

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Technological progress has made it possible for firms such as Apple and Alivacor to develop small electronic devices, including smartwatches, smartphones, and products that can be attached to the smartwatches and smartphones, to serve consumers who have become more health conscious and wish to monitor various health conditions. These firms are reacting to which of the three key economic ideas? 1) _____
- A) optimal decisions are made at the margin
B) people respond to economic incentives
C) people are rational
D) firms attempt to maximize revenues

Answer: B

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 2) The study of economics arises due to 2) _____
- A) money. B) greed. C) resources. D) scarcity.

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 3) Scarcity refers to the situation in which 3) _____
- A) a country's population is larger than its resource base.
B) unlimited resources exceed limited wants.
C) unlimited wants exceed limited resources.
D) a nation's poverty level increases faster than its population.

Answer: C

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 4) The basic economic problem of scarcity 4) _____
- A) does not apply to the wealthy in society.
B) has always existed and will continue to exist.
C) is a problem only in developing economies.
D) will eventually disappear as technology continues to advance.

Answer: B

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 5) Economics is the study of the _____ people make to attain their goals, given their _____ resources. 5) _____
- A) decisions; household
B) income; available
C) purchases; unlimited
D) choices; scarce

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 6) What is an economic model? 6) _____
- A) It is a simplified version of some aspect of economic life used to analyze an economic issue.
B) It is a detailed version of some aspect of economic life used to analyze an economic issue.
C) It is a description of an economic issue that includes all possible related information.
D) It is a description of an economic issue based on official government information.

Answer: A

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 7) The term "market" in economics refers to 7) _____
- A) a place where money changes hands.
B) a legal institution where exchange can take place.
C) an organization which sells goods and services.
D) a group of buyers and sellers of a product and the arrangement by which they come together to trade.

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 8) Economists assume that 8) _____
- A) individuals behave in unpredictable ways.
B) optimal decisions are made at the margin.
C) consumer behavior is explained by the existence of unlimited resources.
D) people put other people's interests ahead of their own.

Answer: B

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 9) Which of the following best describes an assumption economists make about human behavior? 9) _____
- A) They assume that people take into account the question of fairness in all decisions they make.
B) They assume that individuals act rationally all the time in all circumstances.
C) They assume that rational behavior is useful in explaining choices people make even though people may not behave rationally all the time.
D) They assume that individuals act randomly.

Answer: C

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 10) Economists assume that rational people 10) _____
- A) respond to economic incentives.
 - B) only weigh the benefits and costs of the most desirable alternative actions.
 - C) undertake activities that benefit others and hurt themselves.
 - D) never use all available information as they act to achieve their goals.

Answer: A

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 11) Your roommate, Serafina, a psychology major, said, "The problem with economics is that it assumes that consumers and firms always make the correct decision. But we know that everyone's human, and we all make mistakes." Do you agree with her comment? 11) _____
- A) I disagree with her. Economics does not study correct or incorrect behaviors but rather it assumes that economic agents behave rationally, meaning they make the best decisions given their knowledge of the costs and benefits.
 - B) Yes, I agree with her. One cannot make predictions about economic behavior because in reality people make incorrect choices in many situations.
 - C) I disagree with her. If we cannot assume that decisions are correct, then we will not be able to examine the moral implications of these decisions.
 - D) Yes, I agree with her. Economic theory should allow for irrational behavior so that we can have more reliable predictions.

Answer: A

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 12) Consider the following statements: 12) _____
- a. Consumers rent more kayaks from a vendor that rents kayaks at a lower price than other rival kayak vendors along Waikiki beach.
 - b. Department stores take steps to increase security since they believe it is more costly to allow shoplifting than to install expensive security monitoring equipment.
 - c. Farmers produce more cotton when its selling price falls.

Which of the above statements demonstrates that economic agents respond to incentives?

- A) a only. B) b only. C) c only. D) a and b. E) a, b, and c.

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

13) In the first six months of 2003, branches of Commerce Bank in New York City were robbed 14 times. The New York City Police recommended steps the bank could take to deter robberies, including the installation of plastic barriers called "bandit barriers." The police were surprised the bank did not take their advice. According to a deputy commissioner of police, "Commerce does very little of what we recommend. They've told our detectives they have no interest in ever putting in the barriers."

13) _____

It would seem that Commerce Bank would have a strong incentive to install "bandit barriers" to deter robberies. Why wouldn't they do it?

- A) The banks must have weighed the cost of installing bandit barriers against the benefits and decided that they have "no interest in ever putting in the barriers."
- B) The banks would rather delay installation of any theft deterring equipment in anticipation of new, lower-cost innovations in the security devices market.
- C) The banks probably resent any interference from the police department.
- D) The banks are concerned that "bandit barriers" would send the wrong message to customers – that the bank is unsafe.

Answer: A

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

14) Holding all other personal characteristics—such as age, gender, and income—constant, economists would expect that

14) _____

- A) people without health insurance will be less likely to be overweight than people with health insurance.
- B) people without health insurance will be more likely to be overweight than people with health insurance.
- C) there is no correlation between not having health insurance and being overweight.
- D) people without health insurance will be equally likely to be overweight as people with health insurance.

Answer: A

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

15) According to the Centers for Disease Control and Prevention, _____ in 2013 in which less than 20 percent of the population was considered obese.

15) _____

- A) Colorado was the only state
- B) there were more than 25 states
- C) there were only 5 states
- D) there were no states

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 16) What does the term "marginal" mean in economics? 16) _____
- A) secondary
 - B) an additional or extra
 - C) trivial
 - D) the edge of a market
 - E) illegal

Answer: B

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 17) An office supply store sells a ream of printer paper at a fixed price of \$4.50. Which of the following is a term used by economists to describe the money received from the sale of an additional ream of paper? 17) _____
- A) marginal costs
 - B) gross earnings
 - C) pure profit
 - D) marginal revenue
 - E) net benefit

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 18) Economics promotes which of the following as the way to make the best decision? 18) _____
- A) Continue an enjoyable activity until it is no longer enjoyable.
 - B) Continue an enjoyable activity until you cannot afford to pursue it.
 - C) Continue an enjoyable activity as long as you do not have to pay for it.
 - D) Continue an enjoyable activity up to the point where its marginal benefit equals its marginal cost.

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 19) _____ involves undertaking an activity until its marginal benefits equal marginal costs. 19) _____
- A) Scarcity reduction
 - B) Marginal analysis
 - C) Central planning
 - D) Market intervention

Answer: B

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 20) The revenue received from the sale of an additional unit of a product 20) _____
- A) is a marginal benefit to the firm.
 - B) is called profit.
 - C) is called a net gain.
 - D) is called gross sales.

Answer: A

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 21) The cost incurred from the production of an additional unit of a product 21) _____
A) is called opportunity cost. B) is a marginal cost to the firm.
C) must be zero for a firm to be efficient. D) is called a loss.

Answer: B

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 22) If the marginal cost for Big Ed's Used Car Emporium to advertise one additional day each week 22) _____
on a local TV station is \$1,500, then Big Ed's should advertize that additional day
A) until the marginal benefit the company receives reaches zero.
B) only if the marginal benefit the company receives each week is greater than \$1,500 plus an acceptable profit margin.
C) as long as the weekly marginal cost does not rise.
D) as long as the marginal benefit the company receives each week is just equal to or greater than \$1,500.

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 23) If the marginal cost of producing a television is constant at \$200, then a firm should produce this 23) _____
item
A) until the marginal benefit it receives reaches zero.
B) as long as its marginal cost does not rise.
C) only if the marginal benefit it receives is greater than \$200 plus an acceptable profit margin.
D) as long as the marginal benefit it receives is just equal to or greater than \$200.

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 24) Which of the following is an example of a "how much" decision? 24) _____
A) The Pleasantville movie theatre is open only in the evenings. The theatre's manager is debating whether to add daily matinee shows.
B) You're planning to hold a graduation party and must decide between having your party catered or having a pot-luck.
C) The Zhous have demolished their old home and are debating whether to build a ranch-style house or a Craftsman home.
D) Chelsea has withdrawn from the swim team to take a full-time job.

Answer: A

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 25) Which of the following is an example of a "how much" decision? 25) _____
- A) Octavia is debating whether to buy a pair of Jimmy Choo shoes or Steve Madden boots.
 - B) Diana is trying to decide if she should open her pet shop on Sundays.
 - C) Humberto has taken a second job to earn money to buy a Harley-Davidson SuperLow Sportster.
 - D) You plan on going to Las Vegas for your birthday and are deciding if you should fly or drive.

Answer: B

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 26) Marginal cost is the _____ associated with a particular increase in an activity. 26) _____
- A) forgone cost
 - B) opportunity cost
 - C) total cost
 - D) additional cost

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 27) Cassie's Quilts alters, reconstructs, and restores heirloom quilts. Cassie has just spent \$800 purchasing, cleaning, and reconstructing an antique quilt which she expects to sell for \$1,500 once she is finished. After having spent \$800, Cassie discovers that she would need some special period fabric that would cost her \$200 in material and time in order to complete the task. Alternatively, she can sell the quilt "as is" now for \$900. What is her marginal benefit if she sells the quilt "as is" now? 27) _____
- A) \$900
 - B) \$100
 - C) She makes a marginal loss of \$600, not a marginal benefit.
 - D) The marginal benefit cannot be determined.

