

Chapter 1—Ten Principles of Economics

MULTIPLE CHOICE

1. The word that comes from the Greek word for "one who manages a household" is
- market.
 - consumer.
 - producer.
 - economy.

ANS: D DIF: Easy REF: 3

2. The word economy comes from the Greek word for
- "environment."
 - "one who manages a household."
 - "one who participates in a market."
 - "conservation."

ANS: B DIF: Easy REF: 3

3. Households and economies have each of the following in common EXCEPT both
- must allocate scarce resources.
 - face many decisions.
 - must allocate the goods and services they produce.
 - must have a central decisionmaker.

ANS: D DIF: Average REF: 3

4. Economics deals primarily with the concept of
- scarcity.
 - poverty.
 - change.
 - power.

ANS: A DIF: Easy REF: 4

5. Which of the following is NOT included in the decisions that every society must make?
- what goods will be produced
 - who will produce goods
 - what determines consumer preferences
 - who will consume the goods

ANS: C DIF: Average REF: 4

6. Both households and societies face many decisions because
- resources are scarce.
 - populations may increase or decrease over time.
 - wages for households and therefore society fluctuate with business cycles.
 - people, by nature, tend to disagree.

ANS: A DIF: Average REF: 4

7. A good is considered scarce in a society when
- more output of the good is possible.

- b. everyone in that society cannot have all they want of the good.
- c. the government restricts production of the good.
- d. only the richest people in the economy can buy all they want of the good.

ANS: B DIF: Average REF: 4

8. Scarcity exists when
- a. there is less than an infinite amount of a resource or good.
 - b. society can meet the wants of every individual.
 - c. there is less of a good or resource available than people wish to have.
 - d. the government fails to produce goods.

ANS: C DIF: Average REF: 4

9. Which of the following would NOT be true in a world without scarcity?
- a. There would be no need for the science of economics.
 - b. Everyone would have all the goods and services they wanted.
 - c. There would have to be an infinite supply of every resource.
 - d. There would be opportunity costs.

ANS: C DIF: Average REF: 4

10. When a society cannot produce all the goods and services people wish to have it is said that the economy is experiencing
- a. scarcity.
 - b. communism.
 - c. externalities.
 - d. market failure.

ANS: A DIF: Easy REF: 4

11. For society, a good is not scarce if
- a. at least one individual in society can obtain all he or she wants of the good.
 - b. firms are producing at full capacity.
 - c. all members of society can have all they want of it.
 - d. those who have enough income can buy all they want of the good.

ANS: C DIF: Average REF: 4

12. Which product would be considered scarce?
- a. Nike shoes
 - b. Monet paintings
 - c. 1-carat diamonds
 - d. All of the above are correct.

ANS: D DIF: Average REF: 4

13. Which of the following goods best meets the definition of scarcity?
- a. air
 - b. water in the ocean
 - c. water in a city
 - d. wood in a forest

ANS: C DIF: Average REF: 4

14. Economics is defined as the study of

- a. business.
- b. how society manages its scarce resources.
- c. central planning.
- d. government regulation.

ANS: B DIF: Easy REF: 4

15. Economics is the study of
- a. how society manages its scarce resources.
 - b. the government's role in society.
 - c. how a market system functions.
 - d. how to increase production.

ANS: A DIF: Easy REF: 4

16. In most societies, resources are allocated by
- a. a single central planner.
 - b. those who own the resources.
 - c. those firms that use resources to provide goods and services.
 - d. the combined actions of millions of households and firms.

ANS: D DIF: Average REF: 4

17. Economists study all of the following EXCEPT
- a. how people make decisions.
 - b. how people interact with one another.
 - c. the forces and trends that affect the economy as a whole.
 - d. how societies change over time.

