

## Chapter 01

### Economics and Life

#### Multiple Choice Questions

1. The study of economics can help us:
  - A. be a smarter voter.
  - B. better understand the impacts of public policies.
  - C. make the best choices around how to spend our time and money.
  - D. All of these are true.
  
2. Economics is the study of:
  - A. the government's decision making process.
  - B. why state and federal governments disagree.
  - C. the study of how people manage resources.
  - D. All of these are true.

3. The principles of economics can explain:
  - A. why people choose to work or go to college.
  - B. why a country might prosper.
  - C. why the value of money changes over time.
  - D. Economics can explain all of these things.
  
4. Decisions about how to allocate resources are made by:
  - A. individuals.
  - B. businesses.
  - C. governments.
  - D. Resource allocation decisions are made by all of these.
  
5. Which of the following statements best describes the study of economics?
  - A. Economics studies how the Federal Reserve handles fluctuation in business cycles.
  - B. Economics studies how individuals and groups manage resources.
  - C. Economics studies how people maximize returns in the stock market.
  - D. Economics studies how governments determine appropriate tax rates.
  
6. Alan could apply the principles of economic decision making to:
  - A. decide how to spend his paycheck.
  - B. which girl to marry.
  - C. what to have for dinner.
  - D. All of these are true.

7. Which of the following is not considered an economic resource?
- A. Real estate
  - B. Personal relationships
  - C. Cash
  - D. These are all examples of a resource.
8. The two broad fields that make up the subject of economics are:
- A. microeconomics and macroeconomics.
  - B. personal investments and business investments.
  - C. fiscal policy and monetary policy.
  - D. imports and exports.
9. Which of the following could be considered microeconomic issue?
- A. The local university decides to raise tuition for online course offerings.
  - B. Zimbabwe has experienced a decline in inflation.
  - C. The economic growth rate was reported at 2.4 percent in the first quarter of 2013 for the United States.
  - D. The unemployment rate in Greece is 22.8 percent.

10. Which of the following could be considered a microeconomic issue?
- A. A family decides to drive their child to school instead of relying on a school bus.
  - B. Apple releases a new version of the iPhone.
  - C. Coors Light packages alcohol in bottles that turn blue when cold.
  - D. All of these are examples of microeconomic issues.
11. Disney World decides to charge local residents a lower price than other park visitors. This would fall under which field of economics?
- A. Macroeconomics
  - B. Public policy
  - C. Customer service
  - D. Microeconomics
12. Which of the following could be considered a microeconomic issue?
- A. Chinese economic growth has declined.
  - B. The Federal Reserve cuts key interest rates in order to stimulate lending.
  - C. Walmart decides to add more self-checkout machines as the cost of labor rises.
  - D. India experiences a reduction in unemployment after opening its borders to trade.

13. Which of the following would be considered a microeconomic topic?
- A. The review of quarterly national income accounting data
  - B. A firm decides to purchase pay per click online advertising
  - C. The Federal Reserve decides to increase the discount rate
  - D. The CPI reports a rise in inflation during July
14. Which of the following could be an example of a question that would be studied in microeconomics?
- A. Why did our economic growth rate slow down during the 2000s?
  - B. How did the recession end in 2009 if unemployment continued to rise?
  - C. How will the legalization of marijuana affect the market for cigarettes?
  - D. When should Congress raise taxes in order to tackle the debt crisis?
15. Which broad field of economics would most likely study how consumers respond to a hike in cigarette taxes?
- A. Microeconomics
  - B. Marginal economics
  - C. Macroeconomics
  - D. Monetary economics

16. The field of \_\_\_\_\_ would most likely study how all consumers respond to a hike in cigarette taxes, and the field of \_\_\_\_\_ would most likely study how Bob responds to the tax.
- A. microeconomics; microeconomics
  - B. microeconomics; macroeconomics
  - C. macroeconomics; microeconomics
  - D. macroeconomics; macroeconomics
17. The Bureau of Economic Analysis releases last quarter's growth rate in real GDP. This release would most likely have been written by what kind of an economist?
- A. A monetary economist
  - B. A macroeconomist
  - C. A microeconomist
  - D. An labor economist
18. Which of the following could be considered a macroeconomic topic?
- A. iTunes raises the price of all its music.
  - B. iTunes raises the price of its pop artists music only.
  - C. Jay-Z decides to sell his Brooklyn Nets minority ownership.
  - D. The labor force participation rate fell by 1 percent in 2010.

19. Which of the following could be considered a macroeconomic issue?
- A. T-Mobile and MetroPCS finalize a merger.
  - B. Twinkies goes bankrupt, and the entire snack industry experiences losses.
  - C. The unemployment rate falls to 7.5 percent from 7.7 percent during the month of June.
  - D. All of these are examples of macroeconomic issues.
20. Which of the following questions would a macroeconomist most likely try to answer?
- A. What stage of the business cycle is our economy currently in?
  - B. Why do Broadway musicals and airlines have different price discrimination strategies?
  - C. How much would marijuana consumption change if the market became legal?
  - D. Should the 5-Hour Energy firm increase its distribution from nationally to internationally?
21. Which of the following is a topic studied in macroeconomics?
- A. Gasoline price changes
  - B. Unemployment rates over time
  - C. Taxation strategies of major corporations
  - D. Consumer participation in Facebook
22. Macroeconomics includes the study of:
- A. how the economy works on a regional, national, or international scale.
  - B. how rent ceilings impact the construction rates of new apartments.
  - C. how the increase in the labor force participation rate by females impacts childhood obesity.
  - D. how grocery cart rental fees impact parking lot accident rates.

23. Mitt Romney argued in a debate with President Obama that the economy had grown more slowly in each year of the President's term than in the previous year. This claim is most related to the field of:
- A. microeconomics.
  - B. public policy.
  - C. macroeconomics.
  - D. financial economics.
24. Which of the following economic decisions would most likely be studied by a macroeconomist?
- A. Domino's Pizza decides to provide quantity discounts in order to increase revenue.
  - B. A local entrepreneur decides to open a Waffle House in the local Walmart parking lot.
  - C. The government of Estonia implements a flat rate personal income tax for all citizens.
  - D. Prices for train fares rise as labor unions negotiate higher wage rates.
25. The assumption of rational behavior:
- A. offers a perfect framework for economists to evaluate human decision making.
  - B. helps economists explain a lot about the real world by assuming that people behave in the way that will best achieve their goals.
  - C. explains why people voluntarily engage in decisions for which costs exceed benefits.
  - D. is best applied to psychology and should not be used in the science of economics.

26. A rational choice is one that:

- A. allows individuals to reach their goals.
- B. involves the use of strategic decision making in an effort to reach a goal.
- C. does not involve self-interested behavior.
- D. is usually optimized when decision makers are poorly informed about alternatives.

27. When we believe the best result will come from the decision we have made, we are being:

- A. gullible.
- B. short-sighted.
- C. rational.
- D. considerate.

28. When we assume that consumers want to pay the lowest price possible, we assume that consumers are:

- A. cheap.
- B. deceitful.
- C. rational.
- D. informed.

29. Which is *not* one of the three basic questions used by economists to break down problems?

- A. What do others think?
- B. What are the trade-offs?
- C. How will others respond?
- D. Why isn't everyone already doing it?

30. Which of the following is one of the basic questions used by economists to break down problems?

- A. What are the wants and constraints of those involved?
- B. How will individuals feel about the change?
- C. Why has the market failed?
- D. Economists don't ask any of these questions.

31. Which of the following is a question that an economist would use to break down a problem?

- A. Will the average income per person for the society increase?
- B. Does the decision maker have a track record of being rational?
- C. Is there a scarce resource that must be allocated?
- D. None of these.

32. Scarcity can best be defined as a situation in which:

- A. consumers looking for bargains.
- B. producers are selfish with resources.
- C. people respond to incentives.
- D. all wants cannot be satisfied due to resource constraints.

33. Scarcity reflects our inability to satisfy wants due to:

- A. unlimited resources.
- B. limited resources.
- C. inefficient political systems.
- D. unemployed workers.

34. The economic concept of scarcity refers to the fact that:

- A. the United States will always have a battle to fight hunger.
- B. resources are often wasted and shortages are often the result.
- C. income must be redistributed through taxation in order to address income disparity.
- D. limited resources require economies to make choices among production alternatives.

35. Which of the following is a direct result of scarcity?
- A. Buildings in New York City are taller than buildings in Greenville, SC due to fewer acres of land per person.
  - B. Due to high gas prices, Shana decides to trade her Chevy Tahoe for a Honda Accord.
  - C. A college student misses a test review in order to sleep in.
  - D. All of these.
36. Which of the following describes a problem created by scarcity?
- A. The course you need to take in the fall is offered at times that conflict with your work schedule.
  - B. The White House eliminates tours due to budget constraints.
  - C. Your cell phone battery is low and you decide to screen a phone call from your friend just in case that special someone calls later.
  - D. All of these.
37. Individuals, firms, and societies are limited in the amount of goods and services that they can produce. This is a direct result of:
- A. unemployment.
  - B. waste.
  - C. irrational Behavior.
  - D. scarcity.

38. The problem created by "scarcity":

- A. could be solved if more people worked overtime.
- B. is not a concern for the top income earners.
- C. is an individual concern but not a concern on the macro level.
- D. applies to everyone because it is a fact of life.

39. Scarcity is:

- A. a fact of life.
- B. not a problem for Bill Gates because he is a billionaire.
- C. can be eliminated by rational decision making.
- D. is a problem studied in microeconomics but is not a macroeconomic concern.

40. Scarcity requires that we:

- A. make sure we only want things that we are capable of consuming and producing.
- B. change our fiscal policy until the situation of scarcity is eliminated.
- C. make decisions in order to arrange our resources rationally.
- D. adopt economic policies that will lead to unlimited resources.

