

Principles of Macroeconomics, 11e - TB1 (Case/Fair/Oster)

Chapter 2 The Economic Problem: Scarcity and Choice

2.1 Scarcity, Choice, and Opportunity Cost

1) The process by which resources are transformed into useful forms is

A) capitalization.

B) consumption.

C) production.

D) allocation.

Answer: C

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-1

2) Outputs in the production process are

A) pollution.

B) money.

C) goods and services of value to households.

D) resources.

Answer: C

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-1

3) Which of the following is NOT a resource as the term is used by economists?

A) land

B) labor

C) buildings

D) money

Answer: D

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

4) Which of the following would an economist classify as capital?

- A) a \$50 bill
- B) a corporate bond
- C) a post office employee
- D) a guitar used by a musician

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

5) Capital, as economists use the term,

- A) is the money the firm spends to hire resources.
- B) is money the firm raises from selling stock.
- C) refers to the process by which resources are transformed into useful forms.
- D) refers to things that have already been produced that are in turn used to produce other goods and services.

Answer: D

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-1

6) The concept of opportunity cost is based on the principle of

- A) need.
- B) consumption.
- C) scarcity.
- D) profit.

Answer: C

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

7) The concept of trade-offs would become irrelevant if

- A) we were dealing with a very simple, one-person economy.
- B) poverty were eliminated.
- C) scarcity were eliminated.
- D) capital were eliminated.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-4

8) Suppose you are deciding whether to spend your tax rebate check on a new iPod player or a new digital camera. You are dealing with the concept of

- A) equity.
- B) comparative advantage.
- C) opportunity costs.
- D) the fallacy of composition.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

9) According to the theory of comparative advantage, specialization and free trade will benefit

- A) only that trading party that has both an absolute advantage and a comparative advantage in the production of all goods.
- B) all trading parties, even when some are absolutely more efficient producers than others.
- C) only that trading party that has an absolute advantage in the production of all goods.
- D) only that trading party that has a comparative advantage in the production of all goods.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

Refer to the information provided in Table 2.1 below to answer the following questions.

Table 2.1

	Krystal	Mark
Writing Poems	8	12
Writing TV Commercials	2	4

10) Refer to Table 2.1. For Krystal, the opportunity cost of writing one TV commercial is

- A) 1/4 of a poem.
- B) 2 poems.
- C) 4 poems.
- D) 6 poems.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

11) Refer to Table 2.1. For Mark, the opportunity cost of writing one TV commercial is

- A) 1/3 of a poem.
- B) 2 poems.
- C) 3 poems.
- D) 8 poems.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

12) Refer to Table 2.1. Which of the following statements is TRUE?

- A) Krystal has a comparative advantage in both writing TV commercials and writing poems.
- B) Mark has a comparative advantage in both writing TV commercials and writing poems.
- C) Krystal has a comparative advantage in writing TV commercials, and Mark has a comparative advantage in writing poems.
- D) Mark has a comparative advantage in writing TV commercials, and Krystal has a comparative advantage in writing poems.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

13) Refer to Table 2.1. To maximize total production,

- A) Krystal should specialize in writing TV commercials, and Mark should specialize in writing poems.
- B) Mark should specialize in writing TV commercials, and Krystal should specialize in writing poems.
- C) Krystal and Mark should both split their time between writing poems and writing TV commercials.
- D) Krystal should write poems and write TV commercials, but Mark should only write poems.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

14) Refer to Table 2.1. For Mark, the opportunity cost of writing six TV commercials is _____ poems made.

- A) 2
- B) 18
- C) 24
- D) an indeterminate number of

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

15) Refer to Table 2.1. For Krystal, the opportunity cost of writing four TV commercials is _____ poems.

- A) 2
- B) 8
- C) 16
- D) 32

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

16) According to the theory of comparative advantage, _____ raise(s) productivity by lowering opportunity costs.

