



- Name: _____
 - Date: _____
 - Section: _____
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BUS 201: Principles of Global Economics

Problem Set #1: Suggested Solutions

Fall 2025

INSTRUCTIONS:

- Write your full name, date, and section clearly at the top of the first page.
- This problem set is designed as a *check-in assignment* to help you practice the core ideas. It is not intended to be difficult, but you are expected to think carefully about your answers.
- For multiple-choice problems, **circle the best answer**.
- For short-answer problems, limit your response to **no more than 3–5 sentences**. Be concise but complete, and use economic reasoning in your answers.
- You may use your textbook, lecture slides, and personal notes.

Problem 1. Multiple Choice

- 1.A. Which of the following best describes *opportunity cost*?
- a) The sticker price of a good or service
 - b) The value of the best alternative given up when making a choice**
 - c) The total financial cost of producing a good
 - d) The time it takes to complete an economic activity
- 1.B. Which of the following is an example of *thinking at the margin*?
- a) Deciding whether to attend college after high school
 - b) Deciding whether to buy an additional cup of coffee this morning**
 - c) Deciding which career path to pursue
 - d) Deciding whether to retire early in 20 years
- 1.C. Which statement illustrates the principle that “people respond to incentives”?
- a) An increase in the gasoline tax causes more people to buy fuel-efficient cars**
 - b) The unemployment rate changes as the business cycle fluctuates
 - c) A country’s standard of living depends on productivity
 - d) Inflation increases when the government prints too much money
- 1.D. Which of the following best distinguishes a *positive* statement from a *normative* statement?
- a) Positive statements describe the world as is; normative statements prescribe how it should be**
 - b) Positive statements are opinions; normative statements are facts
 - c) Positive statements are always true; normative statements are always false
 - d) Positive statements focus on individuals; normative statements focus on society
- 1.E. According to the principle of the “invisible hand,” how do markets usually allocate resources?
- a) Through government planning of prices and production
 - b) Through decentralized decisions of households and firms interacting in markets**
 - c) By ensuring that everyone in society has equal income
 - d) By guaranteeing that no market failures ever occur

Problem 1. Multiple Choice (continued)

1.F. Why do economists use models in their analysis?

- a) To perfectly replicate the complexity of the real world
- b) To simplify reality in order to highlight key relationships**
- c) To avoid making assumptions
- d) To make economics purely theoretical without practical application

1.G. Which of the following best explains why countries trade with one another?

- a) Some countries are richer than others
- b) Trade allows specialization and increases total consumption possibilities**
- c) Every country has an absolute advantage in at least one good
- d) Trade eliminates all scarcity

1.H. Why can two countries still benefit from trade even if one country has an absolute advantage in producing all goods?

- a) Because absolute advantage ensures higher wages in both countries
- b) Because trade allows each country to specialize according to comparative advantage**
- c) Because trade eliminates scarcity and opportunity costs
- d) Because both countries can produce more goods than before without specialization

1.I. According to the principle of *comparative advantage*, a country should specialize in producing the good:

- a) For which it has the lowest opportunity cost**
- b) For which it uses the fewest inputs
- c) That yields the highest profit
- d) That it consumes the most

1.J. Suppose the U.S. opportunity cost of 1 Airplane is 50 tons of Coffee, while Brazil's is 25 tons of Coffee. Which statement is true?

- a) The U.S. has a comparative advantage in Airplanes
- b) Brazil has a comparative advantage in Coffee
- c) Brazil has a comparative advantage in Airplanes**
- d) The U.S. has no comparative advantage

Problem 2. Short Answer

2.A. Give one real-world example of a trade-off faced by individuals or society. How does this illustrate Principle #1: People face trade-offs?

- Example: A student works more hours and earns more income
- Trade-off: Less study or leisure time
- Principle #1: Achieving one goal requires giving up another

2.B. What is the opportunity cost of attending college?

- Explicit costs: Tuition, fees, textbooks
- Implicit costs: Forgone wages (income from working instead of studying)
- Economists count both explicit and implicit costs

2.C. Explain the difference between correlation and causation in economics.

- Correlation: Two variables move together
- Causation: One variable directly affects the other
- Importance: Confusing correlation with causation can lead to flawed policies

2.D. Provide a real-world example of comparative advantage. Explain briefly why one country specializes in producing a particular good.

- Saudi Arabia exports oil: Abundant natural resources, low opportunity cost
- Bangladesh exports textiles: Low labor costs, lower opportunity cost than high-tech goods
- Specialization: Each country focuses where opportunity cost is lowest

2.E. Markets usually allocate resources efficiently, but sometimes they fail. Give one example of a market failure, and explain how government intervention might improve the outcome.

- Example: Pollution (negative externality) — without regulation, firms overproduce pollution
- Government policy: Taxes or regulation can reduce pollution and improve efficiency
- Another example: Monopoly power — antitrust laws restore competition