41. The problem of having unlimited wants under the constraint of limited resources can describe the problem of:
- A. opportunity cost.
  - B. sunk costs.
  - C. scarcity.
  - D. the marginal principle.
42. The greatest constraint faced by banks considering the alternative of lending to Bangladeshi villagers is:
- A. not having qualified loan officers.
  - B. having limited funds available for loans.
  - C. not being able to determine appropriate currency exchange rates.
  - D. counterfeit Carfax reports that make it difficult to properly assess collateral.
43. The only rental house available at your favorite lake on July 4<sup>th</sup> is out of your price range. This is an example of:
- A. a constraint.
  - B. why you should have a yard sale.
  - C. why everyone isn't already doing it.
  - D. an infringement upon your freedoms enjoyed as a patriotic American.

44. "There is no such thing as a free lunch." This is an example of which economic concept?

- A. Maximization
- B. Trade-offs
- C. Basic necessities
- D. Income effect

45. Purchasing a smart phone data plan, premium movie channels, and University of Alabama football season tickets result in you having to drop your health insurance plan. This can be described as:

- A. home field advantage
- B. a trade-off
- C. irrational decision making
- D. healthy living

46. Trade-offs are:

- A. associated with every decision.
- B. do not exist if we receive something for free.
- C. always result in market-failure.
- D. can be avoided through economic planning.

47. When making a decision, it is easier to identify and evaluate which of the following?
- A. Costs associated with the decision.
  - B. Benefits associated with the decision.
  - C. Costs and benefits are equally easy to identify and evaluate.
  - D. Neither of these is often easy to identify and evaluate.
48. People choose to do something:
- A. when they believe the benefits outweigh the costs of the decision.
  - B. when they believe the costs outweigh the benefits of the decision.
  - C. when they believe equilibrium will be reached.
  - D. when they believe it won't harm anyone and will better themselves.
49. Your school offers seniors one "free" college course. Is this course also free to society?
- A. Yes, because the seniors live in society.
  - B. Yes, because the school has satisfied the assumption of making a rational choice.
  - C. No, because if one senior takes the last seat in the class, it means a paying student will not have the opportunity to take it.
  - D. No, because some students will not take a free class seriously and will ultimately become less productive workers.

50. Opportunity Cost:

- A. only includes explicit, out of pocket expenses.
- B. is the value of your next best alternative.
- C. is never provided in dollar values.
- D. would not include the wages lost from working when deciding to take a vacation.

51. You decide to drive your car on a long road trip of 1,500 miles. The opportunity cost of driving your car:

- A. is the amount of money spent on gas.
- B. is zero because the car is paid for.
- C. includes lost wages that you could have earned instead of driving.
- D. None of these.

52. If Johnny weren't in economics class this morning, he'd be sleeping. The value Johnny places on sleeping represents his:

- A. marginal benefit.
- B. incentives.
- C. sunk cost.
- D. opportunity cost.

53. Your sister always brags about how savvy of a grocery shopper she is. She believes that she saves lots of money from paying with coupons and making her grocery purchases at multiple stores to get the lowest prices on all goods. She may overestimate her savings because:
- A. she does not count the value of the time it took to sort and clip coupons as a cost.
  - B. she does not count the cost of the gas used driving extra miles to multiple grocery stores.
  - C. she does not count the value of the extra time it takes standing in multiple lines at multiple stores, using multiple coupons, rather than a trip to one store with no coupons.
  - D. All of these.
54. In the early 1990s, before pay at the pump was an option, a gas station decides to force people to pre-pay due to drive-offs. The opportunity cost of this decision may include:
- A. the value of the gas that is no longer stolen.
  - B. not having to look outside for people waving at you to turn on the pump.
  - C. the revenue lost because people will "low ball" how much they think their tank will hold in an effort to avoid having to come back into the store to get change from overpayment.
  - D. a loss of snack sales because people are coming into the store to pay for gas before pumping versus after pumping.
55. The Federal Drug Administration slows the pace at which helpful medications reach the marketplace. The alternative of having the medication available to consumers earlier is an example of:
- A. the opportunity cost of the Federal Drug Administration's regulation.
  - B. how easy it is to identify and evaluate costs.
  - C. the marginal benefit of the Federal Drug Administration.
  - D. promoting consumer health.

56. Saturday afternoon you can either attend a street festival, work and earn \$100, or study for your midterm exam. You flip a coin between the street festival and studying, but did not really consider working. The coin flip determined that you would stay home and study. The opportunity cost of the time spent studying includes:
- A. the loss of \$100 worth of wages and going to the street festival.
  - B. earning a high score on your midterm.
  - C. the benefit that could have been received at the street festival.
  - D. None of these.
57. Jimmy is very excited about the costume party with a 1990s theme. He is planning to dress up as MC Hammer but is also considering going as a lifeguard from Baywatch. His opportunity cost of arriving dressed like MC Hammer is:
- A. the cost of parachute pants.
  - B. the savings from not purchasing red swimming trunks.
  - C. giving up the alternative of dressing like a lifeguard.
  - D. there is no opportunity cost because he attended the party either way.
58. A local fast-food restaurant mails out coupons for a free sandwich to every home in the community. The opportunity cost of redeeming the sandwich may include:
- A. lost wages due to spending time in a long line instead of eating a Healthy Choice meal in your office.
  - B. not eating because you are on a "get fit for the summer" diet plan.
  - C. eating a "Tough Man's Burger," which is one of your favorite fast food options.
  - D. Any of these could be an opportunity cost, depending on which alternative would have been taken if you did not have a coupon for a free sandwich.

59. You are shopping at the local mall with an \$80 gift certificate. Only three items catch your attention. The items include a Justin Bieber sheet set, a remote control helicopter, and an "Amazing Ab Belt." You would be willing to give up \$60 for the sheets, \$70 for the belt, and \$80 for the helicopter. Knowing this, you decide to purchase the helicopter. The opportunity cost of the helicopter was:
- A. \$130, the combined value of the alternatives forgone.
  - B. \$80, the amount of the gift certificate spent.
  - C. \$70, the value of the ab belt.
  - D. \$60, the value of the sheets.
60. Cameron can spend the afternoon playing golf, driving his boat, or cleaning his house. Although he enjoys golf, he sometimes becomes frustrated when playing. He decides to enjoy a more relaxing afternoon on his boat. Cameron never thought about cleaning the house but did give golf some serious consideration. Cameron's opportunity cost of taking his boat out was:
- A. a dirty house.
  - B. the enjoyment he would have gotten from playing golf.
  - C. a dirty house and not playing golf.
  - D. enjoying a relaxing day on the lake.

61. Judy would like to enjoy freshly grown vegetables from her own garden but also wants her daughter to enjoy summers with a swimming pool in the backyard. Despite having a green thumb, she chooses to use her extra land for a swimming pool. The opportunity cost of the swimming pool is:
- A. equal to the cost of building and maintaining the pool.
  - B. the value she places on having her own garden.
  - C. the value of watching her daughter grow up enjoying a swimming pool.
  - D. the savings gained by not having to pay for fertilizer and vegetable plants.
62. Making a decision "on the margin" involves comparing:
- A. additional benefits against additional costs.
  - B. total benefits against total costs, which include benefits and costs from past decisions.
  - C. sunk costs against opportunity costs.
  - D. All of these are true.
63. After purchasing a coffee cup from your local gas station for \$5.00, you can always refill your cup for \$0.50. The marginal cost of your 10<sup>th</sup> cup of coffee purchased at the gas station is:
- A. \$0.50.
  - B. \$5.00.
  - C. \$10.00.
  - D. \$5.50.

64. After purchasing a coffee cup from your local gas station for \$5.00, you can always refill your cup for \$0.50. The sunk cost of the coffee purchased at the gas station is:
- A. \$0.50.
  - B. \$5.00.
  - C. \$10.00.
  - D. \$5.50.
65. A local street festival that previously sold bracelets in exchange for unlimited alcohol consumption is now concerned about the overconsumption of alcohol. If they switch to selling tickets per drink, will overall consumption at next year's festival decrease?
- A. No, because the marginal cost per extra beer will decrease for consumers.
  - B. No, because the marginal cost per extra beer will increase for consumers.
  - C. Yes, because the marginal cost per extra beer will increase for consumers.
  - D. Yes, because the marginal benefit per extra beer will increase for consumers.
66. A college student decides to spend the afternoon watching three movies rented from Red Box. The cost of each movie is \$1. The student was willing to pay \$4 to rent each of the first two movies and \$2 to rent the third movie. What was the marginal benefit received by the student when renting the 2<sup>nd</sup> movie?
- A. \$1
  - B. \$8
  - C. \$4
  - D. \$2

67. The extra cost associated with producing or consuming the next unit is called the:

- A. variable cost.
- B. marginal cost.
- C. utility cost.
- D. sunk cost.

68. Many theaters sell empty seats at a deep discount just before showtime. What economic concept is displayed by this behavior?

- A. Consumer demand
- B. Sunk costs
- C. Price optimization
- D. Thinking at the margin

69. The extra benefit associated with producing or consuming the next unit is called the:

- A. revenue product.
- B. spillover.
- C. marginal benefit.
- D. economic benefit.

70. The deadline for your research paper is tomorrow and you still need a day of work to complete the paper. Unfortunately, you are scheduled to work all day in the cafeteria. You can turn the paper in one day late for a 10 percent penalty or take the day off of work and turn the paper in by the deadline. Losing a day of wages will cost you \$90. The marginal cost of turning the paper in on time is:

- A. 10 percent deducted from your final score.
- B. \$90 in forgone wages.
- C. not getting to lounge around all day.
- D. None of these represent the marginal cost.

71. A movie costs you and your friend \$15 each. After one hour of watching the movie, you have struggled to stay awake while your friend has been on Facebook and is also bored with the movie. You suggest that you and your friend leave the movie and go to the park. Your friend responds by stating that he is not going to waste his \$15 that was previously spent on the movie. Your friend is considering:

- A. an opportunity cost of the movie.
- B. a sunk cost.
- C. the marginal benefit.
- D. depreciation.

