

Chapter 1: Economics: The Study of Choice

Multiple Choice

1. The basic concern of economics is to:

- A) keep business firms from losing money.
- B) prove that capitalism is better than socialism.
- C) study the choices people make.
- D) use unlimited resources to produce goods and services to satisfy limited wants.

Ans: C

Difficulty: Easy

2. Economics, generally speaking, is primarily concerned with:

- A) the operation of the bond and stock markets.
- B) the issues of income inequality or income equality.
- C) how people choose among the alternatives available to them.
- D) ceteris paribus, the scientific method, and the margin.

Ans: C

Difficulty: Easy

3. Economics is a:

- A) social science that studies goods with no alternative uses.
- B) natural science that studies goods with no alternative uses.
- C) social science concerned chiefly with how people choose among alternatives.
- D) social science concerned chiefly with reasons why society has unlimited resources.

Ans: C

Difficulty: Medium

4. The study of how people choose among the alternatives available to them is the:

- A) definition of economics.
- B) model of demand.
- C) theory of opportunity costs.
- D) method of distinguishing between microeconomics and macroeconomics.

Ans: A

Difficulty: Easy

5. According to the textbook, economics is a:

- A) social science.
- B) study of business decisions, not social decisions.
- C) part of operations and management science.
- D) part of humanities.

Ans: A

Difficulty: Easy

6. Economics is a:

- A) social science that deals with making choices among alternatives.
- B) natural science that concerns itself with allocating relatively scarce resources among alternative ends.
- C) science that has no theories or models based on the scientific method.
- D) humanities course that mainly concerns itself with limited wants versus unlimited resources.

Ans: A

Difficulty: Easy

7. When we are forced to make choices we are facing the concept of:

- A) ceteris paribus.
- B) free goods.
- C) scarcity.
- D) the margin.

Ans: C

Difficulty: Easy

8. Scarcity exists when:

- A) a choice must be made among two or more alternatives.
- B) we face the notion of "all other things unchanged."
- C) countries and people find themselves facing poverty.
- D) the notions of normative economics come into play.

Ans: A

Difficulty: Medium

9. Scarcity in economics means:

- A) not having sufficient resources to produce all the goods and services we want.
- B) the wants of people are limited.
- C) there must be poor people in rich countries.
- D) economists are clearly not doing their jobs.

Ans: A

Difficulty: Medium

10. A scarce resource is one that:

- A) has two or more alternative uses.
- B) exhibits the basic properties of a free good.
- C) is confronted only under socialist conditions.
- D) has an unlimited supply.

Ans: A

Difficulty: Medium

11. A key theme fundamental to all of economics is:

- A) there are limited wants.
- B) we are a rich country but are simply not aware of it.
- C) people have unlimited wants facing limited means to satisfy them.
- D) there are unlimited resources.

Ans: C

Difficulty: Medium

12. The opportunity cost of going to a movie is:

- A) the money spent on the ticket only.
- B) all of the other movies that could have been seen instead.
- C) the time spent in the theater only.
- D) the next best use of the time and the money spent.

Ans: D

Difficulty: Medium

13. Although water is very abundant in most places, it is scarce because:

- A) it has no alternative uses.
- B) it has two or more alternative uses.
- C) it is a free good and not expensive.
- D) scarce goods in general are not all that costly.

Ans: B

Difficulty: Medium

14. The concept of scarcity indicates that:

- A) most goods have no alternative uses.
- B) almost all goods have alternative uses.
- C) most decisions can be made without sacrificing alternatives.
- D) certain societies are able to overcome the constraints imposed by alternative uses of resources.

Ans: B

Difficulty: Medium

15. The existence of alternative uses of a resource implies that it is:

- A) free.
- B) scarce.
- C) expensive.
- D) plentiful.

Ans: B

Difficulty: Medium

16. A scarce resource is one that:

- A) is free.
- B) is abundant.
- C) has alternative uses.
- D) has no alternative uses.

Ans: C

Difficulty: Medium

17. The problem of scarcity is confronted by:

- A) industrialized societies.
- B) pre-industrialized societies.
- C) societies governed by communist philosophies.
- D) all societies.

Ans: D

Difficulty: Medium

18. Which of the following is most likely an example of a free good?

- A) Sand in aquarium
- B) Sand in the middle of a desert
- C) Sand in a children's sandbox
- D) Sand at the beach

Ans: B

Difficulty: Medium

19. A(n) _____ does not pose the problem of scarcity; one use of the good is not an alternative to another use.

- A) free good
- B) scarce good
- C) economic good
- D) monetary good

Ans: A

Difficulty: Easy

20. Water is considered a scarce good rather than a free good because:

- A) it has alternative uses.
- B) it does not have alternative uses.
- C) scarce goods are less expensive than free goods.
- D) free goods are more expensive than scarce goods.

Ans: A

Difficulty: Medium

21. The problem of determining what goods and services society should produce exists because:

- A) resources are plentiful.
- B) resources are scarce.
- C) most of our resources are privately rather than socially owned.
- D) most of our resources are socially rather than privately owned.

Ans: B

Difficulty: Medium

22. The problem of determining what goods and services society should produce:

- A) exists because we can produce more than we need or want.
- B) exists because there are not enough resources to provide all the goods and services that people want to purchase.
- C) would not exist if all goods and services were scarce.
- D) would not exist if government owned all of the resources.

Ans: B

Difficulty: Medium

23. A free good is different from a scarce good because it is:

- A) not tradable.
- B) not produced.
- C) not scarce.
- D) found only in nature.

Ans: C

Difficulty: Medium

24. The statement that "there is no such thing as a free lunch" means:

- A) there are no tradeoffs between economic goals.
- B) any production requires the use of scarce resources, and thus the sacrifice of another alternative.
- C) choices need not be made in rational behavior.
- D) scarcity only exists in poor societies.

Ans: B

Difficulty: Medium

25. The answer to, "What goods are to be produced?" deals with:

- A) who gets the goods.
- B) how tastes and preferences are determined.
- C) how resources are combined to produce goods and services.
- D) the kinds and quantities of goods and services produced.

Ans: D

Difficulty: Medium

26. A free good is:

- A) also a scarce good.
- B) a relatively abundant good.
- C) a good with no opportunity cost.
- D) a good with relatively low opportunity cost.

Ans: C

Difficulty: Medium

27. The fundamental economic questions that every economic system must answer are:

- A) what, how, and for whom.
- B) what, why, and for whom.
- C) when, why, and for whom.
- D) how, when, and how much.

Ans: A

Difficulty: Easy

28. The three fundamental economic questions of what, how, and for whom:

- A) exist because of scarcity.
- B) are much more serious in a socialist system.
- C) are not serious in a capitalistic system.
- D) are not relevant in the industrialized world of today.

Ans: A

Difficulty: Medium

29. Suppose that voters in your community pass a one-cent sales tax increase to fund education, knowing full well they will have to forgo other goods they typically consume. This primarily addresses the economic question of:

- A) How will each good be produced?
- B) For whom shall the goods be produced?
- C) Why will the resources be used to produce goods?
- D) What goods and services should a society produce?

Ans: D

Difficulty: Medium

30. An answer to the question "How are goods produced?" determines:

- A) who receives the goods that are produced.
- B) how tastes and preferences are determined.
- C) how resources are combined in the production of goods.

D) the types and quantities of goods and services produced.

Ans: C

Difficulty: Medium

31. The problem of determining how goods and services should be produced exists because:

- A) we do not have enough skilled workers relative to the number of unskilled workers.
- B) we do not have enough unskilled workers relative to the number of skilled workers.
- C) corporations want to avoid changing their methods of production.
- D) most goods can be produced with different combinations of resources.

Ans: D

Difficulty: Medium

32. The problem of determining how goods and services should be produced is a problem of deciding:

- A) the best combinations of resources to be used for producing goods and services.
- B) the extent to which imports should be reduced relative to exports.
- C) the extent to which exports should be reduced relative to imports.
- D) who owns the resources.