Answer: A

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 28) Cassie's Quilts alters, reconstructs, and restores heirloom quilts. Cassie has just spent \$800 purchasing, cleaning, and reconstructing an antique quilt which she expects to sell for \$1,500 once she is finished. After having spent \$800, Cassie discovers that she would need some special period fabric that would cost her \$200 in material and time in order to complete the task. Alternatively, she can sell the quilt "as is" now for \$900. What is the marginal cost of completing the task? 28) _____
- A) \$200
 - B) \$500
 - C) \$1,000
 - D) \$1,000 plus the value of her time

Answer: A

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 29) Cassie's Quilts alters, reconstructs, and restores heirloom quilts. Cassie has just spent \$800 purchasing, cleaning, and reconstructing an antique quilt which she expects to sell for \$1,500 once she is finished. After having spent \$800, Cassie discovers that she would need some special period fabric that would cost her \$200 in material and time in order to complete the task. Alternatively, she can sell the quilt "as is" now for \$900. What should she do? 29) _____
- A) She should cut her losses and sell the quilt now.
 - B) She should purchase the period fabric, complete the task and then sell the quilt.
 - C) She should not do any more work on the quilt because she has already spent too much time on it and has not been paid for that time.
 - D) It does not matter what she does; she is going to take a loss on her project.

Answer: B

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 30) Lionel's Lawn Care is a company that maintains residential yards. Lionel's cost for his standard package of mowing, edging, and trimming is \$15, and he charges \$25 for this service. For a total price of \$40, Lionel will also trim shrubs, a service that adds an additional \$10 to the total cost of the standard package. What is Lionel's marginal benefit if he sells the standard package? 30) _____
- A) \$15 B) \$25 C) \$40 D) \$10

Answer: B

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 31) Lionel's Lawn Care is a company that maintains residential yards. Lionel's cost for his standard package of mowing, edging, and trimming is \$15, and he charges \$25 for this service. For a total price of \$40, Lionel will also trim shrubs, a service that adds an additional \$10 to the total cost of the standard package. What is Lionel's marginal cost of adding the shrub-trimming service to the standard package? 31) _____
- A) \$15 B) \$25 C) \$40 D) \$10

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 32) Lionel's Lawn Care is a company that maintains residential yards. Lionel's cost for his standard package of mowing, edging, and trimming is \$15, and he charges \$25 for this service. For a total price of \$40, Lionel will also trim shrubs, a service that adds an additional \$10 to the total cost of the standard package. Should Lionel continue to offer the shrub-trimming service? 32) _____
- A) yes, his marginal benefit is greater than his marginal cost
 - B) no, his marginal benefit is less than his marginal cost
 - C) yes, but only if he raises the price of the standard package
 - D) More information is needed for Lionel to make this decision.

Answer: A

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

Scenario 1 <1

Suppose a t-shirt manufacturer currently sells 5,000 t-shirts per week and makes a profit of \$10,000 per week. A manager at the plant observes, "Although the last 400 t-shirts we produced and sold increased our revenue by \$4,000 and our costs by \$4,800, we are still making an overall profit of \$10,000 per week so I think we're on the right track. We are producing the optimal number of t-shirts."

- 33) *Refer to Scenario 1 <1.* Using marginal analysis terminology, what is another economic term for the incremental revenue received from the sale of the last 400 t-shirts? 33) _____
- A) gross profit
B) gross earnings
C) sales revenue
D) marginal revenue

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 34) *Refer to Scenario 1 <1.* Using marginal analysis terminology, what is another economic term for the incremental cost of producing the last 400 t-shirts? 34) _____
- A) operating cost
B) explicit cost
C) marginal cost
D) Any of the above terms are correct.

Answer: C

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 35) *Refer to Scenario 1 <1.* Had the firm not produced and sold the last 400 t-shirts, would its profit be higher or lower, and if so by how much? 35) _____
- A) Its profit would be \$4,000 lower.
B) Its profit would be \$800 lower.
C) Its profit would be \$800 higher.
D) Its profit would be \$4,800 higher.

Answer: C

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

Table 1 <1

Hours Open	Total Revenue (dollars)
1	\$35
2	60
3	80
4	92
5	100
6	105

Eva runs a small bakery in the village of Roggerli. She is debating whether she should extend her hours of operation. Eva figures that her sales revenue will depend on the number of additional hours the bakery is open as shown in the table above. She would have to hire a worker for those hours at a wage rate of \$12 per hour.

36) *Refer to Table 1 <1.* Using marginal analysis, how many hours should Eva extend her bakery's hours of operations? 36) _____

- A) 2 hours B) 3 hours C) 4 hours D) 5 hours E) 6 hours

Answer: C

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

37) *Refer to Table 1 <1.* What is Eva's marginal benefit if she decides to stay open for two hours instead of one hour? 37) _____

- A) \$25 B) \$36 C) \$60 D) \$95

Answer: A

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

38) *Refer to Table 1 <1.* What is Eva's marginal cost if she decides to stay open for two hours instead of one hour? 38) _____

- A) \$12 B) \$24 C) \$36 D) \$71

Answer: A

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

Table 1 <2

Hours Open	Total Revenue (dollars)
1	\$40
2	65
3	80
4	90
5	95
6	98

Julius runs a small tailor shop in the city of Bloomfield. He is debating whether he should extend his hours of operation. Julius figures that his sales revenue will depend on the number of additional hours the tailor shop is open as shown in the table above. He would have to hire a worker for those hours at a wage rate of \$18 per hour.

- 39) *Refer to Table 1 <2.* Using marginal analysis, how many hours should Julius extend his shop's hours of operations? 39) _____
A) 2 hours B) 3 hours C) 4 hours D) 5 hours E) 6 hours

Answer: A

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 40) *Refer to Table 1 <2.* What is Julius's marginal benefit if he decides to stay open for three hours instead of two hours? 40) _____
A) \$15 B) \$25 C) \$65 D) \$80

Answer: A

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 41) *Refer to Table 1 <2.* What is Julius's marginal cost if he decides to stay open for three hours instead of two hours? 41) _____
A) \$0 B) \$18 C) \$54 D) \$65

Answer: B

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 42) Tabitha shares a flea market booth with her sister. Her share of the rent is \$150 per month. She is considering moving to her own, larger booth which she will not have to share with anyone. The larger booth rents for \$450 per month. Recently, you ran into Tabitha in the grocery store and she tells you that she has rented the larger booth. Tabitha is as rational as any other person. As an economics major, you rightly conclude that
- A) Tabitha figures that the additional benefit of having her own booth (as opposed to sharing) is at least \$450.
 - B) Tabitha figures that the additional benefit of having her own booth (as opposed to sharing) is at least \$300.
 - C) Tabitha did not have a choice; her sister was overcharging her.
 - D) the cost of having one's own booth outweighs the benefits.

42) _____

Answer: B

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 43) Consider the following statements:
- a. Soda drinkers purchase more soda from a grocery store that sells soda at a lower price than other rival grocery stores in the area.
 - b. Homeowners do not take steps to increase security even though they believe it is more costly to allow burglaries than to install security monitoring equipment.
 - c. Manufacturers produce less of a particular cell phone when its selling price rises.

43) _____

Which of the above statements demonstrates that economic agents respond to incentives?

- A) a only.
- B) b only.
- C) c only.
- D) a and b.
- E) a, b, and c.

Answer: A

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 44) Suppose the U.S. government encouraged new teachers to take jobs in underperforming schools by paying the new teachers a \$20,000 bonus. These teachers would be exemplifying the economic idea that
- A) optimal decisions are made at the margin.
 - B) people respond to economic incentives.
 - C) people are rational.
 - D) equity is more important than efficiency.

44) _____

Answer: B

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 45) Zane's Vanes is a service that restores old weather vanes. Zane has just spent \$125 purchasing a 1920s-era weather vane which he expects to restore and sell for \$500 once the work is completed. After having spent \$125, Zane realizes that he will need to spend an additional \$200 on materials to complete the restoration. Alternatively, he can sell the weather vane without restoring it for \$200. What is his marginal benefit if he sells the weather vane without restoring it? 45) _____
- A) \$75 B) \$125 C) \$200 D) \$300

Answer: C

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 46) Zane's Vanes is a service that restores old weather vanes. Zane has just spent \$125 purchasing a 1920s-era weather vane which he expects to restore and sell for \$500 once the work is completed. After having spent \$125, Zane realizes that he will need to spend an additional \$200 on materials to complete the restoration. Alternatively, he can sell the weather vane without restoring it for \$200. What is his marginal cost to complete the restoration? 46) _____
- A) \$75 B) \$125 C) \$200 D) \$300

Answer: C

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 47) Zane's Vanes is a service that restores old weather vanes. Zane has just spent \$125 purchasing a 1920s-era weather vane which he expects to restore and sell for \$500 once the work is completed. After having spent \$125, Zane realizes that he will need to spend an additional \$200 on materials to complete the restoration. Alternatively, he can sell the weather vane without restoring it for \$200. What should he do? 47) _____
- A) He should sell the weather vane back to the party he purchased it from and cut his losses.
B) He should sell the weather vane now to make the most profit.
C) It does not matter what he does; he is going to take a loss on the project.
D) He should finish the restoration and then sell the weather vane.

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

Scenario 1 <2

Suppose a cigar manufacturer currently sells 1,500 cigars per week and makes a profit of \$3,000 per week. The plant foreman observes, "Although the last 500 cigars we produced and sold increased our revenue by \$7,500 and our costs by \$7,000, we are only making an overall profit of \$3,000 per week so I think we need to cut back on production."