- A) trade and specialization
- B) investment in capital goods
- C) economic growth
- D) exchange and consumption

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

17) When two people trade,

- A) both of them expect to be made worse off by the exchange.
- B) they are trying to help out each other.
- C) they know one of them will get the better of the other.
- D) they both expect to be made better off by the exchange.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

18) Someone has a comparative advantage in producing a good if they can produce that good

- A) in greater quantities.
- B) at a lower opportunity cost.
- C) using more capital and less labor.
- D) using more labor and less capital.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

- 19) If someone has a comparative advantage in growing pineapples,
A) they can grow pineapples at a lower opportunity cost than other pineapple growers.
B) they also have an absolute advantage in growing pineapples.
C) they can grow more pineapples using the same resources than other pineapple growers.
D) pineapples are the only product they can grow.

Answer: A

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

- 20) Which of the following does NOT constitute an act of "investment" as economists use the term?
A) The city council authorizes the construction of a new fire station.
B) A retiree buys 50 shares of stock at \$10 a share and then sells the stock at a profit for \$20 a share.
C) An accountant attends a seminar on changes in the federal tax code.
D) A department store increases its inventory of football jerseys before the Super Bowl.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

- 21) In economics, investment always refers to
A) the act of buying stocks or bonds.
B) the creation of capital.
C) increasing the quantity of labor.
D) an increase in per capita output.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-18

- 22) The process of using resources to produce new capital is
A) research and development.
B) investment.
C) consumption.
D) economic growth.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-18

23) An example of forgoing present benefits in order to receive future benefits is

- A) production.
- B) saving.
- C) consumption.
- D) growth.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-18

24) Because resources are scarce, the opportunity cost of investment in capital is

- A) zero.
- B) forgone future consumption.
- C) forgone present consumption.
- D) infinite.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

25) An example of an investment is

- A) the purchase of a share of Google stock.
- B) the purchase of an Exxon Mobil bond.
- C) the purchase of a Hewlett Packard laser printer for use by a business.
- D) all of the above.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-18

26) The opportunity cost of investment in capital is forgone present consumption because

- A) capital takes a long time to produce.
- B) capital increases the productivity of labor.
- C) resources are scarce.
- D) capital is an intangible good.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

27) If the unemployment rate increases from 10% to 14%, the economy will

- A) move closer to a point on the ppf.
- B) move away from the ppf toward the origin.
- C) remain on the ppf.
- D) remain on the origin.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-14

28) Periods of less than full employment correspond to

- A) points outside the ppf.
- B) points underneath the ppf.
- C) points on the ppf.
- D) either points inside or outside the ppf.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

Refer to the information provided in Figure 2.1 below to answer the questions that follow.

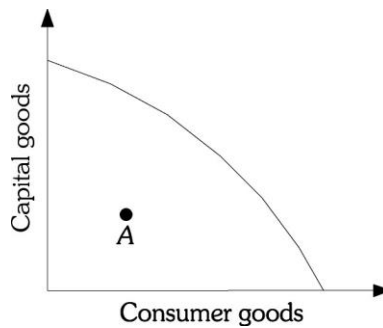


Figure 2.1

29) Refer to Figure 2.1. Macroland is currently operating at Point A. The best explanation for this is that

- A) the economy has very poor technology.
- B) the economy's resources are being used inefficiently.
- C) the economy has very few resources.
- D) the economy operates as an efficient market.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-19

30) Refer to Figure 2.1. Macroland's production possibility frontier is bowed out from the origin due to

- A) decreasing opportunity costs.
- B) trade.
- C) unemployment.
- D) specialized resources.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

31) Refer to Figure 2.1. The shape of Macroland's production possibility frontier shows

- A) increasing opportunity costs.
- B) constant opportunity costs.
- C) decreasing opportunity costs.
- D) random opportunity costs.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

32) The production possibility frontier is used to illustrate the concept of

- A) the laissez-faire economy.
- B) opportunity costs.
- C) equilibrium.
- D) aggregate demand.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

Refer to the information provided in Figure 2.2 below to answer the questions that follow.