Ans: A

Difficulty: Medium

33. In the 1970s, the Organization of Petroleum Exporting Countries (OPEC) tripled the price of petroleum, causing automobile manufacturers to look for ways to produce more fuel-efficient cars by substituting aluminum and plastic for steel. This was primarily a response to the economic question of:

- A) When will each good be produced?
- B) For whom shall the goods be produced?
- C) What goods and services should a society produce?
- D) How should goods and services be produced?

Ans: D

Difficulty: Hard

34. An answer to the question "For whom" determines:

- A) tastes and preferences.
- B) how resources are combined in production.
- C) the kinds and quantities of goods produced.
- D) who gets the goods and services produced.

Ans: D

Difficulty: Medium

35. The problem of determining for whom to produce exists because:

- A) government regulations prevent firms from producing the kinds of goods that consumers want.
- B) a decision that one person or group will receive a good or service usually means that another person or group will not.
- C) taxes on firms make it more costly for them to produce all the goods that people want.
- D) taxes on consumers make it more difficult for them to buy all the goods they want.

Ans: B

Difficulty: Medium

36. One question that arises when determining for whom goods and services should be produced is:
- A) Who gets how much of the economic pie?
 - B) How can we import more goods for domestic consumption?
 - C) How can we reduce exports so as to leave more goods for domestic consumption?
 - D) Should society outlaw child labor?

Ans: A

Difficulty: Medium

37. In the 1930s, the federal government established the social security system to provide a minimum level of income to elderly and disabled people. This primarily addressed the economic question of:
- A) When will each good be produced?
 - B) For whom shall the goods be produced?
 - C) What goods and services should a society produce?
 - D) How should the resources be organized for production?

Ans: B

Difficulty: Hard

38. Whenever a choice is made:
- A) the value of all the other choices that could have been made is called opportunity cost.
 - B) normative economics is encountered.
 - C) the problem of "all other things unchanged" results.
 - D) the opportunity cost of that choice is the highest-valued other choice that could have been made.

Ans: D

Difficulty: Medium

39. Whenever a choice is made:
- A) the cost of that choice could be referred to as opportunity cost.
 - B) the cost is easy to measure in dollar terms.
 - C) a free good must be involved.
 - D) scarcity is not the problem.

Ans: A

Difficulty: Medium

40. Opportunity cost is:

- A) the costs of all sacrifices not chosen when a choice is made.
- B) the highest valued other choice that could have been made.
- C) the result of having made a bad choice.
- D) the result of not making choices at the margin.

Ans: B

Difficulty: Medium

41. The opportunity cost of something is:

- A) greater during periods of rising prices.
- B) equal to the money cost.
- C) less during periods of falling prices.
- D) what is given up to acquire it.

Ans: D

Difficulty: Medium

42. Opportunity cost is:

- A) zero for the use of a free combo meal offer.
- B) the dollar payment for a product.
- C) the benefit derived from a product.
- D) the value of the best alternative forgone in making any choice.

Ans: D

Difficulty: Easy

43. The sacrifice of an alternative is called:

- A) revenue.
- B) benefit.
- C) opportunity cost.
- D) production.

Ans: C

Difficulty: Medium

44. Economics is different from other social sciences because it gives special emphasis to the study of _____; it is similar to other social sciences because they are all concerned with the study of _____.

- A) unlimited resources; economic systems
- B) human interactions; limited resources
- C) opportunity costs; choices

D) social behavior; scarcity

Ans: C

Difficulty: Hard

45. The economic way of thinking includes:

- A) attention paid to the opportunity costs involved in any choice.
- B) the assumption that individuals choose to average out some objective.
- C) concern with the biological make up of decision makers.
- D) emphasis on how choices affect total values rather than marginal values.

Ans: A

Difficulty: Medium

46. The economic way of thinking includes:

- A) more attention paid to benefits rather than the costs involved in any choice.
- B) the assumption that individuals choose to maximize some objective.
- C) emphasis on how choices affect total values rather than marginal values.
- D) the notion that the world has solved the problem of scarcity.

Ans: B

Difficulty: Medium

47. The economic way of thinking includes:

- A) more attention paid to benefits rather than the costs involved in any choice.
- B) the assumption that individuals choose to average out some objective.
- C) emphasis on how choices are made at the margin.
- D) the notion that the industrialized nations have solved the problem of scarcity.

Ans: C

Difficulty: Medium

48. Making choices that are expected to achieve the highest possible value for some objective is termed:

- A) maximizing.
- B) minimizing.
- C) sanitizing.
- D) satisfying.

Ans: A

Difficulty: Easy

49. The economic way of thinking has to do with:

- A) analyzing benefits but not costs.
- B) analyzing costs but not benefits.
- C) making choices at the margin.

D) making the distinction between microeconomics and macroeconomics.

Ans: C

Difficulty: Medium

50. The concept of the margin deals with:

- A) making incremental choices.
- B) one more or one less of something.
- C) doing a little more or a little less.
- D) all of the above.

Ans: D

Difficulty: Medium

51. A feature that distinguishes economists' approach to making choices is (are):

- A) assigning opportunity costs a major role in their analyses of choices.
- B) assuming individuals make choices to maximize objectives.
- C) emphasizing that choices are made at the margin.
- D) all of the above.

Ans: D

Difficulty: Hard

52. A choice made _____ is a choice whether to do a little more or a little less of something.

- A) at the front end
- B) in the beginning
- C) at the margin
- D) all of the above.

Ans: C

Difficulty: Easy

53. The BEST example of making a choice at the margin is:

- A) buying a new car.
- B) quitting your job.
- C) a coffee drinker drinking another cup of coffee.
- D) attending college.

Ans: C

Difficulty: Medium

54. Macroeconomics deals with:

- A) bits and pieces of the economy.
- B) the question of how a business unit should operate profitably.
- C) the analysis of the aggregate values in the economy.
- D) ceteris paribus.

Ans: C

Difficulty: Medium

55. Microeconomics deals with:

- A) the working of the entire economy or large sectors of it.
- B) employment, growth, and inflation.
- C) individual units in the economy.
- D) normative economics for the most part.

Ans: C

Difficulty: Medium

56. The primary emphasis in macroeconomics is on:

- A) how firms set prices.
- B) aggregates in the economy.
- C) marginal analysis and normative economics.
- D) international trade and environmental economics.

Ans: B

Difficulty: Easy

57. Unemployment and inflation are:

- A) not relevant in the U.S. economy today.
- B) major topics in macroeconomics.
- C) unique only to capitalistic economies.
- D) very important in the study of microeconomics.

Ans: B

Difficulty: Medium

58. The study of a single firm and how it determines prices would fall under:

- A) macroeconomics.
- B) microeconomics.
- C) the study of inflation.
- D) normative economics.

Ans: B

Difficulty: Medium

59. Which of the following would be a part of macroeconomics? A study of:

- A) the change in automobile sales due to a change in the price of automobiles.
- B) a tax reduction impact on the profits of a business.
- C) inflation.
- D) the unemployment of workers displaced by technological change in the typesetting industry.

Ans: C

Difficulty: Hard

60. The branch of economics that examines the choices of consumers and firms is:

- A) positive economics.
- B) normative economics.
- C) macroeconomics.
- D) microeconomics.

Ans: D

Difficulty: Easy

61. The branch of economics that examines the impact of choices on aggregates in the economy is:

- A) positive economics.
- B) normative economics.
- C) macroeconomics.
- D) microeconomics.

Ans: C

Difficulty: Easy

62. Economists concerned about the behavior of individual households, firms, and industries are studying:

- A) microeconomics.
- B) macroeconomics.
- C) neither macroeconomics nor microeconomics.
- D) the "forest" of economic behavior, rather than the "trees."

Ans: A

Difficulty: Medium

63. Economists concerned about economy-wide trends in the unemployment of labor, the rate of inflation, and the level of economic production are studying:

- A) microeconomics.
- B) macroeconomics.
- C) specific units or parts of the economy.
- D) the "trees" of economic behavior, rather than the "forest."