- 48) Refer to Scenario 1 <2. Using marginal analysis terminology, what is another economic term for the incremental revenue received from the sale of the last 500 cigars? 48) _____
- A) gross earnings B) gross profit
C) sales revenue D) marginal revenue

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

53) Refer to Table 1-3. What is Ivan's marginal cost if he decides to stay open for six hours instead of five hours? 53) _____
 A) \$10 B) \$20 C) \$25 D) \$91.67

Answer: C
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

54) Fiona shares an office with her ex-husband. Her share of the rent and utilities is \$625 per month. She is considering moving to a home office which she will not have to share with anyone. The home office will not cost her anything as far as extra rent or utilities. Recently, you ran into Fiona at the gym and she tells you that she has moved into her home office. Fiona is as rational as any other person. As an economics major, you rightly conclude that 54) _____

- A) Fiona figures that the additional benefit of having her own office (as opposed to sharing) is at least \$625.
- B) The cost of having one's own space outweighs the benefits.
- C) Fiona did not have a choice; her ex-husband was a jerk.
- D) Fiona figures that the benefit of having her own office (as opposed to sharing) is zero, since she is no longer paying rent and utilities.

Answer: A
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

55) All economic questions arise from the fact that resources are scarce. 55) _____
 Answer: True False

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

56) As population declines, scarcity eventually disappears. 56) _____
 Answer: True False

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

57) The term "market" refers only to trading arrangements that have been approved by the government. 57) _____

Answer: True False

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

58) The sales revenue a seller receives from the sale of an additional unit of goods is called the marginal cost. 58) _____

Answer: True False

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 59) Marginal benefit is the benefit that your activity provides to someone else. 59) _____
Answer: True False
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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.
- 60) If it costs Vijay \$150 to design 5 Web sites and \$175 to design 6 Web sites, then \$175 is the marginal cost of producing the 6th Web site. 60) _____
Answer: True False
Page Ref: 7/7
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.
- 61) Suppose the extra cost for a company to advertize for one extra day each week on a local TV station is \$1,500. Then, the company should advertize on that additional day if it can generate total revenue of \$1,500 each week. 61) _____
Answer: True False
Page Ref: 7-8/7-8
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.
- 62) An economic model is a complex version of reality used to analyze real-world economic situations. 62) _____
Answer: True False
Page Ref: 4/4
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.
- 63) Optimal decisions are made at the point where marginal benefit is maximized. 63) _____
Answer: True False
Page Ref: 7/7
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.
- 64) If it costs Hobie \$900 to produce 5 lamps and \$1,200 to produce 6 lamps, then the difference of \$300 is the marginal cost of producing the 5th lamp. 64) _____
Answer: True False
Page Ref: 7/7
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.
- 65) Suppose the extra cost to a car wash of advertising one additional day each month on a local radio station is \$175. Then, the car wash should advertize that one additional day each month if doing so brings in additional revenue of \$175 or more each month. 65) _____
Answer: True False
Page Ref: 7-8/7-8
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

66) What is scarcity, and why is it a fundamental concept in economics? 66) _____

Answer: Scarcity refers to a situation in which unlimited wants exceed the limited resources available to fulfill those wants. Scarcity is a fundamental concept in economics because economics is the study of the choices people make to attain their goals, given their scarce resources.

Page Ref: 4/4

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

67) What is an economic market? 67) _____

Answer: An economic market refers to a group of buyers and sellers of a good or service and the institution or arrangement by which they come together to trade.

Page Ref: 4/4

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

68) What does the word "marginal" mean in economics? What is a marginal benefit? What is a marginal cost? What is marginal analysis? 68) _____

Answer: In economics, the word "marginal" means "extra" or "additional." Marginal benefit is the additional benefit received from continuing with an activity. Marginal cost is the additional cost associated with continuing with an activity. Marginal analysis involves comparing marginal benefits and marginal costs.

Page Ref: 7/7

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

69) Assume that a health spa can earn an additional \$35,000 of revenue each year from advertising every day in a local newspaper. What must the additional cost of this daily advertising be to make this advertising economically rational?

Answer: The additional cost of the daily advertising must be no more than \$35,000 for the year to make advertising economically rational.

Page Ref: 7-8/7-8

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

70) Explain the term "economics." 70) _____

Answer: Economics is the study of the choices people make to attain their goals, given their scarce resources.

Page Ref: 4/4

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

71) Describe what has happened to state obesity rates in the United States since 1994.

71) _____

Answer: There has been a dramatic increase in obesity between 1994 and 2013. In 1994, in a majority of states between 10 percent and 14 percent of the adult population was obese, and in no state was more than 20 percent of the adult population obese. By 2013, in every state at least 20 percent of the adult population was obese, and in 43 states, at least 25 percent of the adult population was obese.

Page Ref: 5-7/5-7

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

72) Trade-offs force society to make choices when answering what three fundamental questions?

72) _____

- A) Who gets jobs; what wages do workers earn; and who owns what property?
- B) How much will be saved; what will be produced; and how can these goods and services be fairly distributed?
- C) What goods and services to produce; how will these goods and services be produced; and who receives them?
- D) What will be the prices of goods and services; how will these goods and services be produced; and who will receive them?

Answer: C

Page Ref: 10/10

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

73) Every society faces economic trade-offs. This means

73) _____

- A) some people live better than others do.
- B) society's output cannot be made available to all.
- C) producing more of one good means less of another good can be produced.
- D) not everyone can have enough goods to survive.

Answer: C

Page Ref: 8/8

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

74) Which of the following statements is *false*?

74) _____

- A) Anytime you have to decide which action to take you are facing an economic trade-off.
- B) Every individual, no matter how rich or poor, is faced with making trade-offs.
- C) Trade-offs do not apply when the consumers purchase a product for which there is excess supply, such as a stock clearance sale.
- D) Economics is a social science that studies the trade-offs we are forced to make because of scarcity.

Answer: C

Page Ref: 8/8

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 75) Which of the following is an example of an economic trade-off that a firm has to make? 75) _____
- A) whether it is cheaper to produce with more machines or with more workers
 - B) deciding what profit margin it desires for its products
 - C) deciding why consumers want its products
 - D) whether or not consumers will buy its products

Answer: A

Page Ref: 9/9

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 76) Opportunity cost is defined as 76) _____
- A) the highest valued alternative that must be given up to engage in an activity.
 - B) the monetary expense associated with an activity.
 - C) the total value of all alternatives that must be given up to engage in an activity.
 - D) the benefit of an activity.

Answer: A

Page Ref: 8/8

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 77) The Stogie Shop, a cigar store in the mall, sells hand-rolled cigars for \$10.00 and machine-made cigars for \$2.50 each. What is the opportunity cost of buying a hand-rolled cigar? 77) _____
- A) \$2.50
 - B) 4 machine-made cigars
 - C) one-quarter of a machine-made cigar
 - D) \$10.00

Answer: B

Page Ref: 8/8

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 78) Ted quits his \$60,000-a-year job to be a stay-at-home dad. What is the opportunity cost of his decision? 78) _____
- A) at least \$60,000
 - B) the value he attributes to the joy of parenting
 - C) depends on the "going rate" for stay-at-home dads
 - D) zero, since he will no longer be earning a salary

Answer: A

Page Ref: 8/8

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 79) Skeeter's Skeeball Castle has seen its business slow down ever since Kerrie's Off-Key Karaoke opened up next door. Since the opening of Kerrie's Off-Key Karaoke, the opportunity cost of playing skeeball at Skeeter's has 79) _____
- A) decreased.
 - B) fallen to zero.
 - C) increased.
 - D) not changed.

Answer: C

Page Ref: 9/9

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 80) Who receives the goods and services produced in the United States depends largely on 80) _____
- A) how the goods and services are produced.
 - B) government redistribution.
 - C) how income is distributed.
 - D) what goods and services are produced.

Answer: C

Page Ref: 10/10

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 81) Fast food restaurants produce a range of menu items such as hamburgers, chicken sandwiches, salads, and french fries. What fundamental economic question are they addressing by offering this range of items? 81) _____
- A) Who to produce the menu items for?
 - B) How to produce goods that consumers want?
 - C) Why produce a variety of menu items?
 - D) What to produce?

Answer: D

Page Ref: 10/10

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 82) Consider the following economic agents: 82) _____
- a. the government
 - b. consumers
 - c. producers

Who, in a modern mixed economy, decides what goods and services will be produced with the scarce resources available in that economy?

- A) consumers
- B) consumers and producers
- C) the government
- D) producers
- E) the government, consumers, and producers

Answer: E

Page Ref: 10/10

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 83) In a market economy, who decides what goods and services will be produced? 83) _____
- A) consumers and producers
 - B) only consumers
 - C) only the producers
 - D) the government

Answer: A

Page Ref: 10/10

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 84) Which of the following is correct about the economic decisions consumers, firms, and the government have to make? 84) _____
- A) Only individuals face scarcity; firms and the government do not.
 - B) Each faces the problem of scarcity which necessitates trade-offs in making economic decisions.
 - C) Governments may face the problem of shortages but not scarcity in making economic decisions.
 - D) Firms and the government face scarcity, individuals only face shortages.

Answer: B

Page Ref: 8/8

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 85) It is necessary for all economic systems to provide people with goods and services and also restrict them from getting as much of these goods and services as they wish, because failure to do this could _____ the efficiency of the system by producing some goods and services that are _____. 85) _____
- A) increase; valued more than others
 - B) reduce; valued more than others
 - C) increase; not as highly valued as others
 - D) reduce; not as highly valued as others

Answer: D

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 86) How does a market system prevent people from getting as many goods and services as they wish? 86) _____
- A) Governments interfere with the market mechanism to influence the allocation of goods and services.
 - B) The government imposes taxes on those who earn beyond a certain amount of income.
 - C) The market system allocates goods and services to those who are able to pay for those products and therefore income is a limiting factor.
 - D) In a market system, firms can charge any price they want, thus preventing poor people from getting as many goods and services as they wish.