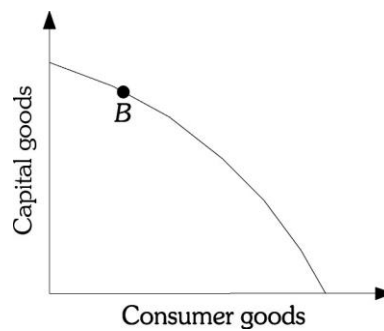


Figure 2.2

33) Refer to Figure 2.2. Point B represents a situation of

- A) full employment but production inefficiency.
- B) less than full employment but production efficiency.
- C) both full resource employment and production efficiency.
- D) less than full employment and production inefficiency.

Answer: C

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-19

34) Refer to Figure 2.2. Microland is currently operating at Point B. You correctly deduce that

- A) in Microland, all resources are fully employed and there are no production inefficiencies.
- B) Microland has achieved a position of inefficiency.
- C) Microland has recently experienced some type of technological breakthrough.
- D) Microland has overcome the problem of scarcity.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-19

35) The production possibility frontier is a graph that shows

- A) all the combinations of goods and services that are consumed over time if all of society's resources are used efficiently.
- B) the amount of goods and services consumed at various average price levels.
- C) the rate at which an economy's output will grow over time if all resources are used efficiently.
- D) all the combinations of goods and services that can be produced if all of society's resources are used efficiently.

Answer: D

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-19

36) Production inefficiency occurs

- A) only when an economy produces underneath its production possibility frontier.
- B) only when an economy produces at the wrong point on the production possibility frontier.
- C) either when an economy produces underneath the production possibility frontier or when the economy is producing the wrong combination of goods on the production possibility frontier.
- D) only when the economy produces outside the production possibility frontier.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-19

37) An economy that is producing on the production possibility frontier at some point other than the output of efficient allocation is

- A) efficient, as it is on the production possibility frontier.
- B) inefficient, as the combination of goods and services produced is not what people want.
- C) efficient, as the economy is producing goods at the lowest possible cost.
- D) inefficient, as that combination of goods could be produced at a lower cost if more efficient technology were employed.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-19

- 38) If resources are combined efficiently in production, then the society
- A) is producing at the most-desirable point on the production possibility frontier.
 - B) is producing at a point on the production possibility frontier but not necessarily at the most-desirable point.
 - C) is producing at a point outside the production possibility frontier.
 - D) is experiencing economic growth.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-19

- 39) If an economy begins to use its resources more efficiently, it will move
- A) closer to its ppf.
 - B) farther away from its ppf.
 - C) from a point along its ppf to a point outside its ppf.
 - D) from one point to another point along its ppf.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-19

- 40) The value of the slope of a society's production possibility frontier is called its
- A) marginal rate of substitution.
 - B) inflation rate.
 - C) unemployment rate.
 - D) marginal rate of transformation.

Answer: D

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-19

- 41) The marginal rate of transformation is the
- A) slope of the production possibility frontier.
 - B) dollar value of the best forgone alternative.
 - C) process of using resources to produce new capital.
 - D) transformation of resources into a form that is useful to people.

Answer: A

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-19

Refer to the information provided in Figure 2.3 below to answer the questions that follow.

