**CoE Tutorial 2**

1. The most fundamental economic problem is

A) security.

B) scarcity.

C) the fact the United States buys more goods from foreigners than we sell to foreigners.

D) health.

2. Economics is best defined as the study of how people, businesses, governments, and societies

A) choose abundance over scarcity. B) attain wealth.

C) make choices to cope with scarcity. D) use their infinite resources.

3. Economists point out that scarcity confronts

A) the rich but not the poor. C) the poor but not the rich.

B) both the poor and the rich. D) neither the poor nor the rich.

4. As an economic concept, scarcity applies to

A) both money and time. C) money but not time.

B) time but not money. D) neither time nor money.

5. Because we face scarcity, every choice involves

A) the question "what." C) giving up something for nothing.

B) an opportunity cost D) money

6. The term used to emphasize that making choices in the face of scarcity involves a cost is

A) utility cost. C) substitution cost.

B) accounting cost. D) opportunity cost.

7. The opportunity cost of any action is

A) the highest-valued alternative forgone.

B) all the possible alternatives forgone.

C) the monetary cost but not the time required.

D) the time required but not the monetary cost.

8. The opportunity cost of something you decide to get is

A) the highest valued alternative you give up to get it.

B) all possible alternatives that you give up to get it.

C) the lowest valued alternative you give up to get it.

D) the amount of money you pay to get it.

9. On Saturday morning, you rank your choices for activities in the following order: go to the library, work out at the gym, have breakfast with friends, and sleep late. Suppose you decide to go to the library. Your opportunity cost is

A) working out at the gym, having breakfast with friends, and sleeping late.

B) zero because you do not have to pay money to use the library.

C) working out at the gym.

D) not clear because not enough information is given.

10. You decide to take a vacation and the trip costs you $2,000. While you are on vacation, you do not report to work where you could have earned $750. The opportunity cost of the vacation is

A) $2,750. B) $750. C) $1,250 D) $2,000.

11. The term "opportunity cost" points out that

A) executives do not always recognize opportunities for profit as quickly as they should.

B) any decision regarding the use of a resource involves a costly choice.

C) not all individuals will make the most of life's opportunities because some will fail to achieve

their goals.

D) there may be such a thing as a free lunch.

12. When the government chooses to use resources to build a dam, these sources are no longer

available to build a highway. This choice illustrates the concept of

A) opportunity cost. C) a market mechanism.

B) a fallacy of composition. D) macroeconomics.

13. The benefit that arises from an increase in an activity is called

A) an incentive. C) the marginal benefit.

B) opportunity cost. D) the marginal cost.

14. Marginal cost is the cost

A) that your activity imposes on someone else.

B) of an activity that exceeds its benefit.

C) that arises from an increase in an activity.

D) that arises from the secondary effects of an activity.

15. Scarcity is a situation in which \_\_\_\_\_\_\_\_.

A) long lines form at gas stations C) we are unable to satisfy all our wants

B) some people are poor and others are rich D) something is being wasted

Q16. Ravi quits his job at a software company where he was earning ₹12,00,000 per year to start his own tech startup. In the first year, his business generates total revenue of ₹15,00,000, while his explicit costs (rent, salaries, software tools, etc.) amount to ₹5,00,000.

a. What is Ravi’s accounting profit?

b. What is his economic profit?

c. Should Ravi consider this a good financial decision? Explain briefly using economic reasoning.

Q17. An entrepreneur, Meera, is considering two business opportunities:

**Option A:** Open a café.

Expected annual revenue: ₹30,00,000

Explicit costs (rent, staff, supplies): ₹18,00,000

She would need to use ₹10,00,000 of her savings, which currently earn 6% interest annually.

**Option B:** Work as a project manager in a firm with an annual salary offer of ₹14,00,000.

Assume both options require her full time, and she can't do both simultaneously.

Questions:

a. What is the opportunity cost of running the café?

b. Calculate the economic profit from running the café.

c. Should Meera choose to open the café or take the job? Justify using economic reasoning.