

Chapter 1 What Is Economics?

1) In a world characterized by scarcity

- A) all goods are free.
- B) opportunity cost is zero.
- C) we are not limited by time.
- D) individuals need not work to obtain goods.
- E) people must make choices among alternatives.

Answer: E

Diff: 1 Type: MC

Topic: Definition of Economics

3) The two big economic questions include all of the following *except*

- A) *what* to produce.
- B) *why* to produce.
- C) *how* to produce.
- D) *for whom* to produce.
- E) can choices made in the pursuit of self-interest also promote the social interest.

Answer: B

Diff: 2 Type: MC

Topic: Two Big Economic Questions

1) Opportunity cost is

- A) the value of your favourite activity.
- B) your value of leisure.
- C) the money you spend on food, shelter, and clothing.
- D) the marginal benefit from an activity.
- E) the highest-valued alternative that we give up to get something.

Answer: E

Diff: 2 Type: MC

Topic: The Economic Way of Thinking

7) To make choices, people must

- A) be able to carry out complex mathematical calculations.
- B) have unlimited resources.
- C) be free from government constraint.
- D) have unlimited access to information at no cost.
- E) evaluate the values of alternative actions.

Answer: E

Diff: 2 Type: MC

Topic: The Economic Way of Thinking

20) A university decides to change its late night bus service between the campus and student housing from a fare-based service to a free service. This statement means that the incentive to ride the bus _____ and the opportunity cost of a bus ride _____. The university's decision is a _____ decision.

- A) changes; decreases; microeconomic
- B) changes; decreases; macroeconomic
- C) remains the same; remains the same; macroeconomic
- D) remains the same; remains the same; microeconomic
- E) changes; increases; microeconomic

Answer: A

Topic: The Economic Way of Thinking

Source: MyEconLab

1) Statements about "what ought to be" are called

- A) positive statements.
- B) normative statements.
- C) economic statements.
- D) scientific statements.
- E) hypotheses.

Answer: B

Diff: 1 Type: MC

Topic: Economics as Social Science and Policy Tool

Chapter 2 The Economic Problem

1) The production possibilities frontier

A) is the boundary between attainable and unattainable levels of production.

B) is the boundary between what we want to consume and what we want to produce.

C) shows how production increases as prices rise.

D) shows prices at which production is possible and impossible.

E) illustrates why there need not be any scarcity in the world.

Answer: A

Topic: Production Possibilities and Opportunity Cost

1) Complete the following sentence. Marginal cost

A) is the opportunity cost of producing one more unit of a good or service.

B) is unrelated to the production possibilities frontier.

C) always equals marginal benefit.

D) remains constant.

E) is always greater than marginal benefit.

Answer: A

Topic: Using Resources Efficiently

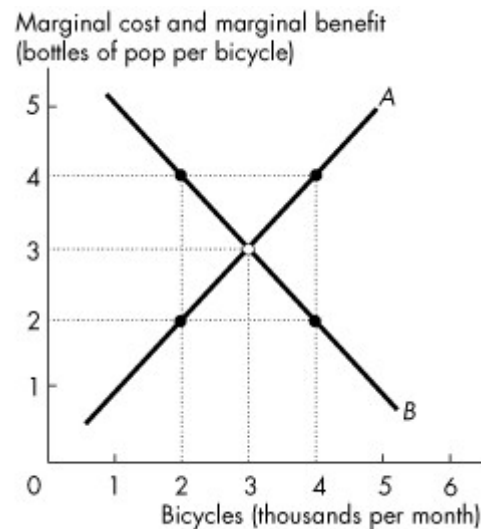


Figure 2.2.1

7) In Figure 2.2.1, the curve labeled B shows

A) the bottles of pop that people are *willing* to forgo to get another bicycle.

B) the bicycles that people are *willing* to forgo to get another bottle of pop.

C) the bottles of pop that people *must* forgo to get another bicycle.

D) that the benefits from producing more bicycles is greater than the benefits from producing more pop.

E) that the benefits from producing more pop is greater than the benefits from producing more bicycles.

Answer: A

Diff: 1 Type: MC

Topic: Using Resources Efficiently

4) Which one of the following would cause a production possibilities frontier to shift *outward*?