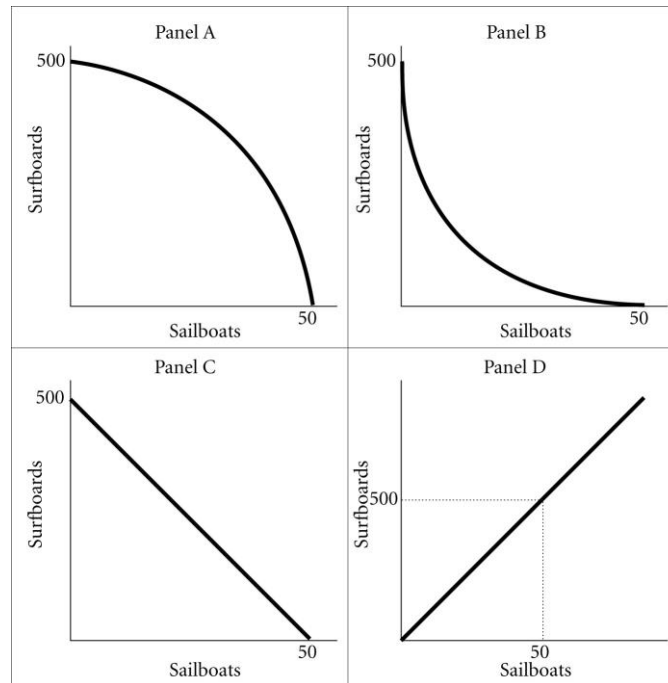


Figure 2.3

42) Refer to Figure 2.3. Assume that in this society the marginal rate of transformation of sailboats for surfboards is constant and equal to -10. A graph of this society's production possibility frontier will be represented by

- A) A.
- B) B.
- C) C.
- D) D.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-19

43) Refer to Figure 2.3. Assume that in this society the opportunity cost of sailboats in terms of surfboards is increasing. A graph of this society's production possibility frontier will be represented by

- A) A.
- B) B.
- C) C.
- D) D.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

44) Refer to Figure 2.3. The law of _____ opportunity costs is best depicted by the production possibilities frontier in panel A.

- A) increasing
- B) constant
- C) decreasing
- D) zero

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

45) A society can produce two goods: donuts and beer. The society's production possibility frontier is negatively sloped and "bowed outward" from the origin. As this society moves down its production possibility frontier, producing more and more units of donuts, the opportunity cost of producing beer

- A) decreases.
- B) remains constant.
- C) increases.
- D) could decrease or increase depending on the technology.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

Refer to the information provided in Figure 2.4 below to answer the questions that follow.

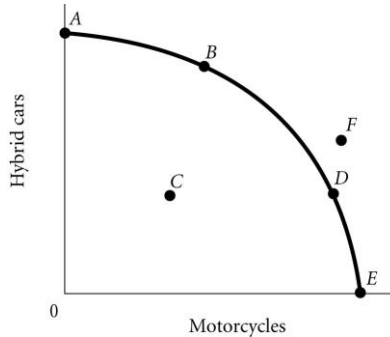


Figure 2.4

46) According to Figure 2.4, the point where only motorcycles are produced is

- A) A.
- B) B.
- C) C.
- D) E.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

47) According to Figure 2.4, the optimal point for the economy is

- A) A.
- B) B.
- C) F.
- D) indeterminate from the information given.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

48) According to Figure 2.4, which point cannot be produced with the current state of technology?

- A) A
- B) B
- C) C
- D) F

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

49) According to Figure 2.4, the point where only hybrid cars are produced is

- A) *A*.
- B) *B*.
- C) *C*.
- D) *D*.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

50) According to Figure 2.4, a decrease in unemployment may be represented by the movement from

- A) *B* to *A*.
- B) *B* to *D*.
- C) *C* to *D*.
- D) *A* to *C*.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

51) According to Figure 2.4, as the economy moves from Point *A* to Point *E*, the opportunity cost of motorcycles, measured in terms of hybrid cars,

- A) decreases.
- B) increases.
- C) remains constant.
- D) initially increases, then decreases.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

52) According to Figure 2.4, as the economy moves from Point *E* to Point *A*, the opportunity cost of hybrid cars, measured in terms of motorcycles,

- A) increases.
- B) decreases.
- C) remains constant.
- D) initially increases, then decreases.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

- 53) Refer to Figure 2.4. The economy moves from Point A to Point D. This could be explained by
- A) a reduction in unemployment.
 - B) an improvement in technology.
 - C) an increase in economic growth.
 - D) a change in society's preferences for motorcycles versus hybrid cars.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-10

Refer to the information provided in Figure 2.5 below to answer the questions that follow.