Ans: B

Difficulty: Medium

64. Macroeconomics is most likely to be concerned with the:

- A) amount of unemployment in a specific industry.
- B) economic behavior of a particular household.
- C) economic behavior of specific parts or units of the economy.

D) aggregates in the economy.

Ans: D

Difficulty: Medium

65. Microeconomics is most likely to be concerned with the:

- A) economy as a whole.
- B) activity of large segments of the economy.
- C) economic behavior of specific parts or units of the economy.
- D) economy-wide trends in unemployment, prices, and production.

Ans: C

Difficulty: Medium

66. The Case in Point on the *Simpsons* indicated that even fictional characters face:

- A) diminishing marginal product.
- B) opportunity costs.
- C) the fallacy of false cause.
- D) positive statements.

Ans: B

Difficulty: Hard

67. The Case in Point on the *Simpsons* indicated that time is:

- A) a scarce resource.
- B) a resource without alternative uses.
- C) a ubiquitous resource.
- D) not a resource.

Ans: A

Difficulty: Hard

68. The scientific method is more difficult for economists than, say, chemists, because:

- A) controlled laboratory conditions are more problematic in economics.
- B) it is difficult to hold other factors that may affect the variables being studied constant in economics.
- C) economic conditions may change quickly and unexpectedly.
- D) all of the above.

Ans: D

Difficulty: Medium

69. Anything whose value can change is a:

- A) variable.
- B) constant.
- C) hypothesis.

D) all of the above.

Ans: A

Difficulty: Easy

70. Something whose value does not change is a:

- A) variable.
- B) constant.
- C) hypothesis.
- D) all of the above.

Ans: B

Difficulty: Easy

71. A systematic set of procedures through which knowledge is created is:

- A) the economy.
- B) the scientific method.
- C) a market.
- D) a model.

Ans: B

Difficulty: Easy

72. A hypothesis is an assertion that can be:

- A) proven to be false.
- B) proven to be true.
- C) proven to be true or false.
- D) tested only in the normative sense.

Ans: A

Difficulty: Easy

73. A proposition about the relationship between two variables that can be proven false is called:

- A) a hypothesis.
- B) a law.
- C) a theory.
- D) the scientific method.

Ans: A

Difficulty: Easy

74. The models used in economics:

- A) are usually limited to variables that are directly related.
- B) are essentially not reliable because they are not testable in the real world.
- C) are of necessity unrealistic and have no relationship to the real world.
- D) emphasize basic relationships by abstracting from complexities in the everyday world.

Ans: D

Difficulty: Hard

75. Economic models are:

- A) created and used in order to duplicate virtually every aspect of the real world.
- B) useless if they are simple.
- C) made generally of wood, plastic, and/or metal.
- D) built using assumptions.

Ans: D

Difficulty: Medium

76. A model or theory in economics is:

- A) based mostly on value judgments.
- B) built using relevant observations, assumptions, and abstractions.
- C) only useful if it correctly portrays the real world and its complexities.
- D) useful only if it is based on normative economic statements.

Ans: B

Difficulty: Hard

77. Which of the following statements is (are) true?

- A) A model is a set of simplifying assumptions about some aspect of the real world.
- B) Models are based on assumed conditions that are simpler than those of the real world.
- C) A model cannot be a complete representation of the real world.
- D) All of the above are true.

Ans: D

Difficulty: Hard

78. According to the text, which of the following is true?

- A) Scientists can prove a hypothesis is true.
- B) Scientists can show that a hypothesis is false.
- C) Economists really don't try to use the scientific method.
- D) None of the above is true.

Ans: B

Difficulty: Hard

79. In economics, the function of theories, laws, and hypotheses is to:

- A) prevent any misunderstanding of economic behavior.
- B) divide topics between microeconomics and macroeconomics.
- C) generate a complete and unchanging description of economic behavior.
- D) discover relationships between events that are important to economic behavior.

Ans: D
Difficulty: Medium

80. A hypothesis that has been tested extensively without being rejected and has won widespread acceptance is a:

- A) model.
- B) constant.
- C) variable.
- D) theory.

Ans: D
Difficulty: Easy

81. A theory that has won virtually universal acceptance is a:

- A) model.
- B) hypothesis.
- C) law.
- D) variable.

Ans: C
Difficulty: Easy

82. A simplified representation of a particular problem is a:

- A) model.
- B) constant.
- C) hypothesis.
- D) law.

Ans: A
Difficulty: Easy

83. Each of the following statements about the use of models in the study of economics is true EXCEPT:

- A) models fit the observed facts exactly.
- B) models are sometimes revised in light of new research findings.
- C) models are easier to manipulate than the reality they represent.
- D) models contain the essential features of the economic behavior being studied.

Ans: A
Difficulty: Hard

84. Economists are:

- A) concerned with developing theories and interested in solving problems.
- B) interested in solving problems but not concerned with developing theories.
- C) reluctant to predict changes in variables such as prices, employment, and spending.
- D) always in agreement on the best way to implement policy decisions.

Ans: A

Difficulty: Medium

85. Economists are:

- A) concerned with developing theories but not interested in solving problems.
- B) interested in solving problems but not concerned with developing theories.
- C) reluctant to predict changes in variables such as prices, employment, and spending.
- D) not always in agreement on the best way to implement policy decisions.

Ans: D

Difficulty: Medium

86. A variable that responds to a change in another variable is called a(n) _____ variable.

- A) independent
- B) dependent
- C) theoretical
- D) all of the above are true

Ans: B

Difficulty: Medium

87. A variable that induces a change in another variable is a(n):

- A) dependent variable.
- B) independent variable.
- C) codependent variable.
- D) constant variable.

Ans: B

Difficulty: Easy

88. A basic assumption used in many economic models is:

- A) as price goes up, the amount purchased will go up too.
- B) as price goes up, less will be offered for sale on the market.
- C) if the underlying theory doesn't represent reality, it is not useful.
- D) ceteris paribus, which means all other things remain unchanged.

Ans: D

Difficulty: Medium

89. Ceteris paribus means:

- A) allowing all other things to change.
- B) making value judgments.
- C) all other things unchanged.
- D) differentiating between macroeconomics and microeconomics.

Ans: C

Difficulty: Easy

90. The "all other things unchanged" assumption is useful because it:

- A) states the main economic objectives.
- B) is a vehicle for determining whether a particular outcome is "good" or "bad."
- C) helps to approximate real-world conditions.
- D) helps to restrict analysis to the effect of a single economic factor.

Ans: D

Difficulty: Medium

91. The "all other things unchanged" assumption is used to:

- A) express the fundamental questions in economics.
- B) approximate real-world conditions.
- C) simplify the very complex real world.
- D) do all of the above.

Ans: C

Difficulty: Medium

92. A term that means "all other things unchanged" is:

- A) dependent variable.
- B) independent variable.
- C) quid pro quo.
- D) ceteris paribus.

Ans: D

Difficulty: Easy

93. The use of controlled experiments using particular substances to test hypotheses is most likely to be found in:

- A) chemistry.
- B) economics.
- C) history.
- D) the humanities.

Ans: A

Difficulty: Easy

94. Reaching the incorrect conclusion that one event causes another because the events tend to occur together is called:

- A) the scientific method.
- B) the economic way of thinking.
- C) making choices at the margin.
- D) the fallacy of false cause.

Ans: D

Difficulty: Easy

95. The incorrect presumption that because two events tend to occur together, one must cause the other is the:

- A) confusion of economists.
- B) blunder of science.
- C) fallacy of false cause.
- D) error of inclusion.

Ans: C

Difficulty: Easy

96. A person who mistakenly assumes that because one event follows another, the second event results from the first commits the fallacy of:

- A) division.
- B) addition.
- C) composition.
- D) false cause.

Ans: D

Difficulty: Medium

97. Suppose you observe that the sun sets every evening after the six o'clock business report. If you conclude that the six o'clock business report makes the sun set, you are guilty of the fallacy of:

- A) division.
- B) composition.
- C) false cause.
- D) science.