72. You have paid all expenses to travel to your favorite beach for a vacation. You made these payments early in order to receive a discount and all payments are nonrefundable. Unfortunately, a hurricane is likely to crash into the coast during your vacation dates. What should not be considered as you make a decision to take your trip or not?
- A. The money that has already been spent on the trip
  - B. The satisfaction you are likely to receive at the beach during a hurricane
  - C. The best alternative use of your time if you do not take the trip
  - D. All of these should be considered.
73. You decided to take a college accounting course to brush up on your knowledge of the language of business. The tuition expense was \$500. After the date has expired to receive a refund for the course, you are offered a job that would conflict with your class time. In making the decision to accept or decline the offer, the \$500 is:
- A. the opportunity cost of the job.
  - B. the expected gain in pay from taking the accounting course.
  - C. a sunk cost.
  - D. a sunk benefit.
74. Your favorite team has a commanding lead toward the end of the ballgame. You suggest to your friend that you leave early to beat traffic. Your friend does not like the idea because he paid \$50 to see the game. The \$50 already spent on the game is an example of a(n):
- A. implicit cost.
  - B. sunk cost.
  - C. normal cost.
  - D. variable cost.

75. An Incentive is a concept that addresses which question used by economists?
- A. What are the wants and constraints of those involved?
  - B. What are the trade-offs?
  - C. How will others respond?
  - D. Why isn't everyone already doing it?
76. The price of pizza falls relative to the price of spaghetti, and so people buy more pizza instead of spaghetti. This is an example of responding to:
- A. marginal science.
  - B. incentives.
  - C. disincentives.
  - D. sunk benefit.
77. To provide an incentive for villagers to repay loans, Muhammad Yunus:
- A. forced villagers to offer collateral for loans.
  - B. made loans using group responsibility.
  - C. threatened to call the borrower's mother.
  - D. would increase interest rates by 1 percent after each late payment.

78. Entrepreneurs tend to take greater risks if low tax rates offer greater after-tax profit potentials.

The government's decision to offer low tax rates to entrepreneurs is:

- A. providing room for an economic expansion.
- B. providing an incentive, in the hopes that more entrepreneurs will take risk and create economic growth.
- C. providing a disincentive, in the hopes that more entrepreneurs will avoid risk and not grow.
- D. providing a disincentive, in the hopes that entrepreneurs will not get into tax default after assuming too much risk.

79. Hardee's announces "buy one get one free" breakfast sandwiches. This is an example of:

- A. the use of incentives.
- B. a macroeconomic decision.
- C. hoarding scarce resources.
- D. this is not an example of any of these concepts.

80. A car dealer advertises free satellite radio for one year with the purchase of a new car. This is an example of:

- A. bait and switch.
- B. marginal sales.
- C. an incentive.
- D. voluntary exchange.

81. Applying for a loan in five-group persons is called:

- A. family and friends lending.
- B. party of five lending.
- C. group responsibility.
- D. pooling.

82. "Late registration will result in an additional \$30 fee." This is an example of:

- A. price gauging.
- B. a disincentive.
- C. marginal cost.
- D. limited time pricing.

83. Muhammad Yunus was highly successful in his use of applying social incentives through group responsibility in order to maximize loan repayment rates. This success created an incentive for other banks to:

- A. offer similar loans to the poor.
- B. go out of business.
- C. seek government action to ban group responsibility lending.
- D. All of these.

84. Which of the following is a positive incentive?

- A. Discover credit cards offer 0 percent balance transfer rates for someone to open an account.
- B. McDonalds decides to offer a white chocolate mocha.
- C. A school teacher decides to retire and focus on gardening.
- D. A business decides to leave the industry.

85. An incentive is:

- A. the marginal cost of engaging in a course of action.
- B. the marginal benefit of engaging in a course of action.
- C. something that causes people to behave in a certain way by changing the trade-offs they face.
- D. rational behavior that involves thinking on the margin.

86. Which of the following is a positive incentive?

- A. deciding not to play golf due to rain
- B. making a donation to the red cross
- C. hiring 10 new workers as you decide to expand your operations
- D. offering a reward to anyone that can find you missing pet

87. Which of the following is an example of a disincentive?

- A. Law enforcement creates a "Mug Shots" section to post all recent arrests online in order to discourage potential law breakers.
- B. You offer workers a bonus if they sell 100 widgets per month.
- C. A local gym offers a weight loss competition and the winner earns a free trip to Bermuda.
- D. Your professor offers to edit your paper before it's graded if you turn it in early.

88. The idea of efficiency is used to address which of the following questions?

- A. What are the wants and constraints of those involved?
- B. What are the trade-offs?
- C. How will others respond?
- D. Why isn't everyone already doing it?

89. Something is valuable if:

- A. a reasonable amount of people want it.
- B. it is a good or a service.
- C. someone wants it.
- D. was made using resources.

90. A resource is anything that:

- A. can be touched and can be used to produce something of value.
- B. is a natural gift from nature, excluding human talents.
- C. has been used to create a good or service.
- D. can be used to make something of value.

91. The use of resources in the most productive way possible to produce the goods and services that have the greatest total economic value to society is called:

- A. allocation optimization.
- B. efficiency.
- C. sustainability.
- D. economic quantity.

92. If people have never implemented an idea that you believe offers substantial opportunity:

- A. you should seek a low interest loan immediately in order to launch your product.
- B. you should conclude that it can't be profitable.
- C. you might be missing something in your evaluation. You should carefully revisit the first three economists' questions.
- D. it is likely that you are being irrational.

93. You may incorrectly conclude that an idea no other person has implemented is highly profitable because:

- A. you misjudged people's wants and constraints.
- B. you miscalculated the trade-offs they face.
- C. you misunderstood how people would respond to incentives.
- D. All of these.

94. Which of the following is an assumption that economists make about people?

- A. Most people possess entrepreneurial talent.
- B. People are very good at assessing the costs of decisions accurately.
- C. Individuals and firms will act to provide the things they want.
- D. Individuals usually fail to optimize the use of their resources because they think on the margin.

95. Which of the following interrupt, or change a market that prevents it from acting "normally"?

- A. Innovation
- B. Intervention
- C. Market failure
- D. All of these are reasons for the market to veer from its normal path.

96. If your idea has not been implemented yet, but actually does offer a profitable opportunity, it is likely an example of:

- A. innovation.
- B. market failure.
- C. intervention.
- D. goals other than profit.

97. If an idea has not been implemented because a monopoly producer has placed a barrier to entry, the circumstances are not *normal* due to:

- A. innovation.
- B. market failure.
- C. intervention.
- D. goals other than profit.

98. After investigating an idea to open a rooftop restaurant in the downtown area of your community, you discover that any rooftop restaurant would violate city regulations. These circumstances would not be considered *normal* due to:

- A. innovation.
- B. market failure.
- C. intervention.
- D. goals other than profit.

99. Having a goal that does not include making a profit can often explain why the non-profitable idea has not been implemented. These types of ideas may include:

- A. helping the poor.
- B. making great art.
- C. promoting social justice.
- D. All of these.

100. Why wasn't everyone else already implementing group responsibility to lend to the poor?

- A. Governments of poor countries had regulations against group responsibility.
- B. The idea was genuinely new.
- C. It was not profitable.
- D. It was easy for groups to provide false social security numbers for members that did not exist.

101. Economic analysis requires us to combine:

- A. unlimited resources with limited wants.
- B. theory with observations.
- C. developed and developing nations.
- D. republicans and democrats.

102. When two variables have been observed to have a tendency to occur at the same time, we can say there is \_\_\_\_\_ but not necessarily \_\_\_\_\_.

- A. causation; correlation
- B. correlation; causation
- C. positivity; causation
- D. normality; correlation

103. "More people purchase chap stick when the weather man announces that we are in for a very windy week." This statement implies that:

- A. buying chap stick causes it to be windy.
- B. people plan on kissing more on windy days.
- C. buying chap stick is correlated with the announcement of a windy week.
- D. the weather man is getting a kickback from the makers of chap stick.

104. The Widgetville County Woolfpack has won 90 percent of their last 20 games played under a full moon. This means:

- A. the weather affects how they play.
- B. there is a correlation between their play and the occurrence of a full moon.
- C. that full moons cause the team to play better.
- D. that causation can be found between the two events.

105.If out of the two cities that send teams to the Super Bowl, the city with the lowest unemployment rate wins 70 percent of the time, there would be:

- A. a positive correlation between Super Bowl wins and low unemployment rates.
- B. evidence to conclude that richer cities have better super bowl teams.
- C. the condition of ceteris paribus present in the winning cities.
- D. None of these statements is necessarily true.

106.When toilet paper sales increase, quarterly economic growth tends to rise. This is an example of:

- A. two variables that are negatively correlated.
- B. the presence of ceteris paribus.
- C. correlation without causation.
- D. a consumer price indicator.

107.When the price of milk rises, there is no change in the amount of dog food purchased. This is an example of:

- A. consumer indifference between the two goods.
- B. the interaction between one normal good and one inferior good.
- C. two items that are uncorrelated.
- D. the value people place on dogs versus milk.

108. As corn prices rise, salsa sales tend to fall. This is an example of:

- A. ingredients for an Italian dinner.
- B. inferior goods.
- C. two uncorrelated events.
- D. a negative correlation.

109. When the unemployment rate rises, college enrollment increases because workers seek to expand training. This is an example of:

- A. correlation and causation.
- B. a negative correlation.
- C. normative economics.
- D. macroeconomics.

110. As monthly rain levels rise, golf course revenue falls because casual golfers prefer to stay dry. This is an example of:

- A. price elasticity.
- B. natural experiments.
- C. sunk costs.
- D. correlation and causation.

111. Correlation and causation can be confused in which of the following ways?

- A. Correlation without causation
- B. Omitted variables
- C. Reverse causality
- D. All of these

112. A relationship between two events in which one brings about the other is:

- A. a pattern.
- B. a trend.
- C. causation.
- D. correlation.

113. When speed boat sales rise, the city of Las Vegas takes in more revenue. The omitted common variable between these outcomes is likely to be:

- A. life jacket sales.
- B. prices of Las Vegas flights.
- C. childhood obesity.
- D. increased disposable income.

114. In the past, there was a strong correlation between ice cream consumption by children and polio cases for children. There was not a causal relationship due to:

- A. an omitted variable.
- B. reverse causality.
- C. accounting fraud practiced by Baskin Robbins.
- D. an infection present in cherries.