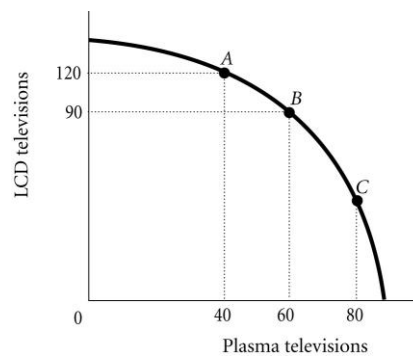


Figure 2.5

- 54) Refer to Figure 2.5. The economy is currently at Point A. The opportunity cost of moving from Point A to Point B is the

- A) 90 LCD televisions that must be forgone to produce 20 additional plasma televisions.
- B) 30 LCD televisions that must be forgone to produce 60 additional plasma televisions.
- C) 120 LCD televisions that must be forgone to produce 40 additional plasma televisions.
- D) 30 LCD televisions that must be forgone to produce 20 additional plasma televisions.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

- 55) Refer to Figure 2.5. The marginal rate of transformation in moving from Point A to Point B is

- A) $-2/3$.
- B) -1.5 .
- C) -3 .
- D) -30 .

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

56) Refer to Figure 2.5. For this economy to move from Point *B* to Point *C* so that an additional 20 plasma televisions could be produced, production of LCD televisions would have to be reduced by

- A) exactly 30.
- B) fewer than 30.
- C) more than 30.
- D) exactly 60.

Answer: C

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

57) Refer to Figure 2.5. The best point for society would be

- A) Point *C*, as at this point there are approximately equal amounts of LCD and plasma televisions being produced.
- B) either Point *B* or Point *C*, as the total amount being produced at either of these points is approximately the same.
- C) at any of the labeled points, as all of the points represent an efficient allocation of resources.
- D) indeterminate from this information, as we don't have any information about the society's desires.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

58) If the opportunity costs of producing a good increase as more of that good is produced, the economy's production possibility frontier will be

- A) negatively sloped and "bowed inward" toward the origin.
- B) negatively sloped and "bowed outward" from the origin.
- C) a negatively sloped straight line.
- D) a positively sloped straight line.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

59) As you move down the production possibility frontier, the absolute value of the marginal rate of transformation

- A) increases.
- B) decreases.
- C) initially increases, then decreases.
- D) initially decreases, then increases.

Answer: A

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

60) As more of a good, such as television sets, is produced, the opportunity costs of producing it increases. This most likely occurs because

- A) as more of a good is produced, the inputs used to produce that good will increase in price.
- B) consumers would be willing to pay higher prices for the good as more of the good is produced.
- C) resources are not equally well suited to producing all goods, and as more of a good is produced, it is necessary to use resources less well suited to the production of that good.
- D) as more of a good is produced, the quality of that good declines, and therefore the costs of production increase.

Answer: C

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

61) Economic growth may occur when

- A) a society acquires new resources.
- B) a society learns to produce more using existing resources.
- C) the society begins to produce the combination of goods society wants most.
- D) both A and B

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

Refer to the information provided in Figure 2.6 below to answer the questions that follow.

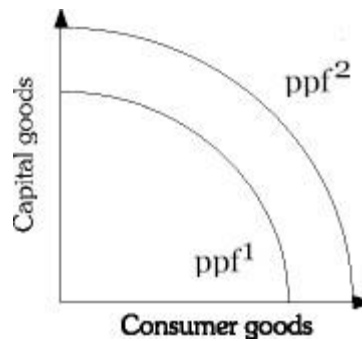


Figure 2.6

62) Refer to Figure 2.6. Economic growth is represented by a

- A) shift from ppf^2 to ppf^1 .
- B) shift from ppf^1 to ppf^2 .
- C) movement along ppf^1 .
- D) movement along ppf^2 .

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

63) Refer to Figure 2.6. An improvement in technology may be represented by a

- A) shift from ppf^2 to ppf^1 .
- B) shift from ppf^1 to ppf^2 .
- C) movement along ppf^2 .
- D) movement along ppf^1 .

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

64) Refer to Figure 2.6. Which of the following will shift an economy's production possibility frontier from ppf^1 to ppf^2 ?

- A) a decrease in unemployment
- B) an increase in production efficiency
- C) a change in consumers' tastes
- D) an increase in the economy's capital stock

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

65) Refer to Figure 2.6. Which of the following will NOT cause the production possibility frontier to shift from ppf^1 to ppf^2 ?