Ans: C

Difficulty: Medium

98. The Case in Point on "baldness and heart disease" suggests that by preventing baldness:

- A) men can reduce the likelihood they will develop colon cancer.
- B) men are unlikely to influence their chances of having heart problems.
- C) men are likely to reduce their chances of having heart problems.
- D) men can live longer.

Ans: B

Difficulty: Medium

99. The observed correlation between baldness and heart disease demonstrates that:

- A) being bald causes a man to have heart disease.

- B) being bald actually makes heart disease less likely.
- C) bald men are generally unreliable.
- D) there is probably some other factor that causes both baldness and heart disease.

Ans: D

Difficulty: Medium

100. Statements that are a hypothesis or statement of fact are:

- A) pecuniary.
- B) positive.
- C) nominal.
- D) normative.

Ans: B

Difficulty: Easy

101. An example of a positive statement is:

- A) The rate of unemployment is 4 percent.
- B) A high rate of economic growth is good for the country.
- C) Everyone in the country needs to be covered by national health insurance.
- D) Baseball players should not be paid higher salaries than the president of the United States.

Ans: A

Difficulty: Medium

102. An example of a positive statement is:

- A) The rate of unemployment should be 4 percent.
- B) A high rate of economic growth is good for the country.
- C) An increase in investment spending tends to reduce unemployment.
- D) Everyone in the country needs to be covered by national health insurance.

Ans: C

Difficulty: Medium

103. Statements that make value judgments are:

- A) pecuniary.
- B) positive.
- C) nominal.
- D) normative.

Ans: D

Difficulty: Easy

104. An example of a normative statement is:

- A) The rate of unemployment is 4 percent.
- B) A high rate of economic growth is good for the country.

- C) The federal government spends half of its budget on national defense.
- D) People with health insurance tend to spend more on health care than those who are uninsured.

Ans: B

Difficulty: Medium

105. An example of a normative statement is:

- A) The rate of unemployment is 4 percent.
- B) A high rate of economic growth creates more jobs for the country.
- C) The federal government spends half of its budget on national defense.
- D) Everyone in the country needs to be covered by national health insurance.

Ans: D

Difficulty: Medium

106. The current rate of unemployment of 5 percent is too high. This is a _____ statement.

- A) normative
- B) ceteris paribus
- C) positive
- D) fallacy of false cause

Ans: A

Difficulty: Medium

107. The current rate of unemployment is 5 percent. This statement:

- A) is positive.
- B) is normative.
- C) involves a value judgment.
- D) is a personal reflection and has no value in economics.

Ans: A

Difficulty: Medium

108. Many disagreements among economists result because:

- A) economists deal only with positive economics.
- B) economists sometimes make normative judgments.
- C) economics is a social science.
- D) economics deals so much with theories and models.

Ans: B

Difficulty: Medium

109. "Smokers are more likely to be murdered than nonsmokers." This statement is an example of:

- A) the fallacy of unintended consequences.

- B) a positive economic statement.
- C) a normative economic statement.
- D) a value judgment.

Ans: B

Difficulty: Medium

110. Most economists' disagreements are a result of:

- A) factual considerations.
- B) positive economics.
- C) the scientific method.
- D) normative considerations.

Ans: D

Difficulty: Medium

111. The statement that the minimum wage needs to be increased is a:

- A) positive statement.
- B) normative statement.
- C) condition contained in the fallacy of false cause.
- D) scientific conclusion based on marginal analysis.

Ans: B

Difficulty: Medium

112. Positive statements:

- A) imply value judgments must be made.
- B) are factual and can be tested.
- C) deal with what ought to be.
- D) are dealt with primarily in microeconomics.

Ans: B

Difficulty: Easy

113. Positive statements are:

- A) microeconomic in nature.
- B) macroeconomic in nature.
- C) statements involving value judgments.
- D) statements that can be tested.

Ans: D

Difficulty: Medium

114. A normative statement deals with:

- A) the facts.
- B) what was, is, or will be.

Ans: False

10. A theory or model is a simplification of reality, in much the same way that a road map shows only those features needed to get from one point to another.

Ans: True

11. The fallacy of false cause is committed when a person mistakenly assumes that one event causes another because the first event precedes the second.

Ans: True

12. The three fundamental economic questions are what, how, and why.

Ans: False

13. Margin suggests additional or incremental.

Ans: True

14. Opportunity cost is the expected value of the alternative not chosen.

Ans: True

15. All choices have monetary costs.

Ans: False

16. An attempt should always be made to maximize opportunity cost.

Ans: False

17. The value of the next-best choice not chosen is called opportunity cost.

Ans: True

18. Economists pay special attention to making choices at the margin.

Ans: True

19. Individuals will usually make choices to minimize the value of some objective.

Ans: False

20. Economists attempt to discover explanations for events that are observed.

Ans: True

21. Ceteris paribus means allowing all things to change.

Ans: False

22. Positive statements can be tested for being true but they can't be proven false.

Ans: False

Short Answer

1. Briefly define scarcity, choice, and opportunity cost and explain carefully how they are related and why they are so essential in the study of economics.
2. Explain how and why the concept of "all other things unchanged" is so important in the study of economics.
3. Distinguish between microeconomics and macroeconomics.
4. Define positive and normative statements and give four examples of each.
5. "Since economics is a science, economists must not become involved in making any value judgments in their formulation of policy." Do you agree with this statement? Explain.
6. Explain the following statement: "The relative scarcity of resources makes the operation of any economic system a matter of choosing among various alternatives."
7. Explain the following statement: "In economics there are few absolute solutions. Almost all problem solutions require tradeoffs."
8. Two important notions in economics are the scarcity of resources and the tremendous magnitude of the wants of people. Given this, evaluate and explain the following statement: "The study of economics is essentially to investigate how to maximize the satisfaction of wants utilizing available resources."
9. Explain the rationale behind the assertion that economics is a social science and uses the scientific method.

Chapter 2: Confronting Scarcity: Choices in Production

Multiple Choice

1. Economic resources used in the production process are called:

- A) free gifts of the natural environment.
- B) factors of production.
- C) consumer items.
- D) money capital.

Ans: B

Difficulty: Easy

2. An economic system is the set of rules that define _____ and _____.

- A) resources; prices
- B) who gets to vote; when elections will be held
- C) market prices; factors of production
- D) how an economy's resources are to be owned; how decisions about the resources are to be made

Ans: D

Difficulty: Medium

3. The model that shows the goods and services the economy is capable of producing is the model of:

- A) utility.
- B) the fallacy of composition.
- C) production possibilities.
- D) scarcity.

Ans: C

Difficulty: Easy

4. Factors of production are:

- A) the resources the economy has available to produce goods and services.
- B) generally unlimited in modern economies.
- C) always employed in modern economies.
- D) the knowledge that can be applied to the production of goods and services.

Ans: A

Difficulty: Easy

5. The three broad types of factors of production are:

- A) capital, labor, and natural resources.
- B) money, profit, and interest.
- C) stocks, bonds, and financial assets.

D) technology, human capital, and comparative advantage.

Ans: A

Difficulty: Easy

6. The three broad types of resources used to produce goods and services are also known as:
- A) economic systems.
 - B) factors of production.
 - C) production possibilities.
 - D) financial capital.

Ans: B

Difficulty: Easy

7. Capital is best considered as:
- A) the natural environment.
 - B) a factor of production that has been produced.
 - C) financial assets.
 - D) money.

Ans: B

Difficulty: Easy

8. A factor of production that has been produced for use in the production of other goods and services is:
- A) labor.
 - B) money.
 - C) capital.
 - D) natural resources.

Ans: C

Difficulty: Easy

9. Labor is the _____ that can be applied to production.
- A) the natural environment.
 - B) produced resources.
 - C) financial assets.
 - D) human effort.

Ans: D

Difficulty: Medium

10. Any factor of production is capital if it:
- A) was produced and can be used to produce other goods and services.

- B) generates utility.
- C) uses human effort to produce goods and services.
- D) is included in financial capital.