ANS: D DIF: Average REF: 4

18. Which of the following is NOT a major area of study for economists?
- a. how people make decisions
 - b. how countries choose national leaders
 - c. how people interact with each other
 - d. how forces and trends affect the overall economy

ANS: B DIF: Average REF: 4

19. The adage, "There is no such thing as a free lunch," is used to illustrate the concept of
- a. tradeoffs.
 - b. scarcity.
 - c. productivity.
 - d. efficiency.

ANS: A DIF: Average REF: 4

20. The adage, "There is no such thing as a free lunch," means
- a. even people on welfare have to pay for food.
 - b. the cost of living is always increasing.
 - c. to get something we like, we usually have to give up another thing we like.
 - d. all costs are included in the price of a product.

ANS: C DIF: Average REF: 4

21. Economists use the phrase "There is no such thing as a free lunch," to illustrate

- a. how inflation increases prices.
- b. that to get one thing, we must give up something else.
- c. that nothing is free in a market economy.
- d. that if something looks too good to be true, it probably is.

ANS: B DIF: Average REF: 4

22. Which best represents the concept represented by the adage, "There is no such thing as a free lunch"?
- a. Melissa can only attend the concert if she takes her sister with her.
 - b. Greg is hungry and homeless.
 - c. Brian must repair the tire on his bike before he can ride it to class.
 - d. Kendra must decide between going to Miami or Cancun for spring break.

ANS: D DIF: Challenging REF: 4

23. Guns and butter are used to represent the classic societal tradeoff between spending on
- a. durable and nondurable goods.
 - b. imports and exports.
 - c. national defense and consumer goods.
 - d. law enforcement and agriculture.

ANS: C DIF: Average REF: 4

24. Henry decides to spend two hours playing golf rather than working at his job which pays \$8 per hour. Henry's tradeoff is
- a. the \$16 he could have earned working for two hours.
 - b. nothing, because he enjoys playing golf more than working.
 - c. the increase in skill he obtains from playing golf for those two hours.
 - d. nothing, because he spent \$16 for green fees to play golf.

ANS: A DIF: Average REF: 4

25. When society requires that firms reduce pollution, there is
- a. a tradeoff because of reduced incomes to the firms' owners, workers, and customers.
 - b. no tradeoff, since everyone benefits from reduced pollution.
 - c. no tradeoff for society as a whole, since the cost of reducing pollution falls only on the firms affected by the requirements.
 - d. a tradeoff only if some firms are forced to close.

ANS: A DIF: Challenging REF: 4

26. Daniel decides to spend the last two hours of the night before his economics exam studying instead of sleeping. For Daniel, his tradeoff would be
- a. nothing, since no dollar value can be put on sleep.
 - b. nothing, since studying would be more beneficial than sleep.
 - c. the six hours of sleep he could have had if he had gone to bed before midnight.
 - d. the two hours of rest he would have gotten.

ANS: D DIF: Average REF: 4

27. A tradeoff exists between a clean environment and a higher level of income in that
- a. studies show that individuals with higher levels of income actually pollute less than low-income individuals.
 - b. to pay for pollution clean-up, the government must increase taxes which lowers income.
 - c. laws that reduce pollution raise costs of production and reduce incomes.
 - d. by employing individuals to clean up pollution, employment and income both rise.

ANS: C DIF: Challenging REF: 4

28. Which of the following would NOT be a result of laws that require firms to reduce pollution?
- a. lower spending by government
 - b. higher prices to consumers
 - c. lower wages to workers
 - d. smaller profit to firms

ANS: A DIF: Average REF: 4

29. Which of the following best defines efficiency?
- a. absolute fairness
 - b. equal distribution
 - c. minimum waste
 - d. consumer sovereignty

ANS: C DIF: Easy REF: 5

30. Which of the following is true?
- a. Efficiency refers to the size of the economic pie; equity refers to how the pie is divided.
 - b. Fortunately, government policies are designed to promote both equity and efficiency.
 - c. As long as the economic pie continually gets larger, no one will have to go hungry.
 - d. Efficiency and equity can both be achieved if the economic pie is cut into equal pieces.