- A) the discovery of previously unknown oil fields
- B) an improvement in technology
- C) an increase in the stock of capital
- D) a decrease in the unemployment rate

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

66) Refer to Figure 2.6. Which of the following is most likely to shift the production possibility frontier from ppf^1 to ppf^2 ?

- A) a change in consumer tastes
- B) the purchase of stocks on the New York Stock Exchange
- C) moving resources from capital to consumer goods
- D) an increase in the general educational level of the population

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

67) Refer to Figure 2.6. If the economy is at ppf^1 , a change in consumer preferences would be shown by a

A) shift from ppf^2 to ppf^1 .

B) movement along ppf^1 .

C) movement along ppf^2 .

D) shift from ppf^1 to ppf^2 .

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-2

68) During the Iraq War, many of Iraq's oil refineries were destroyed. This would best be represented by a

A) movement down Iraq's production possibility frontier.

B) movement off Iraq's production possibility frontier to some point inside the frontier.

C) shift of Iraq's production possibility frontier toward the origin.

D) movement up Iraq's production possibility frontier.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

69) For an economy to produce at a point beyond its current ppf, the economy must

A) waste less.

B) be more efficient.

C) reduce inputs.

D) increase its resource base.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

70) In terms of the production possibility frontier, an increase in productivity attributable to new technology would best be shown by

A) a movement along the frontier.

B) the production possibility frontier shifting outward, away from the origin.

C) a movement from a point inside the frontier to a point on it.

D) a movement toward the origin.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

- 71) An improvement in technology will cause the
- A) production possibility frontier to shift outward.
 - B) production possibility frontier to shift inward.
 - C) economy to move down the production possibility frontier.
 - D) economy to move closer to its production possibility frontier.

Answer: A

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

- 72) Consider two countries, Japan and Malaysia. Japan devotes a smaller portion of its production to capital. All other things equal, which of the following statements is most likely true?

- A) Japan is a poorer country than Malaysia.
- B) Japan will move up its production possibility curve faster than Malaysia.
- C) Malaysia is producing inside its production possibility frontier, whereas Japan is producing at a point on its production possibility frontier.
- D) Malaysia's production possibility frontier will shift up and out farther and faster than Japan's.

Answer: D

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-20

- 73) The gap between rich and poor countries

- A) has decreased over time because poor countries can more easily devote resources to capital production.
- B) has increased over time because poor countries find it difficult to devote resources to capital production.
- C) has remained constant over time because technological advances can be easily shared among nations.
- D) has remained constant over time because the rate of capital production has remained constant in rich and poor nations.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Fact

Learning Outcome: Micro-19

74) An economy produces capital goods and consumer goods. This economy is operating at a point on its production possibility frontier associated with a small amount of capital goods and a large amount of consumer goods. This is most likely to be a

- A) "poor" country because such a nation has difficulty devoting many resources to the production of capital goods.
- B) "rich" country because such a nation can afford to sacrifice.
- C) country with a free market.
- D) country with a command economy.

Answer: A

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-19

75) The economic problem can best be stated as

- A) How can the economy improve technology so as to shift the production possibility frontier up and to the right?
- B) Given scarce resources, how exactly do societies go about deciding what to produce, how to produce it, and for whom to produce?
- C) Given the fact that the economy is inefficient, how much and what type of government intervention should be used to improve the efficiency of the economy?
- D) What is the best rate of economic growth for a society?

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-1

76) Related to the *Economics in Practice* on p. 28: Which one of the following occurs when an individual enters the paid work force?

- A) The opportunity cost of time for housework increases, because time spent on housework could be spent on money-earning activities.
- B) The opportunity cost of time for housework increases, because money earned at a job can allow individuals to pay someone to do household chores that the individuals used to do themselves.
- C) The opportunity cost of time for housework decreases, because increased earning power makes individuals less likely to do their own housework.
- D) The opportunity cost of time for housework decreases, because as more people enter the work force, businesses have greater incentives to develop innovations that make housework more efficient.