Answer: C

Page Ref: 11/11

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 87) In a market economy, those who are willing and able to buy what is produced 87) _____
- A) solely determine what is produced.
 - B) receive what the government allows them to receive.
 - C) receive no more than everyone else in the market.
 - D) receive the most of what is produced.

Answer: D

Page Ref: 11/11

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 88) How are the fundamental economic decisions determined in Cuba? 88) _____
- A) The United Nations decides because Cuba is a developing economy.
 - B) These decisions are made by the country's elders who have had much experience in answering these questions.
 - C) The government decides because Cuba is a centrally planned economy.
 - D) Individuals, firms, and the government interact in a market to make these economic decisions.

Answer: C

Page Ref: 11/11

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 89) In a market economy, _____ interact in markets to decide the answers to the fundamental economic questions. 89) _____
- A) the judicial and legislative branches of the federal government
 - B) households and firms
 - C) state and local governments
 - D) large corporations

Answer: B

Page Ref: 10/10

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 90) Which of the following is a problem inherent in centrally planned economies? 90) _____
- A) There are no problems and everyone, including consumers, is satisfied.
 - B) Production managers are more concerned with satisfying government's orders than with satisfying consumer wants.
 - C) Unemployment is too high.
 - D) There is too much production of low-cost, high-quality goods and services.

Answer: B

Page Ref: 11/11

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 91) Which of the following contributed to the downfall of the Soviet Union in 1991? 91) _____
- A) public dissatisfaction with low living standards and political repression
 - B) the rapidly increasing standard of living
 - C) the lack of a strong dictator who could coordinate economic activities
 - D) producing higher-quality goods than were desired by consumers

Answer: A

Page Ref: 11/11

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 92) When goods and services are produced at the lowest possible cost, _____ occurs. 92) _____
- A) equity
 - B) efficient central planning
 - C) allocative efficiency
 - D) productive efficiency

Answer: D

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 93) Productive efficiency is achieved when firms produce goods and services 93) _____
A) of the highest quality. B) at the highest profit margin.
C) at the lowest cost. D) most desired by society.

Answer: C

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 94) When every good or service is produced up to the point where the last unit provides a marginal benefit to society equal to the marginal cost of producing it, _____ occurs. 94) _____
A) productive efficiency B) efficient central planning
C) allocative efficiency D) equity

Answer: C

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 95) Allocative efficiency is achieved when 95) _____
A) firms produce goods and services at the lowest cost.
B) there are no shortages or surpluses in the market.
C) firms produce the goods and services that consumers value most.
D) goods and services are fairly distributed among consumers in an economy.

Answer: C

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 96) Which of the following contributes to the efficiency of markets? 96) _____
A) Markets are able to bring about an equitable distribution of goods and services.
B) Governments play an active role in the day-to-day operations of markets.
C) Markets promote competition and voluntary exchange.
D) Markets promote equal standards of living.

Answer: C

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 97) Competition forces firms to produce and sell products as long as the _____ to consumers exceeds the _____ of production. 97) _____
A) marginal cost; marginal cost B) marginal cost; marginal benefit
C) marginal benefit; marginal benefit D) marginal benefit; marginal cost

Answer: D

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 98) Voluntary exchange increases economic efficiency 98) _____
A) because it allows wealthy individuals to act altruistically and give to the poor.
B) because neither the buyer nor the seller would agree to a trade unless they both benefit.
C) because it is free and consequently does not cost anything.
D) because voluntary exchange only takes place with government permission.

Answer: B

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 99) All _____ economies have been political dictatorships. 99) _____
A) mixed B) centrally planned
C) mixed and market D) market

Answer: B

Page Ref: 11/11

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 100) Which of the following generates allocative efficiency in a market economy? 100) _____
A) voluntary exchange between buyers and sellers
B) equity
C) United Nations rules for competition
D) national government intervention

Answer: A

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 101) Competition among sellers generates 101) _____
A) productive efficiency. B) equity.
C) scarcity. D) allocative efficiency.

Answer: A

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 102) Dr. Goldfinger decides to invest in companies which he believes can "improve the productivity and efficiency" of health care services. How can Dr. Goldfinger strive to achieve this productive efficiency? 102) _____
A) by investing in companies that fairly distribute their products and services
B) by investing in companies that produce goods and services at the lowest possible cost
C) by investing in companies that produce goods and services based on consumer preferences
D) by investing in companies that produce up to the point where the marginal benefit of the last unit produced is equal to the marginal cost of producing it

Answer: B

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

103) Dr. Goldfinger decides to invest in companies which he believes can "improve the productivity and efficiency" of health care services. What would Dr. Goldfinger need to do to try to achieve allocative efficiency? 103) _____

- A) invest in companies that fairly distribute their products and services
- B) invest in companies that produce up to the point where the marginal cost of the last unit produced is zero
- C) invest in companies that produce goods and services at the lowest possible cost
- D) invest in companies that produce goods and services based on consumer preferences

Answer: D

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

104) Mrs. Lovejoy decides to invest in companies which she believes are producing its goods based on the preferences of consumers. Mrs. Lovejoy is investing in companies that are 104) _____

- A) productively efficient.
- B) both productively and allocatively efficient.
- C) allocatively efficient.
- D) always going to be profitable.

Answer: C

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

105) Mrs. Lovejoy decides to invest in companies which she believes can produce their goods at the lowest possible cost. Mrs. Lovejoy is investing in companies that are 105) _____

- A) allocatively efficient.
- B) always going to be profitable.
- C) both productively and allocatively efficient.
- D) productively efficient.

Answer: D

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

106) Selling tickets to graduation ceremonies has long been a tradition among students at institutions that limit the number of guests. Suppose your classmate, Heidi, purchased two tickets for \$40 each. Is this transaction economically efficient? 106) _____

- A) No, people should never be allowed to sell items they received for free.
- B) No, Heidi paid too much for the tickets.
- C) Yes, it was a voluntary exchange that benefited both parties.
- D) Yes, it is efficient only from the perspective of the seller and not from the perspective of the buyer.

Answer: C

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 107) _____ occurs when economic benefits are distributed fairly.
- A) Equality
 - B) Productive efficiency
 - C) Allocative efficiency
 - D) Equity

Answer: D

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

107) _____

- 108) Which of the following is motivated by an equity concern?
- A) Some U.S. colleges have cut back on merit scholarships since these programs siphon money from need-based programs, thus harming lower-income students with greater financial need.
 - B) The United States protects intellectual property rights, allowing inventors to prevent others from using their inventions without payment.
 - C) In November 2003, the Federal Communications Commission implemented the "local number portability" rule which gives cell phone customers the option of keeping their number when they switch carriers within the same geographic region.
 - D) Following the removal of subsidies in urban water use, household demand for water decreased quite significantly in Bogor, Indonesia.

Answer: A

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

108) _____

- 109) Which of the following is motivated by an efficiency concern?
- A) Some U.S. colleges have cut back on merit scholarships since these programs siphon money from need-based programs, thus harming lower-income students with greater financial need.
 - B) In 2009, the Obama administration increased unemployment benefits.
 - C) Following a six-month drought, a city banned homeowners from watering their lawns in an effort to conserve water.
 - D) As part of an economic stimulus package, each taxpayer received a \$3,000 tax rebate check.

Answer: C

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

109) _____

- 110) Which of the following is *not* an example of an efficiency–equity trade–off faced by economic agents? 110) _____
- A) Concerned about the falling birth rate, the French government has pledged more money for families with three children, in an effort to encourage working women to have more babies.
 - B) Some U.S. colleges cut back on merit scholarships since these programs siphon money from need–based programs, thus harming lower–income students with greater financial need.
 - C) According to an article by in the American Journal of Public Health by Edward Kaplan and Michael Merson of Yale University School of Medicine, the federal government's current method of allocating HIV–prevention resources is not cost–effective. Instead of allocating resources to states in proportion to reported AIDS cases, resources should flow first to those activities that prevent more infections per dollar and then to less and less effective combinations of programs and populations until funds are exhausted, even if it means that some populations would be left without any prevention services.
 - D) The growing demand for corn by ethanol producers has led to a surge in the price of tortillas, a staple in the Mexican diet. To quell public outcry over rising tortilla prices, the Mexican government released government corn stocks at prices well below the market, and pressured states to impose price ceilings on tortillas.

Answer: A

Page Ref: 12/12

Learning Outcome: Micro–1: Identify the basic principles of economics and explain how to think like an economist.

- 111) There is often a trade–off between 111) _____
- A) productive efficiency and allocative efficiency.
 - B) voluntary and involuntary exchanges.
 - C) limited and unlimited resources.
 - D) economic efficiency and economic equity.

Answer: D

Page Ref: 12/12

Learning Outcome: Micro–1: Identify the basic principles of economics and explain how to think like an economist.

- 112) The Farm Factory, a booth at the local Farmer's Market, sells fresh eggs for \$1.50 per dozen and fresh milk for \$2.50 per gallon. What is the opportunity cost of buying a dozen eggs? 112) _____
- A) $1\frac{2}{3}$ gallons of milk
 - B) \$1.50
 - C) $\frac{3}{5}$ of a gallon of milk
 - D) \$2.50

Answer: C

Page Ref: 8/8

Learning Outcome: Micro–1: Identify the basic principles of economics and explain how to think like an economist.