ANS: A DIF: Challenging REF: 5

31. Efficiency means that
- a. society is conserving resources in order to save them for the future.
 - b. society's goods and services are distributed fairly among society's members.
 - c. society has lessened its dependence on foreign energy sources.
 - d. society is getting the most it can from its scarce resources.

ANS: D DIF: Average REF: 5

32. Economists use the word equity to describe a situation in which
- a. each member of society has the same income.
 - b. society is getting the most it can from its scarce resources.
 - c. those in society who have the least will receive the most.
 - d. the benefits of society's resources are distributed fairly among society's members.

ANS: D DIF: Average REF: 5

33. One definition of equity would be
- a. equality.
 - b. efficiency.
 - c. fairness.
 - d. similarity.

ANS: C DIF: Easy REF: 5

34. When government policies are being designed,
- a. there is usually a tradeoff between equity and efficiency.
 - b. equity and efficiency goals are usually independent of each other.
 - c. equity can usually be achieved without an efficiency loss.
 - d. increasing efficiency usually results in more equity.

ANS: A DIF: Average REF: 5

35. When government policies such as the welfare system try to help the most needy members of society, it
- increases equity and reduces efficiency.
 - reduces charitable contributions in an economy.
 - increases the productivity of the needy in the society.
 - causes market failure to occur.

ANS: A DIF: Average REF: 5

36. When the government implements programs such as progressive income tax rates, which of the following is likely to occur?
- Equity is increased and efficiency is increased.
 - Equity is increased and efficiency is decreased.
 - Equity is decreased and efficiency is increased.
 - Equity is decreased and efficiency is decreased.

ANS: B DIF: Average REF: 5

37. When the government attempts to cut the economic pie into more equal slices,
- it is easier to cut the pie, and therefore the economy can produce a larger pie.
 - the government can more easily allocate the pie to those most in need.
 - the pie gets smaller, and there will be less pie for everyone.
 - the economy will spend too much time cutting and loses the ability to produce enough pie for everyone.

ANS: C DIF: Challenging REF: 5

38. When the government attempts to improve equity in an economy the result is often
- an increase in overall output in the economy.
 - additional government revenue since overall income will increase.
 - an actual reduction in equity.
 - reduced efficiency in the economy.

ANS: D DIF: Average REF: 5

39. When the government redistributes income from the rich to the poor,
- efficiency is improved, but equity is not.
 - both rich people and poor people benefit directly.
 - people work less and produce fewer goods and services.
 - rich people consume fewer goods, but poor people consume more goods, resulting in no real change.

ANS: C DIF: Average REF: 5

40. In economics, the cost of something is
- the dollar amount of obtaining it.
 - always measured in units of time given up to get it.
 - what you give up to get it.
 - usually higher than people think it will be.

ANS: C DIF: Easy REF: 6

41. What you give up to obtain an item is called your
- opportunity cost.

- b. explicit cost.
- c. true cost.
- d. direct cost.

ANS: A DIF: Easy REF: 6

42. The opportunity cost of going to college is
- a. the total spent on food, clothing, books, transportation, tuition, lodging, and other expenses.
 - b. the value of the best opportunity a student gives up to attend college.
 - c. zero for students who are fortunate enough to have all of their college expenses paid by someone else.
 - d. zero, since a college education will allow a student to earn a larger income after graduation.

ANS: B DIF: Average REF: 6

43. For most students, the largest single cost of a college education is
- a. the wages given up to attend school.
 - b. tuition, fees, and books.
 - c. room and board.
 - d. transportation, parking, and entertainment.

ANS: A DIF: Average REF: 6

44. The largest single cost of going to college is usually
- a. books.
 - b. room and board.
 - c. tuition.
 - d. lost wages.