Ans: A

Difficulty: Medium

11. The factors of production are:

- A) money, labor, natural resources, and capital.
- B) technology, human capital, and natural resources.
- C) money, capital, and natural resources.
- D) labor, capital, and natural resources.

Ans: D

Difficulty: Easy

12. A factor of production that is produced in order to produce something else is called:

- A) money.
- B) labor.
- C) technology.
- D) capital.

Ans: D

Difficulty: Easy

13. Human effort that can be applied in the production process is called:

- A) natural resources.
- B) technology.
- C) labor.
- D) specialization.

Ans: C

Difficulty: Easy

14. Resources from nature that can be used to produce other goods and services are called:

- A) money.
- B) natural resources.
- C) labor.
- D) capital.

Ans: B

Difficulty: Easy

15. For a factor of production to be called capital it must:

- A) be produced.
- B) occur in the natural environment.
- C) be a part of human skill.

D) be a result of a stock issue.

Ans: A

Difficulty: Easy

16. Which of the following is an example of capital?

- A) a gravel truck
- B) a savings account
- C) a share of General Motors stock
- D) a lake

Ans: A

Difficulty: Medium

17. To be considered capital, a factor of production must:

- A) have been produced.
- B) occur naturally.
- C) be part of a factory or building.
- D) be a skill or talent possessed by a person.

Ans: A

Difficulty: Medium

18. One of the two criteria for a resource to be considered capital is that it must:

- A) occur naturally.
- B) be part of a factory or building.
- C) be a skill or talent possessed by a person.
- D) be possible to use it to produce other goods and services.

Ans: D

Difficulty: Medium

19. An example of capital is:

- A) cash.
- B) a factory building.
- C) money in a checking account.
- D) the existing state of technology.

Ans: B

Difficulty: Medium

20. Increasing the level of education in the United States will:

- A) shift the production possibilities curve to the left.
- B) improve the level of technology.
- C) lead to increased natural resource use.

D) lead to workers possessing greater human capital.

Ans: D

Difficulty: Medium

21. Which of the following is not capital?

- A) a computer in the office of an accountant
- B) a migrant worker in the fields of California
- C) a wrench in an auto-repair shop
- D) a new machine used for producing microchips

Ans: B

Difficulty: Easy

22. Two components of labor are:

- A) residential location and education.
- B) natural ability and human capital.
- C) money and financial wealth.
- D) ingenuity and job-specific machinery.

Ans: B

Difficulty: Medium

23. The set of acquired skills and abilities that workers bring to the production of goods and services is:

- A) money.
- B) wealth.
- C) human capital.
- D) natural ability.

Ans: C

Difficulty: Easy

24. Human capital is:

- A) the set of acquired skills and abilities that workers bring to the production of goods and services.
- B) the financial wealth the economy has available to produce goods and services.
- C) the ability to produce one of two goods at relatively lower cost.
- D) a factor of production only if it occurs naturally.

Ans: A

Difficulty: Easy

25. Technology is:

- A) knowledge that can be applied to the production of goods and services.
- B) generally unlimited in modern economies.

- C) a graphical illustration of the alternative combinations of goods and services an economy can produce.
- D) the resources the economy has available to produce goods and services.

Ans: A

Difficulty: Easy

26. Knowledge that can be applied to the production of goods and services is:

- A) natural resources.
- B) specialization.
- C) technology.
- D) comparative advantage.

Ans: C

Difficulty: Easy

27. The textbook classifies technology as _____ and entrepreneurs as _____ .

- A) knowledge; persons who seek profit by finding new ways to organize factors of production
- B) capital; labor
- C) labor skills; capital
- D) a factor of production; a factor of production

Ans: A

Difficulty: Hard

28. A person who seeks to earn profits by finding ways to organize factors of production is called a(n):

- A) foreman
- B) finance capitalist.
- C) entrepreneur.
- D) manager.

Ans: C

Difficulty: Easy

29. One of the two criteria for a resource to be considered as a natural resource is that it must:

- A) have been produced.
- B) not be part of the environment.
- C) be part of a factory or building.
- D) be available for the production of goods and services.

Ans: D

Difficulty: Medium

30. One of the two criteria for a resource to be considered as a natural resource is that it must:
- A) have been produced.
 - B) be found in nature.
 - C) be part of a factory or building.
 - D) not be used to produce goods and services.

Ans: B

Difficulty: Medium

31. An example of a natural resource is:
- A) oil in the ground.
 - B) oil in storage tanks.
 - C) a factory.
 - D) a computer program.

Ans: A

Difficulty: Medium

32. The difference between iron ore deposits and the steel produced from these deposits that is later used to make factory equipment illustrates the difference between:
- A) labor and a natural resource.
 - B) labor and capital.
 - C) a natural resource and capital.
 - D) a natural resource and entrepreneurship.

Ans: C

Difficulty: Hard

33. Improvements in technology provide benefits to:
- A) consumers, through lower prices.
 - B) workers, although some jobs may be eliminated.
 - C) firms, through lower production costs.
 - D) all of the above.

Ans: D

Difficulty: Easy

34. Who may benefit from technological progress?
- A) consumers
 - B) workers
 - C) firms.
 - D) all of the above.

Ans: D
Difficulty: Medium

35. The production possibilities curve represents the fact that:
- A) the economy will automatically end up at full employment.
 - B) an economy's productive capacity increases proportionally with its population.
 - C) if all resources of an economy are being used efficiently, more of one good can be produced only if less of another good is produced.
 - D) economic production possibilities have no limit.

Ans: C
Difficulty: Medium

Use the following to answer questions 36-38:

Exhibit: Production Possibilities Schedule 1

Alternatives	A	B	C	D	E	F
Consumer goods per period	0	1	2	3	4	5
Capital goods per period	30	28	24	18	10	0

36. (Exhibit: Production Possibilities Schedule 1) If the economy produces 2 units of consumer goods per period, it also can produce at most _____ units of capital goods per period.
- A) 30
 - B) 28
 - C) 24
 - D) 18

Ans: C
Difficulty: Hard

37. (Exhibit: Production Possibilities Schedule 1) If the economy produces 10 units of capital goods per period, it also can produce at most _____ unit(s) of consumer goods per period.
- A) 5
 - B) 4
 - C) 3
 - D) 2

Ans: B
Difficulty: Hard

38. (Exhibit: Production Possibilities Schedule 1) The opportunity cost of producing the fourth unit of consumer goods is _____ units of capital goods.
- A) 2
 - B) 4
 - C) 6
 - D) 8

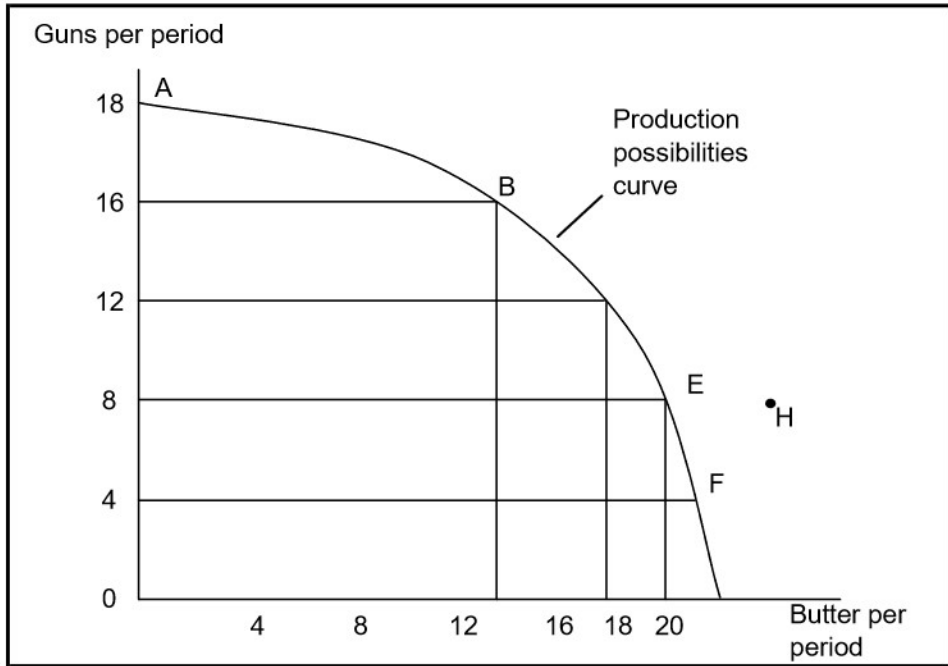
Ans: D
Difficulty: Hard

39. In drawing a production possibilities curve, it is assumed that:
- A) technology does not change.
 - B) the economy is fully employed and may not be efficient.
 - C) there are increasing qualities of the factors of production.
 - D) all of the above are true.