- 113) The Farm Factory, a booth at the local Farmer's Market, sells fresh eggs for \$1.50 per dozen and fresh milk for \$2.50 per gallon. What is the opportunity cost of buying a gallon of milk? 113) _____
- A) $1\frac{2}{3}$ dozen eggs
 - B) $\frac{3}{5}$ of a dozen eggs
 - C) \$1.50
 - D) \$2.50

Answer: A

Page Ref: 8/8

Learning Outcome: Micro–1: Identify the basic principles of economics and explain how to think like an economist.

- 114) The decision about what goods and services will be produced in a market economy is made by _____ 114) _____
- A) consumers dictating to firms what they need most.
 - B) consumers and firms choosing which goods and services to buy or produce.
 - C) lawmakers in the government voting on what will be produced.
 - D) producers deciding what society wants most.
 - E) workers deciding to produce only what the boss says must be produced.

Answer: B

Page Ref: 10/10

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 115) The decision about what goods and services will be produced in a centrally planned economy is made by _____ 115) _____
- A) producers deciding what society wants most.
 - B) consumers dictating to firms what they need most.
 - C) workers deciding to produce only what the boss says must be produced.
 - D) lawmakers in the government deciding on what will be produced.
 - E) consumers and firms choosing which goods and services to buy or produce.

Answer: D

Page Ref: 10/10

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 116) How are the fundamental economic decisions determined in Canada? _____ 116) _____
- A) Individuals, firms, and the government interact in a market to make these economic decisions.
 - B) The government decides because Canada is a centrally planned economy.
 - C) These decisions are made by the country's elders who have had much experience in answering these questions.
 - D) The United Nations decides because Canada is a developing economy.

Answer: A

Page Ref: 11/11

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 117) Which of the following contributed to the downfall of the Soviet Union in 1991? _____ 117) _____
- A) an overabundance of high-quality goods and services
 - B) an inability to produce low-cost consumer goods that households wanted
 - C) the lack of a strong dictator who could coordinate economic activities
 - D) government dissatisfaction with high living standards and political freedom

Answer: B

Page Ref: 11/11

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

Article Summary

Recent studies about wealth inequality and income inequality indicate that the American public's estimates of the distribution of wealth and income are quite different than actual data suggests. With respect to wealth, the top 20 percent of households hold more than 84% and the bottom 40 percent hold less than 1%, yet the public's estimates were 59% and 9%, respectively. In terms of income inequality, the public estimated that the CEO to worker pay ratio was 30 to 1, whereas data suggests the actual ratio is 354 to 1, up from 20 to 1 in the 1960s.

President Obama has referred to economic inequality as "the defining challenge of our time," and although Americans seem to recognize that income and wealth gaps have widened, only 5 percent indicate that this inequality is a problem that needs to be addressed.

Source: Nicholas Fitz, "Economic Inequality: It's Far Worse Than You Think," *Scientific American*, March 31, 2015.

- 118) *Refer to the Article Summary.* The article discusses income inequality, and for some people this means a more equitable distribution of income is needed in the economy. What is meant by a more equitable distribution of income? 118) _____
- A) a more fair distribution of income
 - B) income distributed based on skill levels
 - C) a more allocatively efficient distribution of income
 - D) a more productively efficient distribution of income

Answer: A

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 119) *Refer to the Article Summary.* The article discusses income inequality, and for some people this means a more equitable distribution of income is needed in the economy. Would an equitable distribution of income necessarily be the most efficient distribution of income? 119) _____
- A) No, it is impossible to have an economically efficient distribution which is also an equitable distribution.
 - B) Yes, in order for the distribution to be equitable, it must also be efficient.
 - C) No, an economically efficient distribution of income would not necessarily be equitable.
 - D) Yes, equitable and efficient are two different words which have the same definition.

Answer: C

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 120) The government makes all economic decisions in a centrally planned economy. 120) _____

Answer: True False

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 121) When voluntary exchange takes place, only one party gains from the exchange. 121) _____

Answer: True False

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 122) A college must decide if it wants to offer more evening and weekend classes. This decision involves answering the economic question of "for whom to produce." 122) _____
Answer: True False
Page Ref: 10/10
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.
- 123) In a centrally planned economy, the government decides how economic resources will be allocated. 123) _____
Answer: True False
Page Ref: 10/10
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.
- 124) Consumers make all economic decisions in a mixed economy. 124) _____
Answer: True False
Page Ref: 11/11
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.
- 125) When voluntary exchange takes place, neither party usually gains from the exchange. 125) _____
Answer: True False
Page Ref: 12/12
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.
- 126) A university must decide if it should stop offering foreign language classes. This decision involves answering the economic question of "how to produce." 126) _____
Answer: True False
Page Ref: 10/10
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.
- 127) In market economies, income distribution is always going to be completely equitable. 127) _____
Answer: True False
Page Ref: 12/12
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 128) Every society faces trade-offs. Explain the concept of trade-offs. 128) _____
Answer: Trade-offs refer to the idea that, because of scarcity, producing more of one good or service means producing less of another good or service.
Page Ref: 8/8
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

129) Trade-offs force society to make choices when answering what three fundamental questions? 129) _____

- Answer: 1. What goods and services will be produced?
2. How will the goods and services be produced?
3. Who will receive the goods and services produced?

Page Ref: 9/9

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

130) What is the difference between economic efficiency and equity? 130) _____

Answer: Economic efficiency is concerned with maximizing the value of output that can be generated by a given resource base while equity deals with the distribution of society's total output among the sectors and individuals of society.

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

131) What is a market economy? 131) _____

Answer: A market economy is an economy in which the decisions of households and firms interacting in markets allocate economic resources.

Page Ref: 10/10

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

132) Define allocative efficiency. Explain the significance of this concept in economics? 132) _____

Answer: Allocative efficiency is an efficiency criterion that describes a situation where the marginal benefit (or marginal valuation) of the last unit purchased is equal to the marginal cost of producing that unit. In other words, allocative efficiency occurs when production reflects consumer preferences. This is a significant concept in that all societies face scarcity which necessitates that societies make choices about what goods and services to produce. To maximize society's wealth, resources must flow to their highest valued use. This value is determined by consumers.

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

133) Economic models 133) _____

- A) make no assumptions in order to remain as accurate as possible.
- B) are simplified versions of reality.
- C) magnify the complexity of economic issues in order to provide useful data.
- D) can not be used to analyze real-world issues.

Answer: B

Page Ref: 12/12

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 134) Which of the following is part of an economic model? 134) _____
- A) norms
 - B) assumptions
 - C) preferences of economic agents
 - D) opinions

Answer: B

Page Ref: 13/13

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 135) Which of the following statements about positive economic analysis is true? 135) _____
- A) There is much less disagreement among economists over normative economic analysis than over positive economic analysis.
 - B) There is much more disagreement among economists over positive economic analysis than over normative economic analysis.
 - C) Positive analysis uses an economic model to estimate the costs and benefits of different course of actions.
 - D) Unlike positive economic analysis, normative economic analysis can be tested.

Answer: C

Page Ref: 14/14

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 136) Which of the following is a positive economic statement? 136) _____
- A) U.S. firms should not be allowed to outsource production of goods and services.
 - B) Everyone should live at the same standard of living.
 - C) If the price of gasoline rises, a smaller quantity of it will be bought.
 - D) The government should close income tax loopholes.

Answer: C

Page Ref: 14/14

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 137) Which of the following is a positive economic statement? 137) _____
- A) The government should subsidize solar power for homeowners.
 - B) The minimum wage law causes unemployment.
 - C) The number of work visas should not be limited by the government.
 - D) People should not buy imported fruits and vegetables.

Answer: B

Page Ref: 14/14

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 138) Which of the following is a normative economic statement? 138) _____
- A) Rising global demand for diesel and heating oil has led to increases in the price of crude oil.
 - B) The federal government is considering raising the gasoline tax to promote the use of public transportation.
 - C) With falling home prices and rising mortgage interest rates, the amount of foreclosures has increased.
 - D) Fashion designers should be allowed to copyright designs to promote innovation.

Answer: D

Page Ref: 14/14

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 139) Which of the following is a normative economic statement? 139) _____
- A) When the price of milk rises, the cost of milk-based products rises.
 - B) When the price of milk rises, the quantity of milk purchased falls.
 - C) The current high price of milk is the result of reduced worldwide supply.
 - D) The price of milk is too high.

Answer: D

Page Ref: 14/14

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 140) All of the following questions or statements regarding medical school are positive *except*: 140) _____
- A) Have tuition increases had a large effect or a small effect on the number of applications to medical school?
 - B) What role does tuition play in a student's decision about whether to attend medical school?
 - C) How do changes in expected future incomes affect the decisions of medical students about which specialty to choose?
 - D) Medical students who enter specialized fields make a larger contribution to society than do student who enter primary care.

Answer: D

Page Ref: 16-17/16-17

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 141) The economic analysis of minimum wage involves both normative and positive analysis. 141) _____
- Consider the following consequences of a minimum wage:
- a. The minimum wage law causes unemployment.
 - b. Unemployment would be lower without a minimum wage law.
 - c. Minimum wage laws benefit some workers and harm others.
 - d. The minimum wage should be more than \$7.25 per hour.

Which of the consequences above are positive statements and which are normative statements?

- A) a and c are positive statements, b and d are normative statements.
- B) a and b are positive statements, c and d are normative statement.
- C) Only a is a positive statement, b, c, and d are normative statements.
- D) a, b, and c are positive statements and d is a normative statement.