A) an increase in the stock of capital

B) an increase in the production of consumption goods

C) bad weather

D) a decision to fully utilize unemployed resources

E) a decrease in the population

Answer: A

Diff: 1 Type: MC

Topic: Economic Growth

Use the figure below to answer the following questions.

Table 2.4.1

The planets of Vulcan and Romulus each produce goods X and Y. The following table gives points on their production possibilities frontiers.

Vulcan		Romulus	
Good X	Good Y	Good X	Good Y
0	16	0	12
2	12	2	9
4	8	4	6
6	4	6	3
8	0	8	0

17) Refer to Table 2.4.1. Which one of the following is true?

- A) Romulus has both an absolute advantage and a comparative advantage in the production of Y.
- B) Romulus has both an absolute advantage and a comparative advantage in the production of X.
- C) Vulcan has a comparative advantage in the production of X.
- D) Romulus has a comparative advantage in the production of X.
- E) Vulcan should specialize in the production of X.

Answer: D

Topic: Gains from Trade

1) Trade is organized using the social institutions of all of the following *except*

- A) firms.
- B) property rights.
- C) money.
- D) markets.
- E) labour unions

Answer: E

Topic: Economic Coordination

Chapter 3 Demand and Supply

1) The relative price of a good is all of the following *except*

- A) the ratio of one price to another.
- B) an opportunity cost.
- C) the money price of the good divided by a price index.

D) the same as the money price of a good.

E) determined in a market.

Answer: D

Diff: 2 Type: MC

Topic: Markets and Prices

Table 3.1.1

Year	Coffee Price	Tea Price	Cola Price
2012	\$1.25	\$1.10	\$0.80
2013	\$1.50	\$1.00	\$1.00
2014	\$1.25	\$1.20	\$1.00

7) Refer to Table 3.1.1. In 2012, the relative price of coffee in terms of tea is

- A) 1.25.
- B) 1.10.
- C) 1.00.
- D) 0.88.
- E) 1.14.

Answer: E

Topic: Markets and Prices

1) The law of demand states that, other things remaining the same,

- A) the higher the price of a good, the smaller is the quantity demanded.
- B) the higher the price of a good, the smaller is the quantity supplied.
- C) price and quantity supplied are positively related.
- D) as income increases, willingness to pay for the last unit increases.
- E) the higher the price of a good, the greater is the quantity demanded.

Answer: A

Diff: 1 Type: MC

Topic: Demand

3) The demand curve slopes downward to the right because

- A) an increase in income leads to increased consumption.
- B) of the law of supply.
- C) of the law of demand.
- D) of comparative advantage.
- E) as income rises, the quantity demanded increases.

Answer: C

Diff: 1 Type: MC

Topic: Demand

- 6) A turnip is an inferior good if

- A) an increase in the price of a turnip decreases the quantity of turnips that consumers want to buy.
- B) an increase in income decreases the demand for turnips.
- C) an increase in income increases the demand for turnips.
- D) turnips violate the law of demand.
- E) turnips are a low quality good.

Answer: B

Diff: 2 Type: MC

Topic: Demand



Figure 3.2.1

- 9) Point A in Figure 3.2.1 indicates that

- A) \$1 is the least that consumers are willing to pay for the 4,000th apple.
- B) consumers will not be in equilibrium if the price of an apple is \$1.
- C) consumers will only pay \$1 for any apple.
- D) if the price is \$1, consumers will plan to buy 4,000 apples.
- E) if the price is more than \$1, consumers will buy 9,000 apples.

Answer: D

Diff: 2 Type: MC

Topic: Demand

- 22) Some sales managers are talking shop. Which of the following quotations refers to a movement along the demand curve?

- A) "Since our competitors raised their prices, our sales have doubled."
- B) "It has been an unusually mild winter; our sales of wool scarves are down from last year."
- C) "We decided to cut our prices, and the increase in our sales has been remarkable."
- D) "The Green movement has sparked an increase in our sales of biodegradable products."
- E) "More firms are producing biodegradable products."

Answer: C

Diff: 2 Type: MC

Topic: Demand

- 3) An increase in supply is shown by

- A) a movement down along the supply curve.
- B) a movement up along the supply curve.
- C) a rightward shift of the supply curve.
- D) a leftward shift of the supply curve.
- E) an initial movement up and then down along the same supply curve.