115. "Which came first, the chicken or the egg?" This question seeks to address which common source of confusion between correlation and causation?

- A. Reverse causality
- B. Omitted variables
- C. Linear relationships
- D. Comparative analysis

116. Both minivan sales and birth rates are on the rise. The conclusion that minivans cause people to have children would likely be a result of making the mistake of:

- A. extrapolation.
- B. omitted variables.
- C. correlation without causation.
- D. reverse causality.

117. Models should:

- A. attempt to include every detail of the situation being studied.
- B. attempt to describe a situation with perfect accuracy.
- C. not be applied to microeconomics.
- D. None of these.

118. A simplified representation of the important parts of a complicated situation is:

- A. cutting corners.
- B. a model.
- C. useless without adding fine details.
- D. econometrics.

119. Which is not a characteristic of a good economic model?

- A. Focuses on important details
- B. Predicts cause and effect
- C. Builds vague assumptions
- D. Describes the world accurately

120. One of the most basic models of the economy is:

- A. real GDP per capita.
- B. the current population survey.
- C. the consumer expenditure model.
- D. the circular flow model.

121. The two most important actors of the economy are:

- A. land and capital.
- B. households and firms.
- C. firms and government.
- D. exports and imports.

122. Households are vital to the circular flow model in what two ways?

- A. They supply factors of production and purchase goods and services.
- B. They export goods and services and import goods and services.
- C. They vote for political officers and pay taxes.
- D. They facilitate exchange between consumers and firms.

123. Which actor in the circular flow model buys or rents land, labor, and capital?

- A. Firms
- B. Households
- C. Markets for factors of production
- D. Government

124. Which actor in the circular flow model is on the supply side of the goods market?

- A. Firms
- B. Households
- C. Markets for factors of production
- D. Government

125. Which actor in the circular flow model is on the supply side of the factor market?

- A. Firms
- B. Households
- C. Market for goods and services
- D. Government

126. The two flows, or things being exchanged, in the circular flow model are:

- A. inputs and outputs.
- B. imports and exports.
- C. inputs/outputs and money.
- D. land and labor.

127. An economic model:

- A. exactly explains what happens in the real economy.
- B. cuts away unnecessary details to clearly demonstrate the principles at work.
- C. approximates all facets of what happens in the real economy.
- D. does not make clear assumptions.

128. In order to understand when a model may not be accurate, it is important to:

- A. omit details when developing a model.
- B. make sure assumptions made in the model are clear.
- C. test the model.
- D. All of these.

129. An economic model:

- A. should describe the real world accurately.
- B. should accurately predict cause and effect.
- C. should make clear assumptions.
- D. All of these are true.

130. Thomas Malthus was an early nineteenth-century economist that created a model describing the relationship between:

- A. population growth and war.
- B. population growth and birth control.
- C. population growth and crime.
- D. population growth and food production.

131. Thomas Malthus's model made the mistake of failing to consider:

- A. technological progress.
- B. inflation.
- C. comparative advantage.
- D. scarcity.

132. Which type of statement is most likely to include the word "should"?

- A. Positive statement
- B. Normative statement
- C. Fair statement
- D. Factual statement

133. A normative statement is generally based upon:

- A. data that can be tested.
- B. a factual claim.
- C. moral beliefs.
- D. scientific fact.

134. A factual claim about how the world actually works is a \_\_\_\_\_ statement.

- A. positive
- B. marginal
- C. irrational
- D. normative

135. Economies that adopt more open trade policies have historically enjoyed faster economic growth rates as a result. This is an example of what kind of statement?

- A. Marginal
- B. Normative
- C. Positive
- D. Biased

136. "The United States should adopt more open trade policies because they historically have caused increased economic growth." This is an example of what kind of statement?

- A. Unequivocally true
- B. Normative
- C. Positive
- D. Unequivocally false

137. People frequently confuse facts with judgments that are based on beliefs. This means that people have trouble making the distinction between:

- A. political statements and non-political statements.
- B. rational statements and irrational statements.
- C. macroeconomics and microeconomics.
- D. positive statements and normative statements.

138. A positive statement:

- A. can actually be false.
- B. must always be true.
- C. provides an opinion with a positive outlook.
- D. None of these is true.

139. Which of the following is an example positive statement?

- A. The state government should allocate more funds toward education.
- B. Teachers should be paid higher salaries.
- C. Individuals with a bachelor's degree earn higher average incomes than those with only a high school diploma.
- D. The consumption of marijuana is unacceptable and should never be legally allowed in a society.

140. Which of the following is an example of a normative statement?

- A. Our country's defense budget should never be cut.
- B. Immigration should be limited in the United States.
- C. No person should have to live without basic health insurance.
- D. These are all normative statements.

141. Which of the following is an example of a positive statement?

- A. NCAA Football should have adopted a playoff system 10 years ago.
- B. An increase in minimum wage results in higher teenage unemployment.
- C. Teachers should be allowed to carry guns into the classroom.
- D. Cats are better pets than dogs.

142. Which of the following is an example of a normative statement?

- A. The American Recovery and Reinvestment Act should not have been passed during the Great Recession.
- B. Unemployment soared to 25 percent during the Great Depression.
- C. An increase in alcohol taxes will reduce the number of drunk driving accidents.
- D. Great Britain has fewer hospital beds per capita today than they did in 1948.

143. Which of the following is a normative statement?

- A. College tuition rates are rising.
- B. 28 percent of U.S. adults have a bachelor's degree.
- C. The average income of a college graduate exceeds that of the average high school graduate.
- D. State governments should pay for the first two years of college at public institutions.

144. Which of the following is an example of a normative statement?

- A. The average price of a Whopper Jr. is \$1.69.
- B. The United States ought to adopt a flat rate personal income tax.
- C. A higher percentage of prostitutes incarcerated in Miami test positive for AIDS when compared to registered prostitutes in Nevada.
- D. Average growth in real GDP per year was 1.84 percent between 2000 and 2010.

145. A statement that "a hair stylist should not have to obtain a cosmetology license" is an example of what kind of statement?

- A. Uninformed
- B. Biased
- C. Positive
- D. Normative

## Chapter 01 Economics and Life Answer Key

### Multiple Choice Questions

1. The study of economics can help us:
- A. be a smarter voter.
  - B. better understand the impacts of public policies.
  - C. make the best choices around how to spend our time and money.
  - D. All of these are true.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Basic Insights of Economics*

2. Economics is the study of:
- A. the government's decision making process.
  - B. why state and federal governments disagree.
  - C. the study of how people manage resources.
  - D. All of these are true.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Basic Insights of Economics*

3. The principles of economics can explain:
- A. why people choose to work or go to college.
  - B. why a country might prosper.
  - C. why the value of money changes over time.
  - D. Economics can explain all of these things.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Basic Insights of Economics*

4. Decisions about how to allocate resources are made by:
- A. individuals.
  - B. businesses.
  - C. governments.
  - D. Resource allocation decisions are made by all of these.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Basic Insights of Economics*

5. Which of the following statements best describes the study of economics?
- A. Economics studies how the Federal Reserve handles fluctuation in business cycles.
  - B.** Economics studies how individuals and groups manage resources.
  - C. Economics studies how people maximize returns in the stock market.
  - D. Economics studies how governments determine appropriate tax rates.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Basic Insights of Economics*

6. Alan could apply the principles of economic decision making to:

- A. decide how to spend his paycheck.
- B. which girl to marry.
- C. what to have for dinner.
- D.** All of these are true.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Basic Insights of Economics*

7. Which of the following is not considered an economic resource?

- A. Real estate
- B. Personal relationships
- C. Cash
- D. These are all examples of a resource.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Basic Insights of Economics*

8. The two broad fields that make up the subject of economics are:

- A. microeconomics and macroeconomics.
- B. personal investments and business investments.
- C. fiscal policy and monetary policy.
- D. imports and exports.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Basic Insights of Economics*

9. Which of the following could be considered microeconomic issue?

- A. The local university decides to raise tuition for online course offerings.
- B. Zimbabwe has experienced a decline in inflation.
- C. The economic growth rate was reported at 2.4 percent in the first quarter of 2013 for the United States.
- D. The unemployment rate in Greece is 22.8 percent.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

10. Which of the following could be considered a microeconomic issue?

- A. A family decides to drive their child to school instead of relying on a school bus.
- B. Apple releases a new version of the iPhone.
- C. Coors Light packages alcohol in bottles that turn blue when cold.
- D. All of these are examples of microeconomic issues.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

11. Disney World decides to charge local residents a lower price than other park visitors. This would fall under which field of economics?

- A. Macroeconomics
- B. Public policy
- C. Customer service
- D. Microeconomics

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

12. Which of the following could be considered a microeconomic issue?

- A. Chinese economic growth has declined.
- B. The Federal Reserve cuts key interest rates in order to stimulate lending.
- C. Walmart decides to add more self-checkout machines as the cost of labor rises.
- D. India experiences a reduction in unemployment after opening its borders to trade.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

13. Which of the following would be considered a microeconomic topic?

- A. The review of quarterly national income accounting data
- B. A firm decides to purchase pay per click online advertising**
- C. The Federal Reserve decides to increase the discount rate
- D. The CPI reports a rise in inflation during July

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

14. Which of the following could be an example of a question that would be studied in microeconomics?

- A. Why did our economic growth rate slow down during the 2000s?
- B. How did the recession end in 2009 if unemployment continued to rise?
- C. How will the legalization of marijuana affect the market for cigarettes?**
- D. When should Congress raise taxes in order to tackle the debt crisis?

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

15. Which broad field of economics would most likely study how consumers respond to a hike in cigarette taxes?

- A. Microeconomics
- B. Marginal economics
- C. Macroeconomics
- D. Monetary economics

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

16. The field of \_\_\_\_\_ would most likely study how all consumers respond to a hike in cigarette taxes, and the field of \_\_\_\_\_ would most likely study how Bob responds to the tax.

- A. microeconomics; microeconomics
- B. microeconomics; macroeconomics
- C. macroeconomics; microeconomics
- D. macroeconomics; macroeconomics

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

17. The Bureau of Economic Analysis releases last quarter's growth rate in real GDP. This release would most likely have been written by what kind of an economist?