Answer: D

Page Ref: 15/15

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 142) Which of the following is part of an economic model? 142) _____
- A) data
 - B) opinions
 - C) norms
 - D) preferences of economic agents

Answer: A

Page Ref: 13/13

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 143) Which of the following is a positive economic statement? 143) _____
- A) The government should defund Obamacare.
 - B) The inflation rate in the United States is too high.
 - C) States should be able to enact their own marijuana legalization laws.
 - D) Unemployment insurance payments increase when the unemployment rate rises.

Answer: D

Page Ref: 14/14

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 144) Which of the following is a positive economic statement? 144) _____
- A) The government should ban diesel engines in automobiles.
 - B) Foreign citizens should not be allowed to work without a work visa.
 - C) People should use public transportation more often.
 - D) Due to a decrease in state funding, university tuition has risen.

Answer: D

Page Ref: 14/14

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 145) Which of the following is a normative economic statement? 145) _____
- A) Global warming should be at the top of every economic agenda.
 - B) The state of Florida's unemployment rate dropped when several large companies relocated to the Miami area.
 - C) Falling global demand for pesticides has led to decreases in the price of pesticides.
 - D) With falling mortgage rates and falling unemployment rates, the number of new homes being built has increased.

Answer: A

Page Ref: 14/14

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 146) Which of the following is a normative economic statement? 146) _____
- A) The increase in tobacco taxes has caused an increase in the price of cigarettes.
 - B) Tobacco products should be banned in all public spaces.
 - C) A reduction in tobacco subsidies has caused the price of tobacco to increase.
 - D) Better awareness of health risks has decreased tobacco use.

Answer: B

Page Ref: 14/14

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 147) "A decrease in the price of digital cameras will decrease the demand for camera film." This statement is an example of a positive economic statement. 147) _____

Answer: True False

Page Ref: 14/14

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 148) "The distribution of income should be determined by the government" is an example of a normative economic statement. 148) _____
Answer: True False
Page Ref: 14/14
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.
- 149) Policies based on normative economic ideas tend to increase economic efficiency and improve equity. 149) _____
Answer: True False
Page Ref: 14/14
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.
- 150) "An increase in the price of oranges will increase the demand for grapefruits." This statement is an example of a normative economic statement. 150) _____
Answer: True False
Page Ref: 14/14
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.
- 151) "The unemployment rate is too high" is an example of a positive economic statement. 151) _____
Answer: True False
Page Ref: 14/14
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.
- 152) Normative analysis is concerned with "what ought to be," while positive analysis is concerned with "what is." 152) _____
Answer: True False
Page Ref: 14/14
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 153) What are the five steps by which economists arrive at a useful economic model? 153) _____
Answer: 1. Decide on the assumptions to use in developing the model.
2. Formulate a testable hypothesis.
3. Use economic data to test the hypothesis.
4. Revise the model if it fails to explain the economic data well.
5. Retain the revised model to help answer similar economic questions in the future.
Page Ref: 13/13
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

154) What is an economic variable? Give an example of an economic variable. 154) _____
Answer: An economic variable is something measurable that can have different values, such as the wages of software programmers. (Students will give many different examples.)

Page Ref: 13/13

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

155) Which of the following are positive economic statements and which are normative economic statements? 155) _____

- a. An increase in the minimum wage causes unemployment.
- b. The government should raise the minimum wage above \$7.25 per hour.
- c. The prolonged recession has caused the unemployment rate to reach a 30-year high.
- d. Interest rates need to be lower for the economy to emerge from the recession.
- e. Inflation has decreased since the onset of the recession.
- f. Once the recession has ended, interest rates should increase to assure that inflation does not go up.

Answer: Statements a, c, and e are positive economic statements. Statements b, d, and f are normative economic statements.

Page Ref: 14/14

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

156) Which of the following is a microeconomics question? 156) _____
A) Will government intervention lower the unemployment rate?
B) Why has growth in the economy slowed down over the past decade?
C) Why do economies experience periods of recession?
D) How will Apple decide on a selling price for the iPad?

Answer: D

Page Ref: 17/17

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

157) The branch of economics which studies how households and firms make choices, interact in markets, and how government attempts to influence their choices is called 157) _____
A) positive economics. B) macroeconomics.
C) normative economics. D) microeconomics.

Answer: D

Page Ref: 17/17

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 158) Which of the following is a macroeconomics question? 158) _____
- A) What determines the wages and benefits of flight attendants?
 - B) What factors determine the price of iPhones?
 - C) What determines the unemployment rate?
 - D) How is the production quantity of digital cameras determined?

Answer: C

Page Ref: 17/17

Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns.

- 159) The branch of economics which studies the behavior of entire economies and policies that affect the economy as a whole is called 159) _____
- A) macroeconomics.
 - B) public economics.
 - C) normative economics.
 - D) microeconomics.

Answer: A

Page Ref: 17/17

Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns.

- 160) When Dr. Goldfinger decides on the companies in which he will invest, a _____ issue is being addressed. 160) _____
- A) macroeconomic
 - B) microeconomic
 - C) positive economic
 - D) normative economic

Answer: B

Page Ref: 17/17

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 161) Which of the following is a microeconomics question? 161) _____
- A) What determines the level of U.S. imports and exports?
 - B) When will the government better secure the borders?
 - C) How does Fiat decide on the price of the 500 Pop model?
 - D) Why hasn't the federal government raised the minimum wage?

Answer: C

Page Ref: 17/17

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 162) Which of the following is a macroeconomics question? 162) _____
- A) What determines the minimum wage?
 - B) What determines the salaries of college professors?
 - C) What determines the production of video game consoles?
 - D) What factors determine the price of Oreo cookies?

Answer: A

Page Ref: 17/17

Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

163) Examining the conditions that could lead to inflation in an economy is an example of a microeconomics topic. 163) _____

Answer: True False

Page Ref: 17/17

Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns.

164) Suppose that to move more people off the wait list for organ donations, surgeons and hospitals are developing a market for organ swapping. This is an example of a macroeconomics topic. 164) _____

Answer: True False

Page Ref: 17/17

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

165) Examining the conditions that could lead to economic growth is an example of a macroeconomics topic. 165) _____

Answer: True False

Page Ref: 17/17

Learning Outcome: Macro-1: Define macroeconomics and identify its basic concerns.

166) The decisions General Motors makes in determining production levels for its Chevy Volt is an example of a microeconomics topic. 166) _____

Answer: True False

Page Ref: 17/17

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

167) Define macroeconomics. 167) _____

Answer: Macroeconomics is the study of the economy as a whole, including topics such as inflation, unemployment, and economic growth.

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

168) Which of the following are primarily macroeconomic topics and which are primarily microeconomic topics? 168) _____

- a. college tuition rates
- b. farm subsidies
- c. national income
- d. automobile prices
- e. air traffic congestion
- f. economic recession

Answer: c and f are primarily macroeconomic topics.
a, b, d, and e are primarily microeconomic topics.

Page Ref: 17/17

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

169) How does the study of microeconomics differ from that of macroeconomics? Give one example each of an issue studied in microeconomics and in macroeconomics. 169) _____

Answer: Microeconomics is the study of how household and businesses make choices, how they interact in markets, and how the government attempts to influence their choices while macroeconomics is the study of the economy as a whole, including topics like unemployment, inflation and economic growth. (Students will give many different examples.)

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

170) Which of the following statements is true about revenue? 170) _____
A) A firm's revenue will increase as its costs increase.
B) Revenue is the total amount received for selling a good or service.
C) The terms "revenue" and "profit" can be used interchangeably.
D) Revenue is calculated by dividing the price per unit by the number of units sold.

Answer: B

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

171) Human capital refers to 171) _____
A) the money people have.
B) the wealth people have.
C) the machines workers have to work with.
D) the accumulated skills and training workers have.

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

172) Which of the following is an example of an activity undertaken by an entrepreneur? 172) _____
A) starting your own snow cone business
B) choosing the color scheme for your renovated kitchen
C) being promoted to the position of Chief of Police
D) being appointed to the U.S. Supreme Court

Answer: A

Page Ref: 18/18

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

173) Which of the following is counted as "capital" in economics? 173) _____
A) the labor force
B) the machines workers have to work with
C) the money people have
D) the wealth people have

Answer: B

Page Ref: 18-19/18-19

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 174) The processes used to produce goods and services describes 174) _____
A) innovation. B) capital.
C) entrepreneurship. D) technology.

Answer: D

Page Ref: 18/18

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 175) Which of the following statements about economic resources is *false*? 175) _____
A) Economic resources are also called factors of production.
B) Some economic resources are human-made while others are found in nature.
C) Economic resources are used to produce goods and services.
D) Economic resources include financial capital and money.

Answer: D

Page Ref: 18/18

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 176) The U.S. Health Resources and Services Administration (HRSA) forecasts that in 2020 176) _____
A) the number of doctors in the United States will increase and the number of doctors needed will decrease.
B) there will be a shortage of doctors in the United States.
C) there will be a surplus of doctors in the United States.
D) the number of doctors in the United States will decrease and the number of doctors needed will increase.

Answer: B

Page Ref: 19/19

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 177) In economics, the practical application of an invention is known as 177) _____
A) innovation. B) technology.
C) entrepreneurship. D) physical capital.

Answer: A

Page Ref: 18/18

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 178) In economics, tangible merchandise is referred to as 178) _____
A) human capital. B) invention. C) goods. D) services.

Answer: C

Page Ref: 18/18

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

179) In economics, activities done for others, such as providing house cleaning or dental work, are referred to as 179) _____
A) physical capital. B) technology.
C) services. D) goods.