ANS: D DIF: Easy REF: 6

45. The opportunity cost of an item is
- a. the number of hours needed to earn money to buy it.
 - b. what you give up to get that item.
 - c. usually less than the dollar value of the item.
 - d. the dollar value of the item.

ANS: B DIF: Easy REF: 6

46. Mallory decides to spend 3 hours working overtime rather than watching a video with her friends. She earns \$8 an hour. Her opportunity cost of working is
- a. the \$24 she earns working.
 - b. the \$24 minus the enjoyment she would have received from watching the video.
 - c. the enjoyment she would have received had she watched the video.
 - d. nothing, since she would have received less than \$24 of enjoyment from the video.

ANS: C DIF: Challenging REF: 6

47. Russell spends an hour studying instead of playing tennis. The opportunity cost to him of studying is
- a. the improvement in his grades from studying for the hour.
 - b. the difference between the improvement in his grades from studying minus the enjoyment of playing tennis.
 - c. the enjoyment and exercise he would have received had he played tennis.
 - d. zero. Since Russell chose to study rather than to play tennis, the value of studying must

have been greater than the value of playing tennis.

ANS: C DIF: Average REF: 6

48. College-age athletes who drop out of college to play professional sports
- are not rational decision makers.
 - are well aware that their opportunity cost of attending college is very high.
 - are concerned more about present circumstances than their future.
 - underestimate the value of a college education.

ANS: B DIF: Average REF: 6

49. People make decisions at the margin by
- following tradition.
 - experience.
 - calculating dollar costs.
 - comparing costs and benefits.

ANS: D DIF: Easy REF: 6

50. The word "margin" means
- edge.
 - distance.
 - space.
 - measure.

ANS: A DIF: Easy REF: 6

51. Making decisions "at the margin" means that people
- make those decisions that do not impose a marginal cost.
 - evaluate how easily a decision can be reversed if problems arise.
 - compare the marginal costs and marginal benefits of each decision.
 - always calculate the marginal dollar costs for each decision.

ANS: C DIF: Average REF: 6

52. A marginal change is a
- long-term trend.
 - large, significant adjustment.
 - change for the worse, and so is usually short-term.
 - small incremental adjustment.

ANS: D DIF: Easy REF: 6

53. Which of the following is the best example of a marginal change?
- After graduating college, Audrey's income increases from \$500 per month to \$3,000 per month.
 - Morgan gets a raise at her part-time job and is now paid \$7.25 per hour instead of \$7.00.
 - Housing prices in an area increase by 40% when a new interstate is built in a small town.
 - A hard freeze wipes out half of the orange crop in Florida and the price of orange juice doubles.

ANS: B DIF: Challenging REF: 6

54. Which of the following is the best example of a marginal change?
- The price of housing rose in Seattle by 5% in last year.

- b. Kim gets a big promotion at work. She also gets a raise from \$25,000 per year to \$40,000 per year.
- c. Mark graduates from college and takes a job. His income increases from \$10,000 per year to \$50,000 per year.
- d. A drought hits the upper Midwest and the price of wheat increases from \$4.00 per bushel to \$8.00 per bushel.

ANS: A DIF: Challenging REF: 6

55. A marginal change is illustrated by which of the following?
- a. Nancy retires and takes a part-time job. She was working 40 hours per week and now works 10 hours per week.
 - b. State University has announced that due to state budget deficits, tuition must rise by 25% next year.
 - c. Ryan moved to a new apartment and now pays 40% more rent than before.
 - d. Vancouver, which usually receives 10 inches of rain per year, received 11 inches last year.

ANS: D DIF: Challenging REF: 6

56. After much consideration, you have chosen Cancun over Ft. Lauderdale for your Spring Break trip this year. For this decision to change, which of the following must occur?
- a. The marginal benefit of Cancun must increase.
 - b. The marginal cost of Cancun must decrease.
 - c. The marginal benefit of Ft. Lauderdale must increase.
 - d. The marginal cost of Ft. Lauderdale must increase.