Answer: C

Diff: 1 Type: MC

Topic: Supply

8) A decrease in the quantity supplied is shown by a

- A) movement down along the supply curve.
- B) movement up along the supply curve.
- C) rightward shift of the supply curve.
- D) leftward shift of the supply curve.
- E) rightward shift of the demand curve.

Answer: A

Diff: 1 Type: MC

Topic: Supply

22) French fries and baked potatoes are

- A) complements for consumers and complements in production for producers.
- B) substitutes for consumers and substitutes in production for producers.
- C) complements for consumers and substitutes in production for producers.
- D) substitutes in production for consumers and inferior goods for producers.
- E) normal goods for consumers and complements for producers.

Answer: B

Topic: Supply

Source: MyEconLab

Table 3.4.1

Price (dollars per unit)	Quantity Demanded (units)	Quantity Supplied (units)
1	1,100	50
2	800	200
3	600	420
4	500	500
5	420	580

6	350	640
7	320	680
8	300	700

2) In Table 3.4.1, the equilibrium price is

- A) \$7 a unit.
- B) \$5 a unit.
- C) \$4 a unit.
- D) \$3 a unit.
- E) \$1 a unit.

Answer: C

Diff: 1 Type: MC

Topic: Market Equilibrium

19) If the price is above the equilibrium price, then

- A) none of the good will be sold.
- B) the price must rise further to reach the new market equilibrium.
- C) a surplus exists.
- D) a shortage exists.
- E) price will not change; producers will cut back production until the market is in equilibrium.

Answer: C

Topic: Market Equilibrium

11) Suppose we observe a fall in the price of good *A* and a decrease in the quantity of good *A* bought and sold. Which one of the following is a likely explanation?

- A) The law of demand is violated.
- B) The demand for *A* decreased.
- C) The demand for *A* increased.
- D) The supply of *A* increased.
- E) The supply of *A* decreased.

Answer: B

Diff: 2 Type: MC

Topic: Predicting Changes in Price and Quantity

18) If A and B are complements in production and the price of A falls, the supply of B

- A) increases, and the price of B rises.
- B) increases, and the price of B falls.
- C) decreases, and the price of B falls.
- D) decreases, and the price of B rises.
- E) does not change.

Answer: D

Diff: 3 Type: MC

Topic: Predicting Changes in Price and Quantity

1) The demand curve for knobs is $P = 75 - 6Q_D$ and the supply curve for knobs is $P = 35 + 2Q_S$. What is the equilibrium price of a knob?

- A) \$5
- B) \$10
- C) \$40
- D) \$45
- E) \$75

Answer: D

Topic: Mathematical Note: Demand, Supply, and Equilibrium

Chapter 4 Elasticity

1) A price elasticity of demand of 2 means that a 10 percent increase in price will result in a

- A) 2 percent decrease in quantity demanded.
- B) 20 percent decrease in quantity demanded.
- C) 5 percent decrease in quantity demanded.
- D) 2 percent increase in quantity demanded.
- E) 20 percent increase in quantity demanded.

Answer: B

Diff: 2 Type: MC

Topic: Price Elasticity of Demand

7) The price of oranges rises by 3 percent and quantity of oranges demanded decreases by 3 percent. We conclude that the demand for oranges is

- A) inelastic.
- B) elastic.
- C) perfectly inelastic.
- D) perfect elastic.
- E) unit elastic.

Answer: E

Diff: 2 Type: MC

Topic: Price Elasticity of Demand

19) A fall in the price of a good from \$11.50 to \$8.50 results in an increase in the quantity demanded from 19,200 to 20,800 units. The price elasticity of demand is

- A) 0.27.
- B) 3.75.
- C) 0.08.
- D) 8.0.
- E) 30.

Answer: A

Topic: Price Elasticity of Demand

Table 4.2.1

Year	Quantity Demanded (units)	Price (dollars)	Income (dollars)
2011	25,000	1	4,000
2012	15,000	3	4,000
2013	5,000	3	6,000

1) Consider the information in Table 4.2.1. Select the best statement.