Ans: A
Difficulty: Hard

Use the following to answer questions 40-46:

Exhibit: Guns and Butter



40. (Exhibit: Guns and Butter) Points A, B, E, and F:
- A) indicate combinations of guns and butter that society can produce using all of its factors efficiently.
 - B) show that the opportunity cost of more guns increases, but that of more butter decreases as more of each good is produced..
 - C) indicate that society wants butter more than guns.
 - D) indicate constant costs for guns and increasing costs for butter.

Ans: A

Difficulty: Medium

41. (Exhibit: Guns and Butter) This production possibilities curve is:
- A) linear and because of the constant cost and
 - B) bowed in toward the origin because of increasing opportunity costs.
 - C) bowed in toward the origin because of constant cost of guns and butter.
 - D) bowed out from the origin because of increasing opportunity costs.

Ans: D

Difficulty: Medium

42. (Exhibit: Guns and Butter) If the economy were operating at point B, producing 16 units of guns and 12 units of butter per period, a decision to move to point E and produce 18 units of butter:
- A) indicates you can have more butter and guns simultaneously.
 - B) makes it clear that this economy experiences decreasing opportunity costs.
 - C) involves a loss of 8 units of guns per period.
 - D) involves a loss of 4 units of guns per period.

Ans: C

Difficulty: Medium

43. (Exhibit: Guns and Butter) The combination of guns and butter at point H:
- A) can be obtained, but would cost too much.
 - B) cannot be attained given the level of technology and the factors of production available.
 - C) has no meaning since it does not relate to the preferences of consumers.
 - D) Is attainable but would increase unemployment.

Ans: B

Difficulty: Medium

44. (Exhibit: Guns and Butter) If the economy were producing 8 units of guns and 12 units of butter per period:
- A) this is a possible choice, but would involve unemployment and/or inefficiency.
 - B) the notion of increasing opportunity cost is invalidated.
 - C) the economy is still efficient but has made a decision not to buy as much as it could.
 - D) something must be done to reduce the amount of employment.

Ans: A

Difficulty: Medium

45. (Exhibit: Guns and Butter) A movement from producing 12 units of guns and 16 units of butter per period to point B means a:
- A) gain of 4 units of guns and a loss of 6 units of butter per period.
 - B) gain of 2 units of guns and a loss of 4 units of butter per period.
 - C) loss of 4 units of butter and a gain of 4 units of guns per period.
 - D) loss of 2 units of guns and a gain of 4 units of butter per period.

Ans: C

Difficulty: Medium

46. (Exhibit: Guns and Butter) The maximum amounts of guns and butter this economy can produce is:
- A) 18 units of guns and 0 units of butter per period.
 - B) 0 units of guns and 20 units of butter per period.
 - C) 16 units of guns and 12 units of butter per period.
 - D) all of the above combinations are maximum possible combinations.

Ans: D

Difficulty: Hard

47. If an economy has to sacrifice only one unit of good X for each unit of good Y produced throughout the relevant range, then its production possibilities curve has a(n):
- A) zero slope.
 - B) constant, negative slope.
 - C) increasing, negative slope.
 - D) decreasing, negative slope.

Ans: B

Difficulty: Medium

48. If Farmer Sam MacDonald can produce 200 pounds of cabbages and 0 pounds of potatoes or 0 pounds of cabbages and 100 pounds of potatoes and faces a linear production possibilities curve for his farm, the opportunity cost of producing an additional pound of potatoes is _____ pound(s) of cabbage.
- A) 1/2
 - B) 2
 - C) 100
 - D) 200

Ans: B
Difficulty: Hard

49. If Farmer Sam MacDonald can produce 200 pounds of cabbages and 0 pounds of potatoes or 0 pounds of cabbages and 100 pounds of potatoes and faces a linear possibilities curve for his farm, the opportunity cost of producing an additional pound of cabbage is _____ pound(s) of potatoes.
- A) 1/2
 - B) 2
 - C) 100
 - D) 200

Ans: A
Difficulty: Hard

50. If the production possibilities curve were a straight line sloping down from left to right, this would suggest that:
- A) more of both goods could be produced moving along the curve.
 - B) the two products must have the same price.
 - C) no factor of production has any particular comparative advantage over other resources.
 - D) the utility of the two goods must be equal to consumers.

Ans: C
Difficulty: Hard

51. The slope of a typical production possibilities curve is:
- A) 0.
 - B) vertical.
 - C) positive.
 - D) negative.

Ans: D
Difficulty: Medium

Use the following to answer questions 52-55:

Exhibit: Production Possibilities Schedule 2

	V	W	X	Y	Z
Capital goods per period	0	1	2	3	4
Consumer goods per period	20	18	14	8	0

52. (Exhibit: Production Possibilities Schedule 2) If the economy is producing at alternative X, the opportunity cost to it of producing at Y instead of X is _____ units of consumer goods per period.

- A) 0
- B) 6
- C) 8
- D) 14

An B

s:

Difficulty: Medium

53. (Exhibit: Production Possibilities Schedule 2) If an economy is producing at alternative W, the opportunity cost to it of producing at X is _____ unit(s) of consumer goods per period.

- A) 0
- B) 1
- C) 4
- D) 18

An C

s:

Difficulty: Medium

54. (Exhibit: Production Possibilities Schedule 2) A move from alternative Y to alternative X would:

- A) result in greater unemployment.
- B) decrease potential growth.
- C) increase potential growth.
- D) result in greater underemployment.

An B

s:

Difficulty: Medium

55. (Exhibit: Production Possibilities Schedule 2) The production of 14 units of consumer goods and 1 unit of capital goods per period would:

- A) result in full employment.
- B) result in no unused resources.

- C) result in some unused or inefficiently used resources.
- D) increase economic growth.

Ans: C

s:

Difficulty: Medium

56. An economy is said to have a comparative advantage in producing a particular good if it:
- A) can produce more of all goods than another economy.
 - B) can produce less of all goods than another economy.
 - C) has the highest cost for producing that good.
 - D) has the lowest cost for producing that good.

Ans: D

Difficulty: Easy

57. An economy that has the lowest cost for producing a particular good is said to have a(n):
- A) technological advantage.
 - B) comparative advantage.
 - C) convex news production possibilities curve.
 - D) all of the above are correct and

Ans: B

Difficulty: Easy

58. The concept of comparative advantage is based upon:
- A) absolute labor productivity.
 - B) relative labor costs.
 - C) dollar prices of labor.
 - D) relative opportunity costs.

Ans: D

Difficulty: Hard

59. Comparative advantage leads to producing at a:
- A) higher opportunity cost.
 - B) lower opportunity cost.
 - C) higher dollar cost.
 - D) point where costs just begin to fall.

Ans: B

Difficulty: Medium

60. An economy is said to have a comparative advantage in the production of a good if it can:
- A) produce that good with more resources than another economy.
 - B) produce that good with a higher opportunity cost than another economy.
 - C) produce that good outside its production possibilities curve.
 - D) produce the good at a lower opportunity cost than another economy.

Ans: D

Difficulty: Medium

61. The law of increasing opportunity costs is a result of the fact that:
- A) the value of the dollar has declined over time.
 - B) wage rates rise as the economy reaches full employment.
 - C) consumers tend to value a good more when they don't have much of it.
 - D) resources are not equally productive in all output categories.