- A. A monetary economist
- B. A macroeconomist**
- C. A microeconomist
- D. An labor economist

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

18. Which of the following could be considered a macroeconomic topic?

- A. iTunes raises the price of all its music.
- B. iTunes raises the price of its pop artists music only.
- C. Jay-Z decides to sell his Brooklyn Nets minority ownership.
- D. The labor force participation rate fell by 1 percent in 2010.**

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

19. Which of the following could be considered a macroeconomic issue?
- A. T-Mobile and MetroPCS finalize a merger.
  - B. Twinkies goes bankrupt, and the entire snack industry experiences losses.
  - C.** The unemployment rate falls to 7.5 percent from 7.7 percent during the month of June.
  - D. All of these are examples of macroeconomic issues.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

20. Which of the following questions would a macroeconomist most likely try to answer?
- A.** What stage of the business cycle is our economy currently in?
  - B. Why do Broadway musicals and airlines have different price discrimination strategies?
  - C. How much would marijuana consumption change if the market became legal?
  - D. Should the 5-Hour Energy firm increase its distribution from nationally to internationally?

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

21. Which of the following is a topic studied in macroeconomics?

- A. Gasoline price changes
- B. Unemployment rates over time**
- C. Taxation strategies of major corporations
- D. Consumer participation in Facebook

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

22. Macroeconomics includes the study of:

- A. how the economy works on a regional, national, or international scale.**
- B. how rent ceilings impact the construction rates of new apartments.
- C. how the increase in the labor force participation rate by females impacts childhood obesity.
- D. how grocery cart rental fees impact parking lot accident rates.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

23. Mitt Romney argued in a debate with President Obama that the economy had grown more slowly in each year of the President's term than in the previous year. This claim is most related to the field of:
- A. microeconomics.
  - B. public policy.
  - C. macroeconomics.
  - D. financial economics.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

24. Which of the following economic decisions would most likely be studied by a macroeconomist?
- A. Domino's Pizza decides to provide quantity discounts in order to increase revenue.
  - B. A local entrepreneur decides to open a Waffle House in the local Walmart parking lot.
  - C. The government of Estonia implements a flat rate personal income tax for all citizens.
  - D. Prices for train fares rise as labor unions negotiate higher wage rates.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Micro versus Macro*

25. The assumption of rational behavior:
- A. offers a perfect framework for economists to evaluate human decision making.
  - B.** helps economists explain a lot about the real world by assuming that people behave in the way that will best achieve their goals.
  - C. explains why people voluntarily engage in decisions for which costs exceed benefits.
  - D. is best applied to psychology and should not be used in the science of economics.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Basic Insights*

26. A rational choice is one that:
- A.** allows individuals to reach their goals.
  - B. involves the use of strategic decision making in an effort to reach a goal.
  - C. does not involve self-interested behavior.
  - D. is usually optimized when decision makers are poorly informed about alternatives.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Basic Insights*

27. When we believe the best result will come from the decision we have made, we are being:

- A. gullible.
- B. short-sighted.
- C. rational.
- D. considerate.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Basic Insights*

28. When we assume that consumers want to pay the lowest price possible, we assume that consumers are:

- A. cheap.
- B. deceitful.
- C. rational.
- D. informed.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Basic Insights*

29. Which is *not* one of the three basic questions used by economists to break down problems?

- A. What do others think?
- B. What are the trade-offs?
- C. How will others respond?
- D. Why isn't everyone already doing it?

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Basic Insights*

30. Which of the following is one of the basic questions used by economists to break down problems?

- A. What are the wants and constraints of those involved?
- B. How will individuals feel about the change?
- C. Why has the market failed?
- D. Economists don't ask any of these questions.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Basic Insights*

31. Which of the following is a question that an economist would use to break down a problem?
- A. Will the average income per person for the society increase?
  - B. Does the decision maker have a track record of being rational?
  - C. Is there a scarce resource that must be allocated?
  - D. None of these.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Basic Insights*

32. Scarcity can best be defined as a situation in which:
- A. consumers looking for bargains.
  - B. producers are selfish with resources.
  - C. people respond to incentives.
  - D. all wants cannot be satisfied due to resource constraints.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Scarcity*

33. Scarcity reflects our inability to satisfy wants due to:

- A. unlimited resources.
- B. limited resources.**
- C. inefficient political systems.
- D. unemployed workers.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Scarcity*

34. The economic concept of scarcity refers to the fact that:

- A. the United States will always have a battle to fight hunger.
- B. resources are often wasted and shortages are often the result.
- C. income must be redistributed through taxation in order to address income disparity.
- D. limited resources require economies to make choices among production alternatives.**

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Scarcity*

35. Which of the following is a direct result of scarcity?
- A. Buildings in New York City are taller than buildings in Greenville, SC due to fewer acres of land per person.
  - B. Due to high gas prices, Shana decides to trade her Chevy Tahoe for a Honda Accord.
  - C. A college student misses a test review in order to sleep in.
  - D. All of these.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Scarcity*

36. Which of the following describes a problem created by scarcity?
- A. The course you need to take in the fall is offered at times that conflict with your work schedule.
  - B. The White House eliminates tours due to budget constraints.
  - C. Your cell phone battery is low and you decide to screen a phone call from your friend just in case that special someone calls later.
  - D. All of these.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Scarcity*

37. Individuals, firms, and societies are limited in the amount of goods and services that they can produce. This is a direct result of:

- A. unemployment.
- B. waste.
- C. irrational Behavior.
- D. scarcity.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Scarcity*

38. The problem created by "scarcity":

- A. could be solved if more people worked overtime.
- B. is not a concern for the top income earners.
- C. is an individual concern but not a concern on the macro level.
- D. applies to everyone because it is a fact of life.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Scarcity*

39. Scarcity is:

- A. a fact of life.
- B. not a problem for Bill Gates because he is a billionaire.
- C. can be eliminated by rational decision making.
- D. is a problem studied in microeconomics but is not a macroeconomic concern.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Scarcity*

40. Scarcity requires that we:

- A. make sure we only want things that we are capable of consuming and producing.
- B. change our fiscal policy until the situation of scarcity is eliminated.
- C. make decisions in order to arrange our resources rationally.
- D. adopt economic policies that will lead to unlimited resources.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Scarcity*

41. The problem of having unlimited wants under the constraint of limited resources can describe the problem of:

- A. opportunity cost.
- B. sunk costs.
- C. scarcity.**
- D. the marginal principle.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Scarcity*

42. The greatest constraint faced by banks considering the alternative of lending to Bangladeshi villagers is:

- A. not having qualified loan officers.
- B. having limited funds available for loans.**
- C. not being able to determine appropriate currency exchange rates.
- D. counterfeit Carfax reports that make it difficult to properly assess collateral.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Scarcity*

43. The only rental house available at your favorite lake on July 4<sup>th</sup> is out of your price range. This is an example of:

- A.** a constraint.
- B. why you should have a yard sale.
- C. why everyone isn't already doing it.
- D. an infringement upon your freedoms enjoyed as a patriotic American.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-01 Explain the economic concept of scarcity.*

*Topic: Scarcity*

44. "There is no such thing as a free lunch." This is an example of which economic concept?

- A. Maximization
- B.** Trade-offs
- C. Basic necessities
- D. Income effect

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

45. Purchasing a smart phone data plan, premium movie channels, and University of Alabama football season tickets result in you having to drop your health insurance plan. This can be described as:

- A. home field advantage
- B. a trade-off**
- C. irrational decision making
- D. healthy living

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

46. Trade-offs are:

- A. associated with every decision.**
- B. do not exist if we receive something for free.
- C. always result in market-failure.
- D. can be avoided through economic planning.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

47. When making a decision, it is easier to identify and evaluate which of the following?

- A. Costs associated with the decision.
- B.** Benefits associated with the decision.
- C. Costs and benefits are equally easy to identify and evaluate.
- D. Neither of these is often easy to identify and evaluate.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

48. People choose to do something:

- A.** when they believe the benefits outweigh the costs of the decision.
- B. when they believe the costs outweigh the benefits of the decision.
- C. when they believe equilibrium will be reached.
- D. when they believe it won't harm anyone and will better themselves.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

49. Your school offers seniors one "free" college course. Is this course also free to society?
- A. Yes, because the seniors live in society.
  - B. Yes, because the school has satisfied the assumption of making a rational choice.
  - C.** No, because if one senior takes the last seat in the class, it means a paying student will not have the opportunity to take it.
  - D. No, because some students will not take a free class seriously and will ultimately become less productive workers.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

50. Opportunity Cost:
- A. only includes explicit, out of pocket expenses.
  - B.** is the value of your next best alternative.
  - C. is never provided in dollar values.
  - D. would not include the wages lost from working when deciding to take a vacation.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

51. You decide to drive your car on a long road trip of 1,500 miles. The opportunity cost of driving your car:

- A. is the amount of money spent on gas.
- B. is zero because the car is paid for.
- C. includes lost wages that you could have earned instead of driving.
- D. None of these.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

52. If Johnny weren't in economics class this morning, he'd be sleeping. The value Johnny places on sleeping represents his:

- A. marginal benefit.
- B. incentives.
- C. sunk cost.
- D. opportunity cost.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

53. Your sister always brags about how savvy of a grocery shopper she is. She believes that she saves lots of money from paying with coupons and making her grocery purchases at multiple stores to get the lowest prices on all goods. She may overestimate her savings because:
- A. she does not count the value of the time it took to sort and clip coupons as a cost.
  - B. she does not count the cost of the gas used driving extra miles to multiple grocery stores.
  - C. she does not count the value of the extra time it takes standing in multiple lines at multiple stores, using multiple coupons, rather than a trip to one store with no coupons.
  - D. All of these.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

54. In the early 1990s, before pay at the pump was an option, a gas station decides to force people to pre-pay due to drive-offs. The opportunity cost of this decision may include:
- A. the value of the gas that is no longer stolen.
  - B. not having to look outside for people waving at you to turn on the pump.
  - C. the revenue lost because people will "low ball" how much they think their tank will hold in an effort to avoid having to come back into the store to get change from overpayment.
  - D. a loss of snack sales because people are coming into the store to pay for gas before pumping versus after pumping.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