ANS: C DIF: Challenging REF: 6

57. The average cost per seat on a bus trip from Montreal to Toronto is \$140. If no refreshments are served and 3 seats are empty, the bus company could increase its profit only if it
- a. charged no less than \$40 for the 3 remaining seats.
 - b. charged more than \$40 for the 3 remaining seats.
 - c. charged any ticket price above \$0 for the remaining seats.
 - d. left the seats empty.

ANS: C DIF: Average REF: 6

58. A rational decision maker takes an action only if the
- a. marginal benefit is less than the marginal cost.
 - b. marginal benefit is greater than the marginal cost.
 - c. average benefit is greater than the average cost.
 - d. marginal benefit is greater than both the average cost and the marginal cost.

ANS: B DIF: Average REF: 6

59. Mike has spent \$500 purchasing and repairing an old fishing boat, which he expects to sell for \$800 once the repairs are complete. He discovers that he needs an additional repair, which will cost \$400, in order to complete the repairs. He can sell the boat as it is now for \$300. What should he do?
- a. He should cut his losses and take the \$300.
 - b. He should never sell something for less than it cost.
 - c. He should complete the repairs and sell the boat.
 - d. It doesn't matter which action he takes; the outcome is the same either way.

ANS: C DIF: Challenging REF: 6

60. Stan buys a 1966 Mustang, which he plans to restore and sell. He anticipates that the cost of the car and the repairs will be \$10,000 and that he can sell it for \$13,000. When he has spent \$10,000, he discovers he needs to replace the engine, which will cost \$4,000. He can sell the car without the new engine for \$9,000. Stan should
- complete the repairs and sell the car for \$13,000.
 - cut his losses and sell the car now for \$9,000.
 - never try such an expensive project again.
 - be totally indifferent between finishing the project and selling the car now.

ANS: D DIF: Challenging REF: 6

61. A donut shop sells fresh baked donuts from 5 a.m. until 3 p.m. every day but Sunday. The cost of making and selling a dozen glazed donuts is \$1.00. Since this shop does not sell day-old donuts the next day, what should the manager do if he still has 10 dozen left at 2:30 p.m.?
- lower the price of the remaining donuts even if the price falls below \$1.00
 - lower the price of the remaining donuts as long as it's more than \$1.00
 - Lower the price on all donuts so they will all be sold earlier in the day
 - throw them away and produce 10 fewer dozen tomorrow

ANS: A DIF: Challenging REF: 6

62. When policymakers make policies that change the costs and benefits that people face, they can
- alter behaviors.
 - make people ignore incentives.
 - create inflation.
 - reduce government revenue.

ANS: A DIF: Average REF: 7

63. Your professor loves her work, teaching economics. She has been offered other positions in the corporate world making 25 percent more, but has decided to stay in teaching. Her decision would not change unless the marginal
- cost of teaching increased.
 - benefit of teaching increased.
 - cost of teaching decreased.
 - cost of a corporate job increased.

ANS: A DIF: Challenging REF: 7

64. Suppose your management professor has been offered a corporate job with a 30% pay increase. He has decided to take the job. For him, the marginal
- cost of leaving was greater than the marginal benefit.
 - benefit of leaving was greater than the marginal cost.
 - benefit of teaching was greater than the marginal cost.
 - All of the above are correct.

ANS: B DIF: Challenging REF: 7

65. When policymakers implement policies that alter incentives, they
- have carefully weighed the direct and indirect effects of the policy.
 - often do not always get the intended result.
 - have considered all possible effects of the incentive changes when they developed the policy, which will make the policy effective.
 - generally correctly anticipate the indirect effects, but often miss the direct effects.

ANS: B DIF: Average REF: 7

66. Trade can benefit a family
- a. by allowing the family to buy a greater variety of goods and services at a lower cost.
 - b. by allowing each person to specialize in the activities he or she does best.
 - c. only if the family is not in economic competition with other families.
 - d. All of the above are correct.
 - e. Both a and b are correct.