Answer: C

Page Ref: 18/18

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

180) In economics, the total amount received for selling a good or service is referred to as 180) _____
A) factor payments. B) profit.
C) revenue. D) capital gains.

Answer: C

Page Ref: 18/18

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

181) In economics, the difference between a firm's revenues and its costs is referred to as 181) _____
A) capital gains. B) factor payments.
C) physical capital. D) profit.

Answer: D

Page Ref: 18/18

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

182) In the United States in 2012, the CDC estimated that the total number of people with diabetes (both diagnosed and undiagnosed cases) was lowest for people in the age range of _____, and the percentage of people with diabetes was lowest for people in the age range of _____. 182) _____
A) 65 and older; 20 - 44 B) 20 - 44; 20 - 44
C) 45 - 64; 65 and older D) 65 and older; 65 and older

Answer: B

Page Ref: 20-21/20-21

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

183) In the United States in 2012, the number of new, diagnosed diabetes cases was lowest for people in the age range of _____, and the rate of new diabetes cases per 1,000 people was lowest for people in the age range of _____. 183) _____
A) 45 - 64; 65 and older B) 20 - 44; 20 - 44
C) 45 - 64; 45 - 64 D) 65 and older; 20 - 44

Answer: B

Page Ref: 20-21/20-21

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

184) In the market for factors of production, households earn income by supplying factors of production to firms. 184) _____

Answer: True False

Page Ref: 18/18

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

185) One example of human capital is the amount of savings that you have. 185) _____

Answer: True False

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

186) Human capital refers to the accumulated skills and training that workers possess. 186) _____

Answer: True False

Page Ref: 19/19

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

187) Physical capital refers to stocks and bonds. 187) _____

Answer: True False

Page Ref: 18-19/18-19

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

188) What is technology and what factors does it depend on? 188) _____

Answer: Technology is the processes a firm uses to produce goods and services.

In the economic sense, a firm's technology depends on many factors, such as the skill of its managers, the training of its workers, and the speed and efficiency of its machinery and equipment.

Page Ref: 18/18

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

189) What is the difference between physical capital and human capital? 189) _____

Answer: Physical capital includes manufactured goods which are used to produce other goods and services. Human capital refers to the accumulated education, training, and skills that workers possess.

Page Ref: 18-19/18-19

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

190) What is the difference between accounting profit and economic profit? 190) _____
Answer: Profit is the difference between revenue and cost. Accounting profit excludes the cost of some economic resources that the firm does not pay for explicitly.
Economic profit includes the opportunity cost of all resources used by the firm.
Page Ref: 18/18
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

191) What is a household? How do households interact with firms in a market? 191) _____
Answer: A household consists of all persons occupying a home. Households supply factors of production used by firms to produce goods and services. Households also demand goods and services produced by firms.
Page Ref: 18/18
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

192) If a graph has a line that shows the quantity of flat-screen televisions sold in the last five years, it is known as 192) _____
A) a time-series graph. B) a pie chart.
C) a demand curve for outsourcing. D) a supply curve of outsourcing.
Answer: A
Page Ref: 28/28
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs.

193) Two-dimensional graphs have a horizontal and a vertical axis and are used in economics to illustrate 193) _____
A) a pie chart.
B) relationships between two economic variables.
C) one variable.
D) a flow chart.
Answer: B
Page Ref: 29/29
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs.

194) How can the influence of a third variable be shown on a two-dimensional graph? 194) _____
A) by super-imposing the third variable on the two-dimensional graph
B) by allowing the position of the relationship line or curve to shift on the graph
C) by allowing the relationship to be nonlinear
D) by drawing a third axis coming out of the two axes
Answer: B
Page Ref: 31/31
Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs.

- 195) Which of the following statements is true? 195) _____
- A) A direct relationship has a negative slope value.
 - B) A straight line has a slope of one.
 - C) An inverse relationship has a positive slope value.
 - D) A curved line has slope values that change at every point.

Answer: D

Page Ref: 34/34

Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs.

- 196) The relationship between sales and revenue is 196) _____
- A) independent.
 - B) a negative relationship.
 - C) an inverse relationship.
 - D) a direct relationship.

Answer: D

Page Ref: 32/32

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 197) Suppose when the price of hybrid automobiles rises, consumers buy fewer hybrid automobiles. This implies that 197) _____
- A) there is a negative relationship between hybrid automobile prices and quantities purchased by consumers.
 - B) there is a one-to-one relationship between hybrid automobile prices and quantities purchased by consumers.
 - C) there is a positive relationship between hybrid automobile prices and quantities purchased by consumers.
 - D) there is a direct relationship between hybrid automobile prices and quantities purchased by consumers.

Answer: A

Page Ref: 32/32

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 198) In 2015, Smileytown consumed 50,000 tubes of toothpaste. In 2016, toothpaste consumption rose to 62,000 tubes. Calculate the percentage change in toothpaste consumption. 198) _____
- A) 12%
 - B) 16.42%
 - C) 19.35%
 - D) 24%

Answer: D

Page Ref: 35/35

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 199) In 2015, Peelville consumed 30,000 bananas. In 2016, banana consumption rose to 35,000. Calculate the percentage change in banana consumption. 199) _____
- A) 11.66%
 - B) 14.28%
 - C) 16.67%
 - D) 22.25%

Answer: C

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 200) If a straight line passes through the point $x = 12$ and $y = 4$ and also through the point $x = 4$ and $y = 8$, the slope of this line is 200) _____
A) one -and one half. B) seven tenths.
C) negative one half. D) negative 8 divided by 4.

Answer: C

Page Ref: 30/30

Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 201) If a straight line passes through the point $x = 8$ and $y = 4$ and also through the point $x = 12$ and $y = 6$, the slope of this line is 201) _____
A) negative one half. B) one half.
C) two. D) negative 4 divided by 2.

Answer: B

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 202) If the price of milk was \$1.25 a gallon and it is now \$2.25 a gallon, what is the percentage change in price? 202) _____
A) 4.4 percent B) 8 percent C) 44 percent D) 80 percent

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 203) If the price of pineapple juice was \$4.50 a gallon and it is now \$5.75 a gallon, what is the percentage change in price? 203) _____
A) 7.8 percent B) 12.5 percent C) 27.7 percent D) 57.5 percent

Answer: C

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

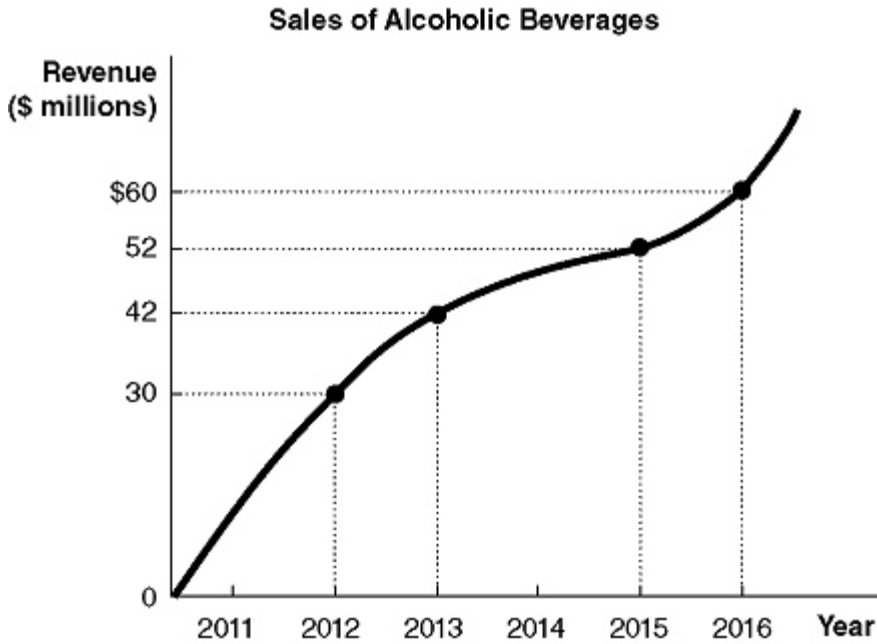
- 204) At a recent company meeting, Geraldine Erwin, sales manager of Dastoria, a flavored -beverage producer announced, "We have increased our sales by 8 percent in just six months." Suppose six months ago, its sales amounted to \$452,000, what is the value of its sales today? 204) _____
A) \$36,160 B) \$415,840 C) \$488,160 D) \$565,000

Answer: C

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

Figure 1<1



205) Refer to Figure 1<1. Using the information in the figure above, calculate the percentage change in sales of alcoholic beverages between 2013 and 2015. 205) _____

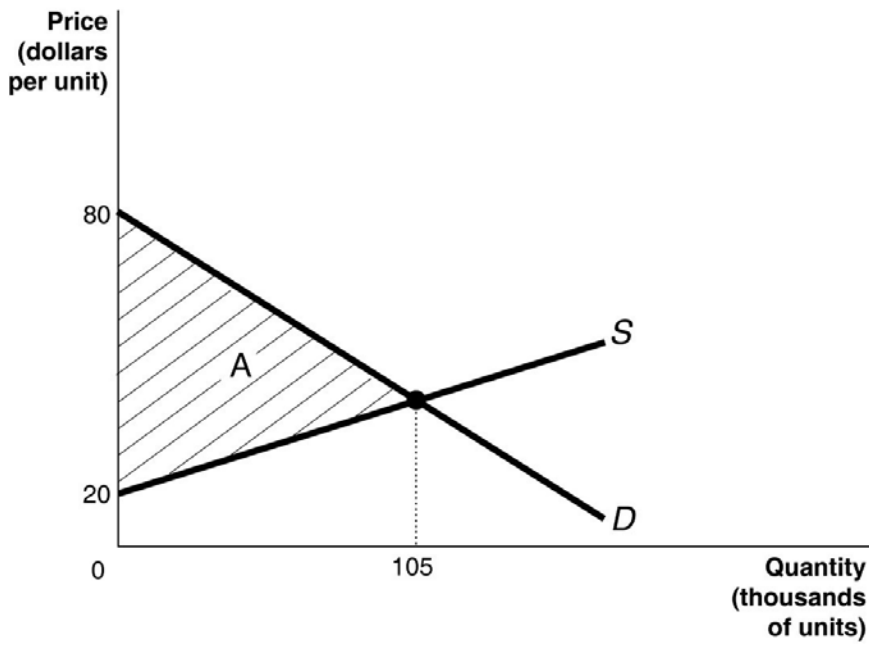
- A) 23.8% B) 40% C) 42.9% D) 73.3%

Answer: A

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Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs.