55. The Federal Drug Administration slows the pace at which helpful medications reach the marketplace. The alternative of having the medication available to consumers earlier is an example of:

- A. the opportunity cost of the Federal Drug Administration's regulation.
- B. how easy it is to identify and evaluate costs.
- C. the marginal benefit of the Federal Drug Administration.
- D. promoting consumer health.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

56. Saturday afternoon you can either attend a street festival, work and earn \$100, or study for your midterm exam. You flip a coin between the street festival and studying, but did not really consider working. The coin flip determined that you would stay home and study. The opportunity cost of the time spent studying includes:

- A. the loss of \$100 worth of wages and going to the street festival.
- B. earning a high score on your midterm.
- C. the benefit that could have been received at the street festival.
- D. None of these.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

57. Jimmy is very excited about the costume party with a 1990s theme. He is planning to dress up as MC Hammer but is also considering going as a lifeguard from Baywatch. His opportunity cost of arriving dressed like MC Hammer is:

- A. the cost of parachute pants.
- B. the savings from not purchasing red swimming trunks.
- C. giving up the alternative of dressing like a lifeguard.
- D. there is no opportunity cost because he attended the party either way.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

58. A local fast-food restaurant mails out coupons for a free sandwich to every home in the community. The opportunity cost of redeeming the sandwich may include:

- A. lost wages due to spending time in a long line instead of eating a Healthy Choice meal in your office.
- B. not eating because you are on a "get fit for the summer" diet plan.
- C. eating a "Tough Man's Burger," which is one of your favorite fast food options.
- D. Any of these could be an opportunity cost, depending on which alternative would have been taken if you did not have a coupon for a free sandwich.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

59. You are shopping at the local mall with an \$80 gift certificate. Only three items catch your attention. The items include a Justin Bieber sheet set, a remote control helicopter, and an "Amazing Ab Belt." You would be willing to give up \$60 for the sheets, \$70 for the belt, and \$80 for the helicopter. Knowing this, you decide to purchase the helicopter. The opportunity cost of the helicopter was:
- A. \$130, the combined value of the alternatives forgone.
  - B. \$80, the amount of the gift certificate spent.
  - C. \$70, the value of the ab belt.
  - D. \$60, the value of the sheets.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

60. Cameron can spend the afternoon playing golf, driving his boat, or cleaning his house. Although he enjoys golf, he sometimes becomes frustrated when playing. He decides to enjoy a more relaxing afternoon on his boat. Cameron never thought about cleaning the house but did give golf some serious consideration. Cameron's opportunity cost of taking his boat out was:
- A. a dirty house.
  - B. the enjoyment he would have gotten from playing golf.
  - C. a dirty house and not playing golf.
  - D. enjoying a relaxing day on the lake.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

61. Judy would like to enjoy freshly grown vegetables from her own garden but also wants her daughter to enjoy summers with a swimming pool in the backyard. Despite having a green thumb, she chooses to use her extra land for a swimming pool. The opportunity cost of the swimming pool is:

- A. equal to the cost of building and maintaining the pool.
- B.** the value she places on having her own garden.
- C. the value of watching her daughter grow up enjoying a swimming pool.
- D. the savings gained by not having to pay for fertilizer and vegetable plants.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

62. Making a decision "on the margin" involves comparing:

- A.** additional benefits against additional costs.
- B. total benefits against total costs, which include benefits and costs from past decisions.
- C. sunk costs against opportunity costs.
- D. All of these are true.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

63. After purchasing a coffee cup from your local gas station for \$5.00, you can always refill your cup for \$0.50. The marginal cost of your 10<sup>th</sup> cup of coffee purchased at the gas station is:

- A. \$0.50.
- B. \$5.00.
- C. \$10.00.
- D. \$5.50.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

64. After purchasing a coffee cup from your local gas station for \$5.00, you can always refill your cup for \$0.50. The sunk cost of the coffee purchased at the gas station is:

- A. \$0.50.
- B. \$5.00.**
- C. \$10.00.
- D. \$5.50.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

65. A local street festival that previously sold bracelets in exchange for unlimited alcohol consumption is now concerned about the overconsumption of alcohol. If they switch to selling tickets per drink, will overall consumption at next year's festival decrease?
- A. No, because the marginal cost per extra beer will decrease for consumers.
  - B. No, because the marginal cost per extra beer will increase for consumers.
  - C.** Yes, because the marginal cost per extra beer will increase for consumers.
  - D. Yes, because the marginal benefit per extra beer will increase for consumers.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Marginal Costs*

66. A college student decides to spend the afternoon watching three movies rented from Red Box. The cost of each movie is \$1. The student was willing to pay \$4 to rent each of the first two movies and \$2 to rent the third movie. What was the marginal benefit received by the student when renting the 2<sup>nd</sup> movie?
- A. \$1
  - B. \$8
  - C.** \$4
  - D. \$2

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

67. The extra cost associated with producing or consuming the next unit is called the:

- A. variable cost.
- B. marginal cost.**
- C. utility cost.
- D. sunk cost.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

68. Many theaters sell empty seats at a deep discount just before showtime. What economic concept is displayed by this behavior?

- A. Consumer demand
- B. Sunk costs
- C. Price optimization
- D. Thinking at the margin**

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

69. The extra benefit associated with producing or consuming the next unit is called the:

- A. revenue product.
- B. spillover.
- C. marginal benefit.**
- D. economic benefit.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

70. The deadline for your research paper is tomorrow and you still need a day of work to complete the paper. Unfortunately, you are scheduled to work all day in the cafeteria. You can turn the paper in one day late for a 10 percent penalty or take the day off of work and turn the paper in by the deadline. Losing a day of wages will cost you \$90. The marginal cost of turning the paper in on time is:

- A. 10 percent deducted from your final score.
- B. \$90 in forgone wages.**
- C. not getting to lounge around all day.
- D. None of these represent the marginal cost.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

71. A movie costs you and your friend \$15 each. After one hour of watching the movie, you have struggled to stay awake while your friend has been on Facebook and is also bored with the movie. You suggest that you and your friend leave the movie and go to the park. Your friend responds by stating that he is not going to waste his \$15 that was previously spent on the movie. Your friend is considering:
- A. an opportunity cost of the movie.
  - B.** a sunk cost.
  - C. the marginal benefit.
  - D. depreciation.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

72. You have paid all expenses to travel to your favorite beach for a vacation. You made these payments early in order to receive a discount and all payments are nonrefundable. Unfortunately, a hurricane is likely to crash into the coast during your vacation dates. What should not be considered as you make a decision to take your trip or not?
- A.** The money that has already been spent on the trip
  - B. The satisfaction you are likely to receive at the beach during a hurricane
  - C. The best alternative use of your time if you do not take the trip
  - D. All of these should be considered.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

73. You decided to take a college accounting course to brush up on your knowledge of the language of business. The tuition expense was \$500. After the date has expired to receive a refund for the course, you are offered a job that would conflict with your class time. In making the decision to accept or decline the offer, the \$500 is:
- A. the opportunity cost of the job.
  - B. the expected gain in pay from taking the accounting course.
  - C. a sunk cost.**
  - D. a sunk benefit.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

74. Your favorite team has a commanding lead toward the end of the ballgame. You suggest to your friend that you leave early to beat traffic. Your friend does not like the idea because he paid \$50 to see the game. The \$50 already spent on the game is an example of a(n):
- A. implicit cost.
  - B. sunk cost.**
  - C. normal cost.
  - D. variable cost.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-02 Explain the economic concepts of opportunity cost and marginal decision making.*

*Topic: Trade-offs and Opportunity Costs*

75. An Incentive is a concept that addresses which question used by economists?

- A. What are the wants and constraints of those involved?
- B. What are the trade-offs?
- C. How will others respond?**
- D. Why isn't everyone already doing it?

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-03 Explain the economic concept of incentives.*

*Topic: Incentives*

76. The price of pizza falls relative to the price of spaghetti, and so people buy more pizza instead of spaghetti. This is an example of responding to:

- A. marginal science.
- B. incentives.**
- C. disincentives.
- D. sunk benefit.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-03 Explain the economic concept of incentives.*

*Topic: Incentives*

77. To provide an incentive for villagers to repay loans, Muhammad Yunus:
- A. forced villagers to offer collateral for loans.
  - B. made loans using group responsibility.**
  - C. threatened to call the borrower's mother.
  - D. would increase interest rates by 1 percent after each late payment.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-03 Explain the economic concept of incentives.*

*Topic: Incentives*

78. Entrepreneurs tend to take greater risks if low tax rates offer greater after-tax profit potentials. The government's decision to offer low tax rates to entrepreneurs is:

- A. providing room for an economic expansion.
- B. providing an incentive, in the hopes that more entrepreneurs will take risk and create economic growth.**
- C. providing a disincentive, in the hopes that more entrepreneurs will avoid risk and not grow.
- D. providing a disincentive, in the hopes that entrepreneurs will not get into tax default after assuming too much risk.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-03 Explain the economic concept of incentives.*

*Topic: Incentives*

79. Hardee's announces "buy one get one free" breakfast sandwiches. This is an example of:

- A. the use of incentives.
- B. a macroeconomic decision.
- C. hoarding scarce resources.
- D. this is not an example of any of these concepts.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-03 Explain the economic concept of incentives.*

*Topic: Incentives*

80. A car dealer advertises free satellite radio for one year with the purchase of a new car. This is an example of:

- A. bait and switch.
- B. marginal sales.
- C. an incentive.
- D. voluntary exchange.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-03 Explain the economic concept of incentives.*

*Topic: Incentives*

81. Applying for a loan in five-group persons is called:

- A. family and friends lending.
- B. party of five lending.
- C. group responsibility.**
- D. pooling.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-03 Explain the economic concept of incentives.*

*Topic: Incentives*

82. "Late registration will result in an additional \$30 fee." This is an example of:

- A. price gauging.
- B. a disincentive.**
- C. marginal cost.
- D. limited time pricing.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-03 Explain the economic concept of incentives.*

*Topic: Incentives*

83. Muhammad Yunus was highly successful in his use of applying social incentives through group responsibility in order to maximize loan repayment rates. This success created an incentive for other banks to:

- A. offer similar loans to the poor.
- B. go out of business.
- C. seek government action to ban group responsibility lending.
- D. All of these.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-03 Explain the economic concept of incentives.*

*Topic: Incentives*

84. Which of the following is a positive incentive?

- A. Discover credit cards offer 0 percent balance transfer rates for someone to open an account.
- B. McDonalds decides to offer a white chocolate mocha.
- C. A school teacher decides to retire and focus on gardening.
- D. A business decides to leave the industry.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-03 Explain the economic concept of incentives.*

*Topic: Incentives*

85. An incentive is:
- A. the marginal cost of engaging in a course of action.
  - B. the marginal benefit of engaging in a course of action.
  - C. something that causes people to behave in a certain way by changing the trade-offs they face.
  - D. rational behavior that involves thinking on the margin.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-03 Explain the economic concept of incentives.*

*Topic: Incentives*

86. Which of the following is a positive incentive?
- A. deciding not to play golf due to rain
  - B. making a donation to the red cross
  - C. hiring 10 new workers as you decide to expand your operations
  - D. offering a reward to anyone that can find you missing pet

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-03 Explain the economic concept of incentives.*

*Topic: Incentives*

87. Which of the following is an example of a disincentive?
- A. Law enforcement creates a "Mug Shots" section to post all recent arrests online in order to discourage potential law breakers.
  - B. You offer workers a bonus if they sell 100 widgets per month.
  - C. A local gym offers a weight loss competition and the winner earns a free trip to Bermuda.
  - D. Your professor offers to edit your paper before it's graded if you turn it in early.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-03 Explain the economic concept of incentives.*

*Topic: Incentives*

88. The idea of efficiency is used to address which of the following questions?
- A. What are the wants and constraints of those involved?
  - B. What are the trade-offs?
  - C. How will others respond?
  - D. Why isn't everyone already doing it?

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-04 Explain the economic concept of efficiency.*

*Topic: Efficiency*

89. Something is valuable if:
- A. a reasonable amount of people want it.
  - B. it is a good or a service.
  - C. someone wants it.
  - D. was made using resources.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-04 Explain the economic concept of efficiency.*

*Topic: Efficiency*

90. A resource is anything that:
- A. can be touched and can be used to produce something of value.
  - B. is a natural gift from nature, excluding human talents.
  - C. has been used to create a good or service.
  - D. can be used to make something of value.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-04 Explain the economic concept of efficiency.*

*Topic: Efficiency*

91. The use of resources in the most productive way possible to produce the goods and services that have the greatest total economic value to society is called:

- A. allocation optimization.
- B. efficiency.**
- C. sustainability.
- D. economic quantity.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-04 Explain the economic concept of efficiency.*

*Topic: Efficiency*

92. If people have never implemented an idea that you believe offers substantial opportunity:

- A. you should seek a low interest loan immediately in order to launch your product.
- B. you should conclude that it can't be profitable.
- C. you might be missing something in your evaluation. You should carefully revisit the first three economists' questions.**
- D. it is likely that you are being irrational.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-04 Explain the economic concept of efficiency.*

*Topic: Efficiency*

93. You may incorrectly conclude that an idea no other person has implemented is highly profitable because:

- A. you misjudged people's wants and constraints.
- B. you miscalculated the trade-offs they face.
- C. you misunderstood how people would respond to incentives.
- D. All of these.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-04 Explain the economic concept of efficiency.*

*Topic: Efficiency*

94. Which of the following is an assumption that economists make about people?

- A. Most people possess entrepreneurial talent.
- B. People are very good at assessing the costs of decisions accurately.
- C. Individuals and firms will act to provide the things they want.
- D. Individuals usually fail to optimize the use of their resources because they think on the margin.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-04 Explain the economic concept of efficiency.*

*Topic: Efficiency*

95. Which of the following interrupt, or change a market that prevents it from acting "normally"?

- A. Innovation
- B. Intervention
- C. Market failure
- D. All of these are reasons for the market to veer from its normal path.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-04 Explain the economic concept of efficiency.*

*Topic: Efficiency*

96. If your idea has not been implemented yet, but actually does offer a profitable opportunity, it is likely an example of:

- A. innovation.
- B. market failure.
- C. intervention.
- D. goals other than profit.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-04 Explain the economic concept of efficiency.*

*Topic: Efficiency*

97. If an idea has not been implemented because a monopoly producer has placed a barrier to entry, the circumstances are not *normal* due to:

- A. innovation.
- B.** market failure.
- C. intervention.
- D. goals other than profit.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-04 Explain the economic concept of efficiency.*

*Topic: Efficiency*

98. After investigating an idea to open a rooftop restaurant in the downtown area of your community, you discover that any rooftop restaurant would violate city regulations. These circumstances would not be considered *normal* due to:

- A. innovation.
- B. market failure.
- C.** intervention.
- D. goals other than profit.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-04 Explain the economic concept of efficiency.*

*Topic: Efficiency*

99. Having a goal that does not include making a profit can often explain why the non-profitable idea has not been implemented. These types of ideas may include:

- A. helping the poor.
- B. making great art.
- C. promoting social justice.
- D.** All of these.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-04 Explain the economic concept of efficiency.*

*Topic: Efficiency*

100. Why wasn't everyone else already implementing group responsibility to lend to the poor?

- A. Governments of poor countries had regulations against group responsibility.
- B.** The idea was genuinely new.
- C. It was not profitable.
- D. It was easy for groups to provide false social security numbers for members that did not exist.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-04 Explain the economic concept of efficiency.*

*Topic: Efficiency*

101. Economic analysis requires us to combine:

- A. unlimited resources with limited wants.
- B. theory with observations.**
- C. developed and developing nations.
- D. republicans and democrats.

*AACSB: Reflective Thinking*

*Blooms: Understand*

*Learning Objective: 01-04 Explain the economic concept of efficiency.*

*Topic: Efficiency*

102. When two variables have been observed to have a tendency to occur at the same time, we can say there is \_\_\_\_\_ but not necessarily \_\_\_\_\_.

- A. causation; correlation
- B. correlation; causation**
- C. positivity; causation
- D. normality; correlation

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-05 Distinguish between correlation and causation.*

*Topic: Correlation and Causation*

103. "More people purchase chap stick when the weather man announces that we are in for a very windy week." This statement implies that:

- A. buying chap stick causes it to be windy.
- B. people plan on kissing more on windy days.
- C.** buying chap stick is correlated with the announcement of a windy week.
- D. the weather man is getting a kickback from the makers of chap stick.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-05 Distinguish between correlation and causation.*

*Topic: Correlation and Causation*

104. The Widgetville County Woolfpack has won 90 percent of their last 20 games played under a full moon. This means:

- A. the weather affects how they play.
- B.** there is a correlation between their play and the occurrence of a full moon.
- C. that full moons cause the team to play better.
- D. that causation can be found between the two events.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-05 Distinguish between correlation and causation.*

*Topic: Correlation and Causation*

105. If out of the two cities that send teams to the Super Bowl, the city with the lowest unemployment rate wins 70 percent of the time, there would be:

- A. a positive correlation between Super Bowl wins and low unemployment rates.
- B. evidence to conclude that richer cities have better super bowl teams.
- C. the condition of ceteris paribus present in the winning cities.
- D. None of these statements is necessarily true.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-05 Distinguish between correlation and causation.*

*Topic: Correlation and Causation*

106. When toilet paper sales increase, quarterly economic growth tends to rise. This is an example of:

- A. two variables that are negatively correlated.
- B. the presence of ceteris paribus.
- C. correlation without causation.
- D. a consumer price indicator.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-05 Distinguish between correlation and causation.*

*Topic: Correlation and Causation*

107. When the price of milk rises, there is no change in the amount of dog food purchased. This is an example of:

- A. consumer indifference between the two goods.
- B. the interaction between one normal good and one inferior good.
- C. two items that are uncorrelated.
- D. the value people place on dogs versus milk.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-05 Distinguish between correlation and causation.*

*Topic: Correlation and Causation*

108. As corn prices rise, salsa sales tend to fall. This an example of:

- A. ingredients for an Italian dinner.
- B. inferior goods.
- C. two uncorrelated events.
- D. a negative correlation.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-05 Distinguish between correlation and causation.*

*Topic: Correlation and Causation*

109. When the unemployment rate rises, college enrollment increases because workers seek to expand training. This is an example of:

- A. correlation and causation.
- B. a negative correlation.
- C. normative economics.
- D. macroeconomics.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-05 Distinguish between correlation and causation.*

*Topic: Correlation and Causation*

110. As monthly rain levels rise, golf course revenue falls because casual golfers prefer to stay dry. This is an example of:

- A. price elasticity.
- B. natural experiments.
- C. sunk costs.
- D. correlation and causation.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-05 Distinguish between correlation and causation.*

*Topic: Correlation and Causation*

111. Correlation and causation can be confused in which of the following ways?

- A. Correlation without causation
- B. Omitted variables
- C. Reverse causality
- D. All of these

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-05 Distinguish between correlation and causation.*

*Topic: Correlation and Causation*

112. A relationship between two events in which one brings about the other is:

- A. a pattern.
- B. a trend.
- C. causation.
- D. correlation.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-05 Distinguish between correlation and causation.*

*Topic: Correlation and Causation*

113. When speed boat sales rise, the city of Las Vegas takes in more revenue. The omitted common variable between these outcomes is likely to be:

- A. life jacket sales.
- B. prices of Las Vegas flights.
- C. childhood obesity.
- D. increased disposable income.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-05 Distinguish between correlation and causation.*

*Topic: Correlation and Causation*

114. In the past, there was a strong correlation between ice cream consumption by children and polio cases for children. There was not a causal relationship due to:

- A. an omitted variable.
- B. reverse causality.
- C. accounting fraud practiced by Baskin Robbins.
- D. an infection present in cherries.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-05 Distinguish between correlation and causation.*

*Topic: Correlation and Causation*

115. "Which came first, the chicken or the egg?" This question seeks to address which common source of confusion between correlation and causation?