Ans: D

Difficulty: Medium

62. When moving along a production possibilities curve, the opportunity cost to society of getting more of the good on the horizontal axis:
- A) is constant.
 - B) is measured in dollar terms.
 - C) is measured by the amount of the other good that must be given up.
 - D) usually decreases.

Ans: C

Difficulty: Medium

63. The law of increasing opportunity cost means that:
- A) higher wages, rents, and interest will increase opportunity costs.
 - B) opportunity cost will decrease the more you decide to produce more of one good along a production possibilities curve.
 - C) opportunity cost increases when you produce more of one good while moving along a production possibilities curve.
 - D) costs of production decrease at first, but then eventually rise.

Ans: C

Difficulty: Medium

64. If an economy has to sacrifice increasing amounts of good X for each additional unit of good Y produced, then its production possibilities curve is:
- A) bowed out from the origin.
 - B) bowed in toward the origin.
 - C) a straight line.

D) a vertical line.

Ans: A

Difficulty: Medium

65. The proposition that states that as output increases for one good in an economy that is on its production possibilities curve, the cost of additional units of the good on the horizontal axis will be greater and greater is the:

- A) law of absolute advantage.
- B) law of increasing opportunity cost.
- C) law of policy ineffectiveness.
- D) law of demand.

Ans: B

Difficulty: Easy

66. The law of increasing opportunity cost is associated with the slope of the:

- A) demand curve.
- B) supply curve.
- C) output curve.
- D) production possibilities curve.

Ans: D

Difficulty: Medium

67. The fact that a society's production possibilities curve is bowed out from the origin of a graph demonstrates the law of:

- A) increasing opportunity cost.
- B) decreasing opportunity cost.
- C) constant opportunity cost.
- D) convex opportunity cost.

Ans: A

Difficulty: Medium

68. The economy's factors of production are not equally suitable for producing different types of goods. This principle generates:

- A) economic growth.
- B) technical efficiency.
- C) resource underutilization.
- D) the law of increasing opportunity cost.

Ans: D

Difficulty:

Medium

69. The law of increasing opportunity cost says that:
- A) opportunity costs of production always tend to increase.
 - B) increases in wages cause increases in the opportunity costs of production.
 - C) as output increases for one good on its production possibilities curve, the opportunity cost of additional units of the other good will be greater and greater.
 - D) along a production possibilities curve, as output increases in the production of one good, the opportunity costs of additional units of the other good will be less and less.

Ans: C

Difficulty: Easy

70. In the 1980s, the federal government undertook a major build-up of the military sector, leading to reports that prices charged by military contractors were spiraling upward. According to production possibilities analysis, this result is not surprising due to:
- A) the law of increasing opportunity cost.
 - B) economic efficiency.
 - C) technical efficiency.
 - D) resource underutilization.

Ans: A

Difficulty: Hard

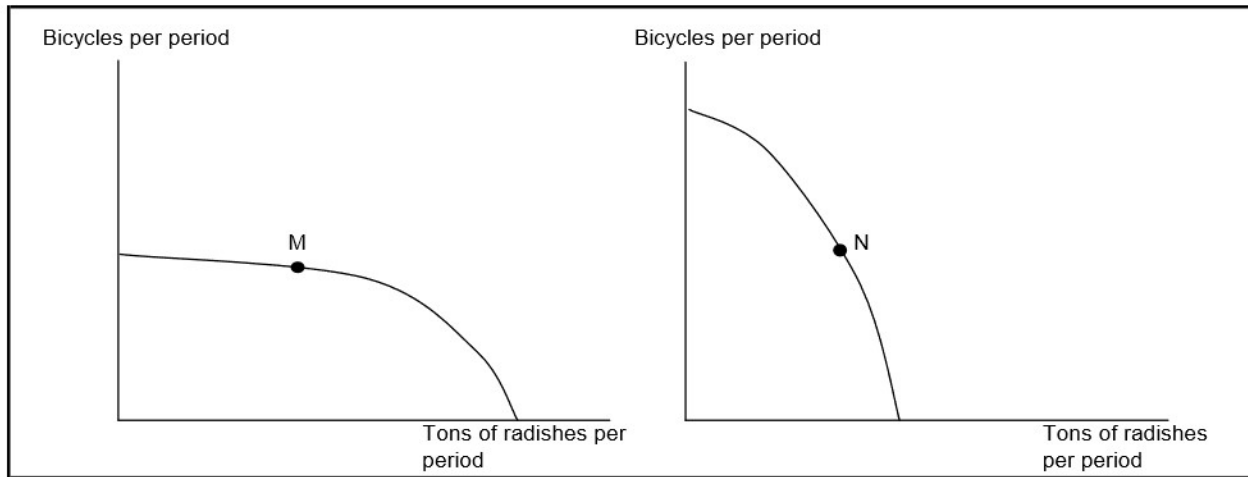
71. If a production possibilities curve were bowed in or convex to the origin of a graph, it would demonstrate:
- A) increasing opportunity cost.
 - B) decreasing opportunity cost.
 - C) constant opportunity cost.
 - D) fluctuating opportunity cost.

Ans: B

Difficulty: Hard

Use the following to answer questions 72-74:

Exhibit: Bicycles and Radishes 1



72. (Exhibit: Bicycles and Radishes 1) The exhibit shows production possibilities curves for two countries that produce only radishes and bicycles. The axes of both graphs are measured in equivalent units. Country A is now operating at point M, and Country B is now operating at point N. The opportunity cost of producing an additional ton of radishes would be greater in:
- A) Country A.
 - B) Country B.
 - C) neither; the opportunity cost would be the same in both countries.
 - D) there is not enough information given to answer the question.

Ans: B

Difficulty: Hard

73. (Exhibit: Bicycles and Radishes 1) The exhibit shows production possibilities curves for two countries that produce only radishes and bicycles. The axes of both graphs are measured in equivalent units. Country A is now operating at point M, and Country B is now operating at point N. Suppose Country A discovered a new technology that greatly increased its ability to produce bicycles. This would:
- A) lower the opportunity cost of producing radishes in Country A.
 - B) increase the opportunity cost of producing radishes in Country A.
 - C) have no effect on the opportunity cost of producing radishes in country A.
 - D) increase the opportunity cost of producing radishes in Country B.

Ans: B

Difficulty: Hard

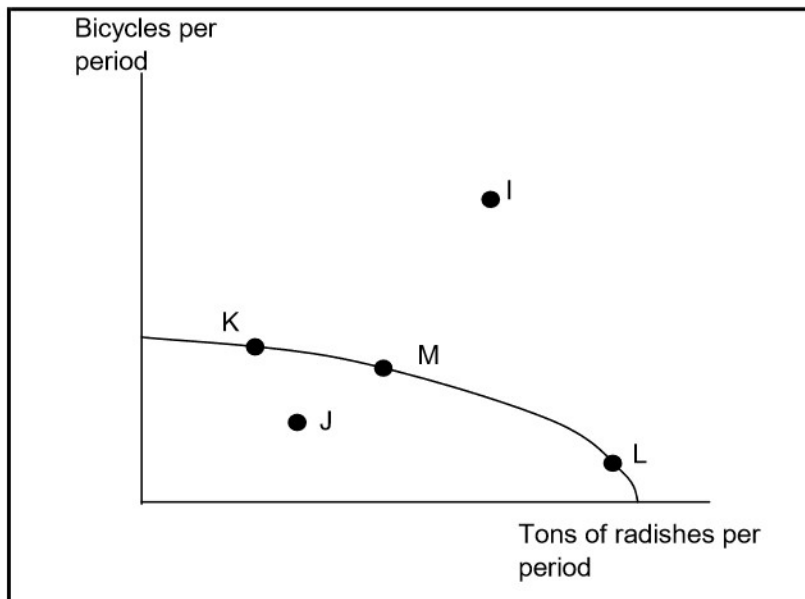
74. (Exhibit: Bicycles and Radishes 1) The exhibit shows production possibilities curves for two countries that produce only radishes and bicycles. The axes of both graphs are measured in equivalent units. Country A is now operating at point M, and Country B is now operating at point N. Suppose Country B wants to be able to produce more radishes and more bicycles. To do this, it must:
- A) Use its resources more efficiently.
 - B) achieve full employment in its use of resources.
 - C) acquire more capital, more labor, more natural resources, and/or better technology.
 - D) do all of the above.