- A) The income elasticity of demand is -2.5.

- B) The income elasticity of demand is 2.5.
 C) The income elasticity of demand is -3.33.
 D) The income elasticity of demand is 3.33.
 E) We cannot calculate the income elasticity of demand because both income and price are changing at the same time.

Answer: A

Topic: More Elasticities of Demand

2) Supply is elastic if

- A) a small percentage change in price results in a large percentage change in quantity supplied.
 B) a large percentage change in price results in a small percentage change in quantity supplied.
 C) a small percentage change in demand results in a large percentage change in quantity supplied.
 D) the good is an inferior good.
 E) the good is a normal good.

Answer: A

Topic: Elasticity of Supply

18) Preferences for brussels sprouts increase. The price of brussels sprouts will *not* change if the price elasticity of

- A) demand is 0.
 B) demand is 1.
 C) supply is 0.
 D) supply is 1.
 E) supply is infinity.

Answer: E

Diff: 3 Type: MC

Topic: Elasticity of Supply

A) is not used at all.

B) is used occasionally inside firms and government departments.

C) is used only by private companies.

D) is used extensively in place of markets.

E) is used extensively inside firms and government departments.

Answer: E

Topic: Resource Allocation Methods

11) What method of resource allocation depends on willingness-to-pay and ability-to-pay?

A) command

B) lottery

C) market price

D) first-come, first-served

E) force

Answer: C

Topic: Resource Allocation Methods

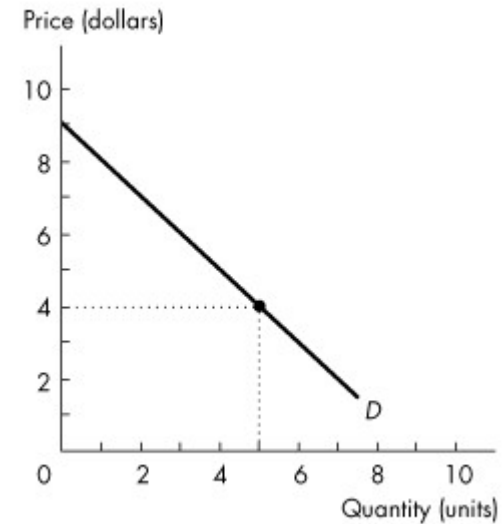


Figure 5.2.1

Chapter 5 Efficiency and Equity

3) In the Canadian economy, the command system

12) Consider the demand curve in Figure 5.2.1. If the price of the good is \$4, what is the consumer surplus?

- A) \$32.50
- B) \$25.00
- C) \$20.00
- D) \$12.50

Answer: D

Topic: Benefit, Cost, and Surplus

40) The marginal cost for Morgan's Marvellous Movies is given in the following table:

Table 5.2.3

Quantity (number of movies)	Marginal Cost (dollars)
1	4.00
2	4.50
3	5.00
4	5.50
5	6.00

If the firm sells the first movie at a price of \$7, what is the producer surplus on that movie?

- A) \$28
- B) \$3
- C) \$7
- D) \$6
- E) \$1

Answer: B

Topic: Benefit, Cost, and Surplus

31) All of the following statements are true *except*:

- A) An externality is a cost or a benefit that affects someone other than the seller or the buyer of a good.

B) When an electric utility does not consider the cost of pollution when it decides how much power to produce, the result is overproduction.

C) An electric utility creates an external cost by burning coal.

D) All externalities create overproduction.

E) An external cost creates overproduction.

Answer: D

Topic: Is the Competitive Market Efficient?

Source: MyEconLab

1) Which of the following ideas describes the concept of "utilitarianism"?

I. Utilitarianism was introduced in the 1930s.

II. Utilitarians believed that a society should strive to make as many people as happy as possible.

III. Utilitarians claimed that taking money from rich people and giving it to poorer people would not make an economy better off.

A) I only

B) II only

C) I and III

D) II and III

E) I, II, and III

Answer: B

Topic: Is the Competitive Market Fair?

8) According to the "big tradeoff,"

A) income transfers reduce efficiency.

B) efficiency requires income transfers.

C) a more equally shared pie results in a larger pie.

D) property rights and voluntary exchange insure equality of opportunity.

