

Ten Principles of Economics

Problem 1. A variety of fuels can be used to generate electricity. Considering only the availability of the fuel and not the cost of converting it into electricity, which of the following fuels is most scarce?

- (a) wind power
- (b) solar energy
- (c) fossil fuel
- (d) hydro-power

Problem 2. 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) people face tradeoffs.
- (d) all costs are included in the price of a product.

Problem 3. 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 pollute less than low-income individuals.
- (b) efforts to reduce pollution typically are not completely successful.
- (c) laws that reduce pollution raise costs of production and reduce incomes.
- (d) employing individuals to clean up pollution causes increases in employment and income.

Problem 4. The terms equality and efficiency are similar in that they both refer to benefits to society. However they are different in that

- (a) equality refers to uniform distribution of those benefits and efficiency refers to maximizing benefits from scarce resources.
- (b) equality refers to maximizing benefits from scarce resources and efficiency refers to uniform distribution of those benefits.
- (c) equality refers to everyone facing identical tradeoffs and efficiency refers to the opportunity cost of the benefits.
- (d) equality refers to the opportunity cost of the benefits and efficiency refers to everyone facing identical tradeoffs.

Problem 5. Schtoleheim Reinbach III spends an hour studying instead of watching TV with his friends. The opportunity cost to him of studying is

- (a) the improvement in his grades from studying for the hour.
- (b) the improvement in his grades from studying minus the enjoyment of watching TV.
- (c) the enjoyment he would have received if he had watched TV with his friends.
- (d) zero. Since Schtolteheim chose to study rather than to watch TV, the value of studying must have been greater to him than the value of watching TV.

Problem 6. You have eaten two bowls of ice cream at Sundae School Ice Cream store. You consider eating a third. As a rational consumer you should make your choice by comparing

- (a) the benefits from eating all three bowls of ice cream to how much three bowls of ice cream costs.
- (b) the benefits from eating all three bowls of ice cream to how much one more bowl of ice cream costs.
- (c) the benefits from eating one more bowl of ice cream to how much three bowls of ice cream costs.
- (d) the benefits from eating one more bowl of ice cream to how much one more bowl of ice cream costs.

Problem 7. Government policies can change the costs and benefits that people face. Those policies have the potential to

- (a) alter people's behavior.
- (b) alter people's decisions at the margin.
- (c) produce results that policymakers did not intend.
- (d) All of the above are correct.

Problem 8. In less than two years in the early 1920s, the cost of a German newspaper rose from 0.30 marks to 70,000,000 marks. This is a spectacular example of

- (a) market power caused by a change in the country's standard of living.
- (b) market power caused by a single firm controlling the newspaper production.
- (c) inflation caused by increased productivity in the economy.
- (d) inflation caused by an increase in the quantity of money in the economy.

Thinking Like an Economist

Problem 9. Economists face an obstacle that many other scientists do not face. What is that obstacle?

- (a) It is often difficult to formulate theories in economics.
- (b) It is often impractical to perform experiments in economics.
- (c) Economics cannot be addressed objectively; it must be addressed subjectively.
- (d) The scientific method cannot be applied to the study of economics.

Problem 10. According to the circular-flow diagram, if Englebert is the owner of a landscaping business and he just received \$50 for mowing Mrs. Doubtfire's lawn,

- (a) the \$50 represents a cost of production for Englebert's firm.
- (b) the \$50 represents wages, rent, and profit to Englebert's firm.
- (c) Englebert acts as a firm who interacted in the markets for factors of production with Mrs. Doubtfire.
- (d) Englebert acts as a firm who interacted in the markets for goods and services with Mrs. Doubtfire.

Problem 11. When an economy is operating inside its production possibilities frontier, we know that

- (a) there are unused resources or inefficiencies in the economy.
- (b) all of the economy's resources are fully employed.
- (c) economic growth would have to occur in order for the economy to move to a point on the frontier.
- (d) in order to produce more of one good, the economy would have to give up some of the other good.

Problem 12. The country of Goatmantis produces two goods, cars and wine. Last year, it produced 1,000 cars and 15,000 cases of wine. This year, it produced 1,300 cars and 20,000 cases of wine. Given no other information, which of the following events could *not* explain this change?

- (a) Goatmantis experienced a reduction in unemployment.
- (b) Goatmantis experienced an improvement in car-making technology.
- (c) Goatmantis acquired more resources.
- (d) Any of these events could explain the change.

Problem 13. A bowed shape of the production possibilities frontier can be explained by the fact that

- (a) all resources are scarce.
- (b) economic growth is always occurring.
- (c) the opportunity cost of one good in terms of the other depends on how much of each good the economy is producing.
- (d) the only way to get more of one good is to get less of the other.

Problem 14. Which of the following areas of study typifies macroeconomics as opposed to microeconomics?

- (a) the effects of rent control on the availability of housing in New York City
- (b) the economic impact of tornadoes on cities and towns in Oklahoma
- (c) how tariffs on shoes affects the shoe industry
- (d) the effect on the economy of changes in the nation's unemployment rate

Problem 15. A normative economic statement such as "The minimum wage should be abolished"

- (a) would likely be made by an economist acting as a scientist.
- (b) would require values and data to be evaluated.
- (c) would require data but not values to be evaluated.
- (d) could not be evaluated by economists acting as policy advisers.

Interdependence and the Gains from Trade

Problem 16. The most obvious benefit of specialization and trade is that they allow us to

- (a) work more hours per week than we otherwise would be able to work.
- (b) consume more goods than we otherwise would be able to consume.
- (c) spend more money on goods that are beneficial to society, and less money on goods that are harmful to society.
- (d) consume more goods by forcing people in other countries to consume fewer goods.

Problem 17. An economy's production possibilities frontier is also its consumption possibilities frontier

- (a) under all circumstances.
- (b) under no circumstances.
- (c) when the economy is self-sufficient.
- (d) when the rate of tradeoff between the two goods being produced is constant.

Problem 18. Darth Vader can mow a lawn in two hours or he can trim a tree in one hour. Darth Sidious can mow a lawn in three hours or he can trim a tree in two hours.

- (a) Darth Vader has a comparative advantage over Darth Sidious in trimming trees.
- (b) Darth Vader has a comparative advantage over Darth Sidious in mowing lawns.
- (c) Darth Sidious has a comparative advantage over Darth Vader in trimming trees.
- (d) All of the above are correct.

Problem 19. A person can benefit from specialization and trade by obtaining a good at a price that is

- (a) lower than his or her opportunity cost of that good.
- (b) the same as his or her opportunity cost of that good.
- (c) higher than his or her opportunity cost of that good.
- (d) different than his or her opportunity cost of that good.

Problem 20. In which of the following cases should the United States produce more noodles than it wants for its own use and trade some of those noodles to Italy in exchange for wine?

- (a) Americans know less than Italians know about cooking noodles.
- (b) The United States has an absolute advantage over Italy in producing noodles.
- (c) Italy has a comparative advantage over the United States in producing wine.
- (d) The opportunity cost of producing a gallon of wine is the same for Italy as it is for the United States.