- A. Reverse causality
- B. Omitted variables
- C. Linear relationships
- D. Comparative analysis

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-05 Distinguish between correlation and causation.*

*Topic: Correlation and Causation*

116. Both minivan sales and birth rates are on the rise. The conclusion that minivans cause people to have children would likely be a result of making the mistake of:

- A. extrapolation.
- B. omitted variables.
- C. correlation without causation.
- D. reverse causality.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-05 Distinguish between correlation and causation.*

*Topic: Correlation and Causation*

117. Models should:

- A. attempt to include every detail of the situation being studied.
- B. attempt to describe a situation with perfect accuracy.
- C. not be applied to microeconomics.
- D.** None of these.

*AACSB: Reflective Thinking*

*Blooms: Remember*

*Learning Objective: 01-06 List the characteristics of a good economic model.*

*Topic: Models*

118. A simplified representation of the important parts of a complicated situation is:

- A. cutting corners.
- B.** a model.
- C. useless without adding fine details.
- D. econometrics.

*AACSB: Reflective Thinking*

*Blooms: Remember*

*Learning Objective: 01-06 List the characteristics of a good economic model.*

*Topic: Models*

119. Which is not a characteristic of a good economic model?

- A. Focuses on important details
- B. Predicts cause and effect
- C. Builds vague assumptions
- D. Describes the world accurately

*AACSB: Reflective Thinking*

*Blooms: Remember*

*Learning Objective: 01-06 List the characteristics of a good economic model.*

*Topic: Models*

120. One of the most basic models of the economy is:

- A. real GDP per capita.
- B. the current population survey.
- C. the consumer expenditure model.
- D. the circular flow model.

*AACSB: Reflective Thinking*

*Blooms: Remember*

*Learning Objective: 01-06 List the characteristics of a good economic model.*

*Topic: Models*

121. The two most important actors of the economy are:

- A. land and capital.
- B. households and firms.**
- C. firms and government.
- D. exports and imports.

*AACSB: Reflective Thinking*

*Blooms: Remember*

*Learning Objective: 01-06 List the characteristics of a good economic model.*

*Topic: Models*

122. Households are vital to the circular flow model in what two ways?

- A. They supply factors of production and purchase goods and services.**
- B. They export goods and services and import goods and services.
- C. They vote for political officers and pay taxes.
- D. They facilitate exchange between consumers and firms.

*AACSB: Reflective Thinking*

*Blooms: Remember*

*Learning Objective: 01-06 List the characteristics of a good economic model.*

*Topic: Models*

123. Which actor in the circular flow model buys or rents land, labor, and capital?

- A. Firms
- B. Households
- C. Markets for factors of production
- D. Government

*AACSB: Reflective Thinking*

*Blooms: Remember*

*Learning Objective: 01-06 List the characteristics of a good economic model.*

*Topic: Models*

124. Which actor in the circular flow model is on the supply side of the goods market?

- A. Firms
- B. Households
- C. Markets for factors of production
- D. Government

*AACSB: Reflective Thinking*

*Blooms: Remember*

*Learning Objective: 01-06 List the characteristics of a good economic model.*

*Topic: Models*

125. Which actor in the circular flow model is on the supply side of the factor market?

- A. Firms
- B. Households**
- C. Market for goods and services
- D. Government

*AACSB: Reflective Thinking*

*Blooms: Remember*

*Learning Objective: 01-06 List the characteristics of a good economic model.*

*Topic: Models*

126. The two flows, or things being exchanged, in the circular flow model are:

- A. inputs and outputs.
- B. imports and exports.
- C. inputs/outputs and money.**
- D. land and labor.

*AACSB: Reflective Thinking*

*Blooms: Remember*

*Learning Objective: 01-06 List the characteristics of a good economic model.*

*Topic: Models*

127. An economic model:

- A. exactly explains what happens in the real economy.
- B.** cuts away unnecessary details to clearly demonstrate the principles at work.
- C. approximates all facets of what happens in the real economy.
- D. does not make clear assumptions.

*AACSB: Reflective Thinking*

*Blooms: Remember*

*Learning Objective: 01-06 List the characteristics of a good economic model.*

*Topic: Models*

128. In order to understand when a model may not be accurate, it is important to:

- A. omit details when developing a model.
- B. make sure assumptions made in the model are clear.
- C. test the model.
- D.** All of these.

*AACSB: Reflective Thinking*

*Blooms: Remember*

*Learning Objective: 01-06 List the characteristics of a good economic model.*

*Topic: Models*

129. An economic model:

- A. should describe the real world accurately.
- B. should accurately predict cause and effect.
- C. should make clear assumptions.
- D. All of these are true.

*AACSB: Reflective Thinking*

*Blooms: Remember*

*Learning Objective: 01-06 List the characteristics of a good economic model.*

*Topic: Models*

130. Thomas Malthus was an early nineteenth-century economist that created a model describing the relationship between:

- A. population growth and war.
- B. population growth and birth control.
- C. population growth and crime.
- D. population growth and food production.

*AACSB: Reflective Thinking*

*Blooms: Remember*

*Learning Objective: 01-06 List the characteristics of a good economic model.*

*Topic: Models*

131. Thomas Malthus's model made the mistake of failing to consider:

- A. technological progress.
- B. inflation.
- C. comparative advantage.
- D. scarcity.

*AACSB: Reflective Thinking*

*Blooms: Remember*

*Learning Objective: 01-06 List the characteristics of a good economic model.*

*Topic: Models*

132. Which type of statement is most likely to include the word "should"?

- A. Positive statement
- B. Normative statement
- C. Fair statement
- D. Factual statement

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-07 Distinguish between positive and normative analysis.*

*Topic: Positive and Normative Statements*

133. A normative statement is generally based upon:

- A. data that can be tested.
- B. a factual claim.
- C. moral beliefs.**
- D. scientific fact.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-07 Distinguish between positive and normative analysis.*

*Topic: Positive and Normative Statements*

134. A factual claim about how the world actually works is a \_\_\_\_\_ statement.

- A. positive**
- B. marginal
- C. irrational
- D. normative

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-07 Distinguish between positive and normative analysis.*

*Topic: Positive and Normative Statements*

135. Economies that adopt more open trade policies have historically enjoyed faster economic growth rates as a result. This is an example of what kind of statement?

- A. Marginal
- B. Normative
- C. Positive**
- D. Biased

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-07 Distinguish between positive and normative analysis.*

*Topic: Positive and Normative Statements*

136. "The United States should adopt more open trade policies because they historically have caused increased economic growth." This is an example of what kind of statement?

- A. Unequivocally true
- B. Normative**
- C. Positive
- D. Unequivocally false

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-07 Distinguish between positive and normative analysis.*

*Topic: Positive and Normative Statements*

137. People frequently confuse facts with judgments that are based on beliefs. This means that people have trouble making the distinction between:

- A. political statements and non-political statements.
- B. rational statements and irrational statements.
- C. macroeconomics and microeconomics.
- D. positive statements and normative statements.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-07 Distinguish between positive and normative analysis.*

*Topic: Positive and Normative Statements*

138. A positive statement:

- A. can actually be false.
- B. must always be true.
- C. provides an opinion with a positive outlook.
- D. None of these is true.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-07 Distinguish between positive and normative analysis.*

*Topic: Positive and Normative Statements*

139. Which of the following is an example positive statement?

- A. The state government should allocate more funds toward education.
- B. Teachers should be paid higher salaries.
- C. Individuals with a bachelor's degree earn higher average incomes than those with only a high school diploma.
- D. The consumption of marijuana is unacceptable and should never be legally allowed in a society.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-07 Distinguish between positive and normative analysis.*

*Topic: Positive and Normative Statements*

140. Which of the following is an example of a normative statement?

- A. Our country's defense budget should never be cut.
- B. Immigration should be limited in the United States.
- C. No person should have to live without basic health insurance.
- D. These are all normative statements.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-07 Distinguish between positive and normative analysis.*

*Topic: Positive and Normative Statements*

141. Which of the following is an example of a positive statement?

- A. NCAA Football should have adopted a playoff system 10 years ago.
- B.** An increase in minimum wage results in higher teenage unemployment.
- C. Teachers should be allowed to carry guns into the classroom.
- D. Cats are better pets than dogs.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-07 Distinguish between positive and normative analysis.*

*Topic: Positive and Normative Statements*

142. Which of the following is an example of a normative statement?

- A.** The American Recovery and Reinvestment Act should not have been passed during the Great Recession.
- B. Unemployment soared to 25 percent during the Great Depression.
- C. An increase in alcohol taxes will reduce the number of drunk driving accidents.
- D. Great Britain has fewer hospital beds per capita today than they did in 1948.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-07 Distinguish between positive and normative analysis.*

*Topic: Positive and Normative Statements*

143. Which of the following is a normative statement?

- A. College tuition rates are rising.
- B. 28 percent of U.S. adults have a bachelor's degree.
- C. The average income of a college graduate exceeds that of the average high school graduate.
- D.** State governments should pay for the first two years of college at public institutions.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-07 Distinguish between positive and normative analysis.*

*Topic: Positive and Normative Statements*

144. Which of the following is an example of a normative statement?

- A. The average price of a Whopper Jr. is \$1.69.
- B.** The United States ought to adopt a flat rate personal income tax.
- C. A higher percentage of prostitutes incarcerated in Miami test positive for AIDS when compared to registered prostitutes in Nevada.
- D. Average growth in real GDP per year was 1.84 percent between 2000 and 2010.

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-07 Distinguish between positive and normative analysis.*

*Topic: Positive and Normative Statements*

145. A statement that "a hair stylist should not have to obtain a cosmetology license" is an example of what kind of statement?

- A. Uninformed
- B. Biased
- C. Positive
- D. Normative

*AACSB: Analytic*

*Blooms: Analyze*

*Learning Objective: 01-07 Distinguish between positive and normative analysis.*

*Topic: Positive and Normative Statements*