E) income transfers should make the poorest person as well off as possible.

Answer: A

Topic: Is the Competitive Market Fair?

Chapter 6 Government Actions in Markets

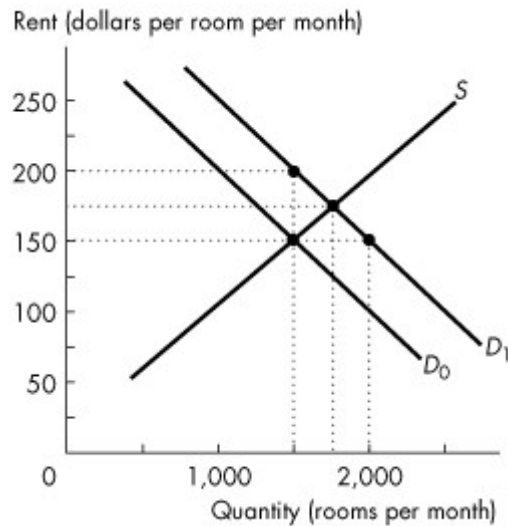


Figure 6.1.1

3) Refer to Figure 6.1.1. If the demand for rental housing increases and the demand curve shifts rightward from D_0 to D_1 , and the market is unregulated, the number of rooms rented is

- A) 1,500, and the rent rises to \$200 a month.
- B) 2,000, and the rent is at its initial level.
- C) 1,750, and the rent rises to \$175 a month.
- D) 2,000, and the rent rises to \$200 a month.
- E) 1,750, and the rent rises to \$200 a month.

Answer: C

Topic: A Housing Market with a Rent Ceiling

4) Refer to Figure 6.1.1. If the demand for rental housing increases and the demand curve shifts rightward from D_0 to D_1 , and there is a strictly enforced rent ceiling of \$150 per room,

- A) the number of rooms rented will increase to 2,000.
- B) the number of rooms rented is 1,500.
- C) there is a housing shortage of 500 rooms.
- D) the number of rooms rented decreases to 1,000.

E) both B and C

Answer: E

5) Suppose a minimum wage of \$4 an hour is in force, resulting in unemployment of 10 million hours. Then the demand for labour increases such that supply and demand curves intersect at a wage rate of \$5 per hour. What will happen to the equilibrium wage rate and employment?

- A) The wage rate is \$5 an hour and there will be no unemployment.
- B) The wage rate is \$5 an hour and there will be a surplus of labour.
- C) The wage rate is \$4 an hour and there will be a surplus of labour.
- D) The wage rate is \$4 an hour and there will be no unemployment.
- E) The wage rate is \$4 an hour and there will be unemployment.

Answer: A

Topic: A Labour Market with a Minimum Wage

Use the figure below to answer the following questions.



Figure 6.3.1

3) Refer to Figure 6.3.1 showing the market for frisbees before and after a tax

is imposed. The tax on each frisbee is

- A) \$0.40.
- B) \$0.60.
- C) \$1.00.
- D) \$5.60.
- E) \$6.60.

Answer: C

Topic: Taxes

4) Refer to Figure 6.3.1 showing the market for frisbees before and after a tax is imposed. On each frisbee, the sellers' share of the tax is

- A) \$0.40.
- B) \$0.60.
- C) \$1.00.
- D) \$5.60.
- E) \$6.60.

Answer: A

Diff: 3 Type: MC

Topic: Taxes

) Suppose the Canadian Dairy Commission sets a production quota for dairy production above the equilibrium quantity. Then,

- A) the policy will increase the quantity of milk produced in Canada.
- B) the policy will raise the price of milk in the international market.
- C) the policy will have no impact on the dairy industry.
- D) the policy will increase revenue received by dairy producers.
- E) the policy will decrease revenue received by dairy producers.

Answer: C

Diff: 2 Type: MC

Topic: Production Quotas and Subsidies

1) If enforcement is aimed at sellers of an illegal good, the

- A) price and quantity bought decrease.
- B) price and quantity bought increase.
- C) price rises and quantity bought decreases.
- D) price falls and quantity bought increases.
- E) price change is uncertain and quantity bought decreases.

Answer: C

Diff: 3 Type: MC

Topic: Markets for Illegal Goods