ANS: E DIF: Average REF: 8

67. Which is the most accurate statement about trade?
- a. Trade can make every nation better off.
 - b. Trade makes some nations better off and others worse off.
 - c. Trading for a good can make a nation better off only if the nation cannot produce that good itself.
 - d. Trade helps rich nations and hurts poor nations.

ANS: A DIF: Average REF: 8

68. Each of the following statements about trade is true EXCEPT
- a. Trade increases competition.
 - b. One country wins and one country loses.
 - c. The United States can benefit from trade with any country.
 - d. Trade allows people to buy a greater variety of goods and services at lower cost.

ANS: B DIF: Average REF: 8

69. Benefits from trade would NOT include
- a. the ability to specialize.
 - b. a greater variety of goods and services becoming available.
 - c. less competition.
 - d. lower prices.

ANS: C DIF: Average REF: 8

70. Trade between the United States and India
- a. benefits both the United States and India.
 - b. is a losing proposition for the United States because India has cheaper labor.
 - c. is like a sports contest: one side wins and the other side loses.
 - d. is a losing proposition for India because U.S. workers are more productive.

ANS: A DIF: Average REF: 8

71. If France is better than Belarus at producing wine, but Belarus is better than France at producing crystal,
- a. Belarus should sell crystal to France, and should buy French wine.
 - b. Belarus should impose a tariff on French wine in order to protect jobs in the Belarusian crystal industry.
 - c. Belarus should subsidize its wine industry so that it can compete with French wine.
 - d. Belarus should put a quota on the amount of French wine imported.

ANS: A DIF: Challenging REF: 8

72. Which of the following is the best statement about markets?
- a. Markets are usually a good way to organize economic activity.
 - b. Markets are usually inferior to central planning as a way to organize economic activity.

- c. Markets fail and are therefore not an acceptable way to organize economic activity.
- d. Markets are a good way to organize economic activity in developed nations, but not in less developed nations.

ANS: A DIF: Average REF: 9

73. Which would NOT be true in a market economy?
- a. Firms decide whom to hire and what to produce.
 - b. Government policies do not affect the decisions of firms and households.
 - c. Households decide which firms to work for and what to buy with their incomes.
 - d. Profit and self-interest guide the decisions of firms and households.

ANS: B DIF: Average REF: 9

74. The decisions of firms and households are guided by profit and self-interest in a
- a. command economy.
 - b. traditional economy.
 - c. market economy.
 - d. All of the above are correct.

ANS: C DIF: Easy REF: 9

75. In a market economy, economic activity is guided by
- a. the government.
 - b. corporations.
 - c. central planners.
 - d. prices.

ANS: D DIF: Average REF: 9

76. The term used to describe a situation in which markets fail to allocate resources efficiently is called
- a. economic meltdown.
 - b. market failure.
 - c. corporate bankruptcy.
 - d. disequilibrium.

ANS: B DIF: Easy REF: 9

77. In a market economy decisions are guided by individual self-interest. Hence, there is
- a. still the ability to achieve desirable economic well-being for society as a whole.
 - b. a strong need for government intervention in the market.
 - c. less efficiency in market economies than in command economies.
 - d. more need for a strong legal system to control individual greed.

ANS: A DIF: Challenging REF: 9

78. Prices direct economic activity in a market economy by
- a. influencing the actions of buyers and sellers.
 - b. reducing scarcity of the goods and services produced.
 - c. eliminating the need for government intervention.
 - d. allocating goods and services produced in the most equitable way.

ANS: A DIF: Average REF: 9

79. In a market economy, prices reflect the
- a. value of a good to society.

- b. cost to society of making the good.
- c. quantity society will ultimately choose to produce.
- d. Both a and b are correct.

ANS: D

DIF: Average

REF: 9