Ans: C

Difficulty: Hard

Use the following to answer questions 75-76:

Exhibit: Bicycles and Radishes 2



75. (Exhibit: Bicycles and Radishes 2) In the country depicted in this exhibit, the opportunity cost of an additional ton of radishes would be greater at:
- A) point K.
 - B) point M.
 - C) point L.
 - D) none of the above points; the opportunity cost is the same at every point on a production possibilities curve.

Ans: C

Difficulty: Medium

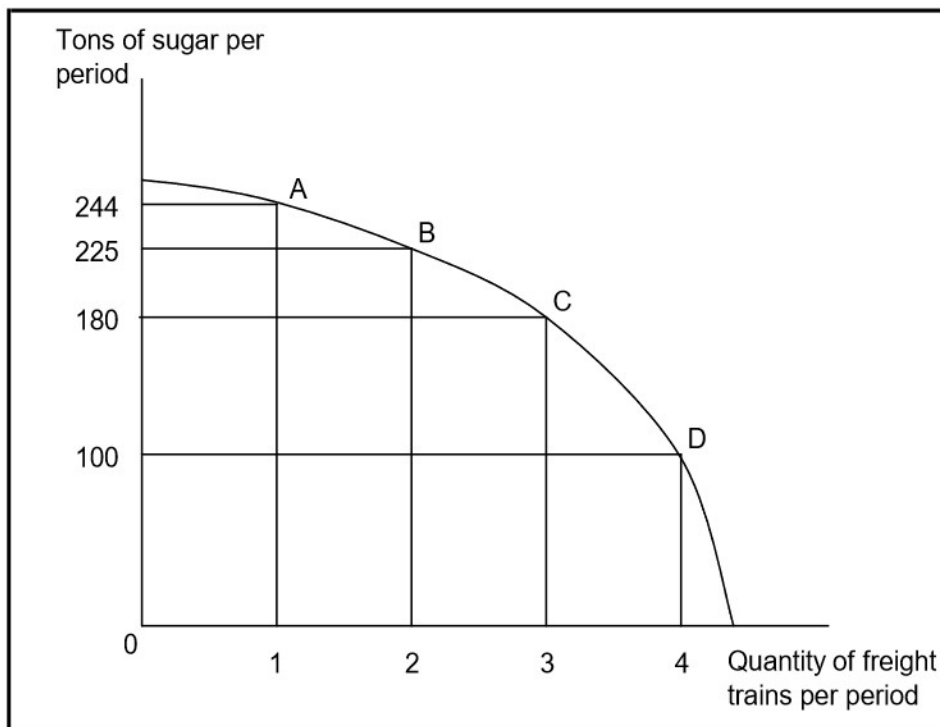
76. (Exhibit: Bicycles and Radishes 2) The country depicted in this exhibit is currently operating at point M. It could achieve production at point I only if it:
- A) used its resources more efficiently.
 - B) devoted more resources to radish production.
 - C) devoted more resources to bicycle production.
 - D) increased the quantities of capital, natural resources, or labor available or improved its technology.

Ans: D

Difficulty: Medium

Use the following to answer questions 77-82:

Exhibit: Sugar and Freight Trains



77. (Exhibit: Sugar and Freight Trains) Suppose the economy is operating at point A, producing 244 tons of sugar and 1 freight train. The opportunity cost of producing the second freight train is:
- A) 225 tons of sugar.
 - B) 25 tons of sugar.
 - C) 19 tons of sugar.
 - D) 6 tons of sugar.

Ans: C
Difficulty: Hard

78. (Exhibit: Sugar and Freight Trains) The downward slope of the production possibilities curve implies:
- A) resources in the economy are scarce.
 - B) the economy must be controlled by the government.
 - C) sugar is more important than freight trains.
 - D) the economy produces more sugar than freight trains.

Ans: A
Difficulty: Medium

79. (Exhibit: Sugar and Freight Trains) Suppose the economy is producing 180 tons of sugar and 2 freight trains. This implies that:
- A) the economy is operating at full employment.
 - B) the economy is operating efficiently.
 - C) the economy is not producing as much as it could.
 - D) economic growth would help the economy move to its production possibilities curve.

Ans: C
Difficulty: Medium

80. (Exhibit: Sugar and Freight Trains) The "bowed-out" shape of the production possibilities curve shown here demonstrates:
- A) that freight trains cost more than sugar.
 - B) that sugar costs more than freight trains.
 - C) that the opportunity cost of additional freight trains increases as the economy produces more and more of them.
 - D) that the opportunity cost of additional freight trains decreases as the economy produces more and more of them.

Ans: C
Difficulty: Medium

81. (Exhibit: Sugar and Freight Trains) Suppose the economy is operating at point B. The opportunity cost of producing the third freight train would be:
- A) 6 tons of sugar.
 - B) 19 tons of sugar.
 - C) 45 tons of sugar.
 - D) 80 tons of sugar.

Ans: C

Difficulty: Hard

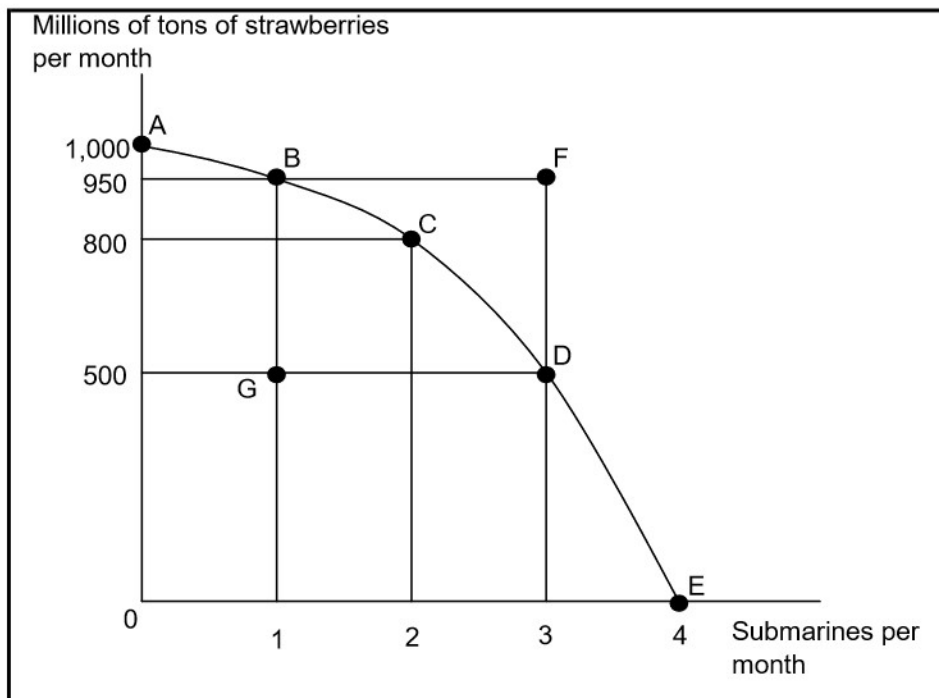
82. (Exhibit: Sugar and Freight Trains) Suppose the economy is operating at point C. The opportunity cost of producing the fourth freight train would be:
- A) 19 tons of sugar.
 - B) 45 tons of sugar.
 - C) 80 tons of sugar.
 - D) 3 freight trains.

Ans: C

Difficulty: Hard

Use the following to answer questions 83-87:

Exhibit: Strawberries and Submarines



83. (Exhibit: Strawberries and Submarines) Suppose the economy is now operating at point G. This implies that:
- A) the economy can move to a point such as C only if it improves its technology.
 - B) the economy is experiencing unemployment and/or inefficient allocation of resources.
 - C) the economy lacks the resources to achieve a combination such as C.
 - D) people in this economy don't really like strawberries and submarines.

