

# Chapter 1 Practice Questions

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1. For most students, which of the following is the largest single cost of a college education?
  - a. the income given up to attend school
  - b. the cost of tuition, fees, and books
  - c. the cost of room and board
  - d. transportation, parking, and entertainment
2. Which of the following has been an effect of a government-imposed seat belt law?
  - a. a reduction in the number of pedestrian deaths
  - b. safer driving practices
  - c. an increase in the number of accidents
  - d. a decrease in the number of accidents
3. Which of the following is NOT a benefit from trade?
  - a. the ability to specialize
  - b. an increase in the variety of goods and services available
  - c. reduced competition
  - d. lower prices
4. In a market economy, what guides economic activity?
  - a. consumers that only buy what they want
  - b. businesses that control production
  - c. central planners in government agencies
  - d. prices as incentives to both buyers and sellers
5. The income of a typical worker in Canada is most closely linked to which of the following?
  - a. our population
  - b. the productivity of our workforce
  - c. the number of labour unions
  - d. government policies
6. The value or cost of a good or service that is given up by choosing one alternative over another is best described by which of the following?
  - a. an explicit cost
  - b. an opportunity cost
  - c. a historical cost
  - d. an accounting cost

7. Which of the following arises because of scarcity?
  - a. a finite amount of resources
  - b. an increasing amount of resources
  - c. an infinite amount of resources
  - d. the opportunity cost is zero
8. Market failure results from which of the following situations?
  - a. The market fails to allocate resources efficiently.
  - b. People fail to know what they like.
  - c. The government fails to provide the goods and services voters want.
  - d. Producers fail to earn high profits.
9. Which of the following is the most likely result of trade between two countries?
  - a. It can make both countries better off.
  - b. It can benefit one country but not both.
  - c. It causes one country to gain and the other country to lose.
  - d. It has, at best, no impact on the everyday lives of ordinary citizens.
10. Which of the following is the primary study of economics?
  - a. how to make money in the stock market
  - b. how to operate a business successfully
  - c. how society manages its scarce resources
  - d. government policies
11. According to Adam Smith, which of the following is the “invisible hand” that coordinates economic activity?
  - a. a supernatural power
  - b. the government
  - c. man’s natural affinity for his fellow man
  - d. the price system
12. Henry compares the cost of enrolling in 15 hours at university with the cost of enrolling in 18 hours at university. This is an example of which of the following?
  - a. irrational behaviour by Henry
  - b. being worried about things you can’t control
  - c. increasing cost
  - d. thinking at the margin
13. Economists say: “There is no such thing as a free lunch.” What does this NOT mean?
  - a. Scarce resources have alternative uses.
  - b. If resources are used to make the lunch, they are not available for other purposes.
  - c. In a profit-motivated economy, lunch makers always charge for their services.
  - d. The resources used to make the lunch might have been used to make dinner

## True or False?

14. In economics, efficiency refers to the property of society getting the most it can from its scarce resources.
15. Adam Smith argues that participants in the economy are motivated by self-interest and that the “invisible hand” of the market place guides this self-interest into promoting inefficient coordination in the market place.
16. A market economy allocates resources through the decentralized decisions of many firms and households as they interact in markets for goods and services.
17. Inflation is an increase in the overall level of prices in the economy and is usually caused by growth in the quantity of money.
  
18. Describe all of the opportunity cost of your coming to FIC for one year.

19. Assume that Mr. Lee values his time at \$50 per hour because he has the opportunity to do consulting, and that Tom Smith, a student, values his time at \$2 per hour. Assume that it costs \$400 to fly from their hometown in Manitoba to Toronto, and that the flight takes six hours. Assume that it costs \$200 to take a bus, and that the bus trip takes 24 hours.

a. What is the cheaper way for Mr. Lee to travel from his hometown to Toronto? Why?

b. Which transportation is cheaper for Tom Smith? Why?

20. What explains the large differences in living standards among countries and over time?

21. Explain why there would be market failure in the market for cigarettes.

# Chapter 1 Study Notes (optional)

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*ANSWERS WILL NOT BE PROVIDED*

## KEY TERMS:

Resources =

Scarcity =

Economics =

Trade-off =

Efficiency =

Equity =

Opportunity cost =

Marginal analysis =

Incentive =

Specialize =

Market =

Market economy =

Command economy =

Mixed economy =

Property rights =

Market failure =

Externalities =

Market power =

Productivity =

Inflation =