Figure 1-2



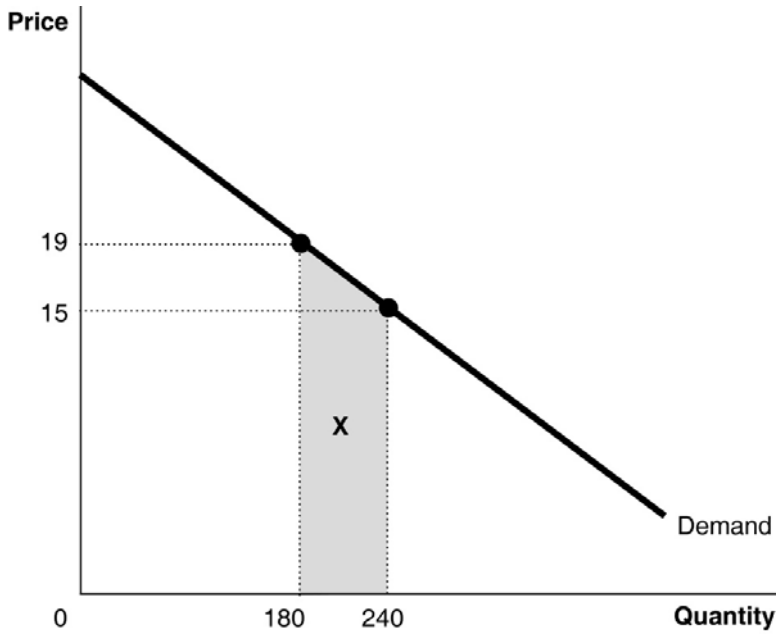
- 206) Refer to Figure 1-2. Calculate the area of the triangle A. 206) _____
A) \$8.4 million B) \$6.3 million C) \$3.15 million D) \$2.1 million

Answer: C

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Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs.

Figure 1.3



207) Refer to Figure 1.3. Calculate the area of the trapezoid X.

A) \$361

B) \$450

C) \$1,020

D) \$1,140

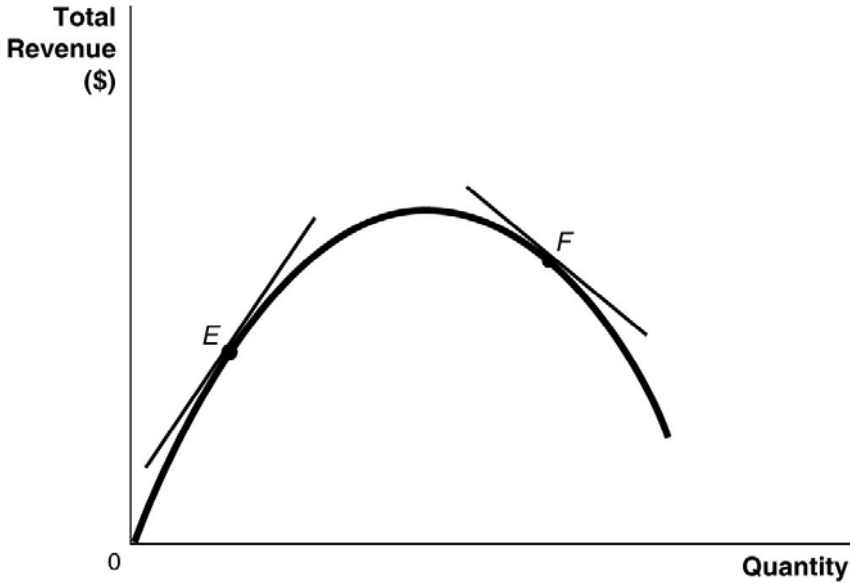
207) _____

Answer: C

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Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs.

Figure 1.4



208) Refer to Figure 1.4. Which of the following statements is true?

208) _____

- A) The slope of the tangent at E and the slope of the tangent at F are negative.
- B) The slope of the tangent at E is negative and the slope of the tangent at F is positive.
- C) The slope of the tangent at E is positive and the slope of the tangent at F is negative.
- D) The slope of the tangent at E and the slope of the tangent at F are positive.

Answer: C

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Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs.

209) An "omitted variable" is

209) _____

- A) a variable which is inadvertently omitted from an economic analysis.
- B) a variable which is purposely omitted from an economic analysis.
- C) a variable that affects other variables and its omission from economic analysis can lead to false conclusions about cause and effect.
- D) a variable that has no impact on other variables in an economic analysis.

Answer: C

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 210) What is the "reverse causality" problem in determining cause and effect? 210) _____
- A) It is a problem that arises when two variables are inter-connected so that a change in variable X causes a change in variable Y, and a change in variable Y causes a change in variable X.
 - B) It is a problem that occurs when one observes that a change in variable X caused a change in variable Y which caused a change in variable Z and concludes that a change in variable X caused a change in variable Z.
 - C) It is a problem that occurs when one concludes that a change in variable X caused a change in variable Y when in actual fact, it is a change in variable Z that caused a change in variable Y.
 - D) It is a problem that occurs when one concludes that a change in variable X caused a change in variable Y when in actual fact, it is a change in variable Y that caused a change in variable X.

Answer: D

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 211) The number of people who have gray hair is very high among residents living in Florida. A student concludes that living in Florida causes hair to turn gray. What is the flaw in this student's reasoning? 211) _____
- A) The student has failed to take into account other causes of gray hair.
 - B) The student is using an inadequate sample size.
 - C) The student is drawing a false conclusion; he is confusing cause and effect.
 - D) The student is drawing a false conclusion by making the mistake of omitting critical variables such as the age and gender of the residents.

Answer: C

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

- 212) You explain to your friend Haslina, who runs a catering service called "Meals in a Zip," about an economic theory which asserts that consumers will purchase less of a product at higher prices than they will at lower prices. She contends that the theory is incorrect because over the past two years she has raised the price of her catered meals and yet has seen a brisk increase in sales. How would you respond to Haslina? 212) _____
- A) I will explain to her that she is making the error of reverse causality: it is the increase in demand that has enabled her to raise her prices.
 - B) Haslina is right; she has evidence to back her claim. The theory must be erroneous.
 - C) I will explain to her that there are some omitted variables that have contributed to an increase in her sales such as changes in income.
 - D) Haslina is making the mistake of assuming that correlation implies causation.

Answer: C

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Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

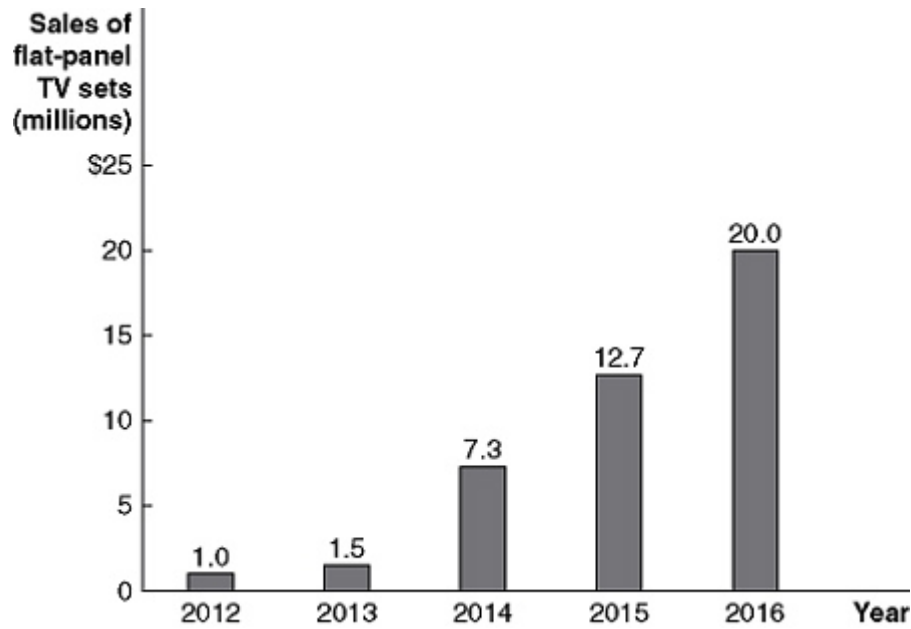
Table 1.4

Year	Flat-Panel TV Sets (millions)
2012	1.0
2013	1.5
2014	7.3
2015	12.7
2016	20.0

213) *Refer to Table 1.4.* The table above shows the sales of flat-panel television sets in Central America. Present the information using a bar graph.

213) _____

Answer:



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Learning Outcome: Micro-2: Interpret and analyze information presented in different types of graphs.