of the following is an unintended consequence of the infant safety policy?**  
A) Airlines have nowhere to store all the child seats and strollers so many flights are delayed.  
B) Airplanes can only show G-rated movies.  
C) Many families with infants now choose to drive instead of fly.  
D) With all the infants in diapers on the flights, the smell is terrible.
8. **Which one of these is NOT scarce?**  
A) A Selena Gomez autographed t-shirt  
B) Gravity  
C) Drinking water  
D) Armadillos
9. **This quote from Dwight D. Eisenhower, “The cost of one modern heavy-duty bomber is this: a modern brick school in more than thirty cities. It is two electric power plants each serving a town of 60,000 people. It is two fine, fully equipped hospitals. It is some fifty miles of concrete highways. We pay for a single fighter with a half million bushels of wheat. We pay for a single destroyer with new homes that could have housed more than 8,000 people.” is an example of**  
A) absolute advantage.  
B) comparative advantage.  
C) the law of demand.  
D) trade-offs.

**10. Which of these is NOT an unintended consequence of a binding minimum wage?**

- A) unemployment
- B) firms replacing low-skilled jobs with technology
- C) firms relocating to other countries (or states) with lower wages
- D) Longer hours for workers

**11. Since money does not grow of trees, it \_\_\_\_\_.**

- A) is free
- B) is scarce
- C) is devalued
- D) has a high marginal cost

**12. When deciding whether to do something, economists consider the**

- A) marginal benefits.
- B) marginal costs.
- C) both the marginal benefits and the marginal costs.
- D) the incentive.

**13. Apple designs the iPhone in California, it is assembled in China, and then sold in the United States. This is an example of**

- A) unfair trade.
- B) a trade deficit.
- C) trade creating value.
- D) trade wars.

**14. Deltra was willing to purchase a dozen cookies for \$60 that Deirdre was willing to sell for anything more than \$32. If they agreed on a price of \$36, how much total value was created in this exchange?**

**ANSWER:** In this example, Deltra is better off by \$24 ( $\$60 - \$36$ ) and Deirdre is better off by \$4 ( $\$36 - \$32$ ), so the total value created to Deltra and Deirdre sums to \$28.

**15. Like a good economist, you calculated the opportunity cost of getting a college degree. Suppose that at your university, you will pay \$12,000 each year for tuition, \$2,000 each year for textbooks, and \$10,000 per year for room and board. Before you left for college, your boss at Arby's offered you a job paying \$30,000 per year.**

**Assume that if you decided not to go to college, your parents would not let you live at home.**

**What is your opportunity cost for four years of college?**

**ANSWER:** Opportunity cost is the highest valued alternative that must be sacrificed to get something else. By spending \$12,000 on tuition, you give up money that you could

have spent on something else. By going to college, you give up the money you could have earned at a job.

The opportunity cost of going to college should include the direct costs of getting an education (tuition and books) plus the indirect costs (income you could have earned if you did not go to college). Over four years, the opportunity cost is equal to:

$$4 \times (\$12,000 + \$2,000 + \$30,000) = \$176,000$$

You do not include the cost of room and board because you would incur these living expenses even if you did not go to college.

**16. Some restaurants close during the afternoon and reopen for dinner. A logical economic reason to do this would be**

- A) in the afternoon, the marginal benefit of staying open is greater than the marginal cost.
- B) in the afternoon, the marginal cost of staying open is greater than the marginal benefit.**
- C) in the afternoon, the marginal benefit of staying open has dropped to zero.
- D) the marginal benefit of staying open is greater in the morning than the afternoon.
- E) the marginal cost of staying open is greater in the afternoon than in the morning.