Answer: A

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

77) Related to the *Economics in Practice* on p. 28: How did the introduction of the microwave in 1960 affect the market for frozen food?

- A) It encouraged people to leave the work force by making cooking easier and less time-consuming.
- B) It reduced the opportunity cost of eating frozen food by decreasing the amount of time required to prepare frozen meals.
- C) It increased the financial cost of alternative methods of food preparation, such as conventional ovens.
- D) It made frozen foods more appealing by increasing the variety of meals that could be frozen and reheated.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice

Skill: Analytical

AACSB: Analytic Skills

Learning Outcome: Micro-20

78) Related to the *Economics in Practice* on p. 39: In the survey conducted by Esther Duflo and Abhijit Banerjee, the extremely poor were found to consume _____ of their budgets on food compared to people in the United States.

- A) a significantly higher percentage
- B) about the same percentage
- C) a slightly lower percentage
- D) approximately 50 percent less

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice

Skill: Fact

Learning Outcome: Micro-25

79) Related to the *Economics in Practice* on p. 39: The results of the survey conducted by Esther Duflo and Abhijit Banerjee found that in extremely poor societies,

- A) household choice plays no role in consumption decisions.
- B) all consumption decisions are made by the government.
- C) household choice even plays a role in non-food-related consumption decisions.
- D) the only consumption decisions in which household choice plays a role is in the consumption of biological needs such as food.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice

Skill: Fact

Learning Outcome: Micro-25

80) In economics, the term *capital* refers only to some form of money.

Answer: FALSE

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-1

81) Among the resources used in production are labor and capital.

Answer: TRUE

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-1

82) Things that have already been produced that are in turn used to produce other goods and services over time are called "capital."

Answer: TRUE

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-1

83) When two people trade, one must lose.

Answer: FALSE

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

84) Economic growth shifts a society's production possibility frontier away from the origin.

Answer: TRUE

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

85) A society's production possibility frontier is bowed in from the origin due to specialized resources.

Answer: FALSE

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

86) The "economic problem" is that given scarce resources, how do large societies go about answering the basic economic questions of what will be produced, how it will be produced, and who will get it.

Answer: TRUE

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-1

87) Comparative advantage refers to the ability to produce better quality goods than a competitor.

Answer: FALSE

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-1

88) Comparative advantage refers to the ability to produce at a lower opportunity cost than a competitor.

Answer: TRUE

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

Learning Outcome: Micro-1

89) The government produces only what the market is willing to pay for.

Answer: FALSE

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

2.2 Economic Systems and the Role of Government

1) An economy in which a central authority draws up a plan that establishes what will be produced and when, sets production goals, and makes rules for distribution is a

- A) free market economy.
- B) laissez-faire economy.
- C) public goods economy.
- D) command economy.

Answer: D

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Definition

Learning Outcome: Micro-1

2) An economy in which individual people and firms pursue their own self-interest without any central direction or regulation is a(n)

- A) command economy.
- B) laissez-faire economy.
- C) invisible-hand economy.
- D) private-sector economy.

Answer: B

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Definition

Learning Outcome: Micro-1

3) Which of the following statements is FALSE?

- A) Many planned economies have not fared very well in recent years; many of these economies have almost completely collapsed.
- B) Command economies operate the most efficiently because the government makes all the production decisions.
- C) In command economies, consumers still exercise choice.
- D) In a command economy, the government answers the questions of what to produce, how to produce it, and how to distribute it.

Answer: B

Diff: 2

Topic: Economic Systems and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-19

4) Which of the following is an element of a command economy?

- A) The market decides distribution.
- B) The means of production are privately owned.
- C) Production decisions are centralized.
- D) The market decides what will be produced.

Answer: C

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

5) Which of the following statements is NOT true for a command economy?

- A) Consumers have some choices concerning what they buy.
- B) The government decides what is produced.
- C) The amount of a good supplied always equals the amount of the good demanded.
- D) The state decides how to distribute what is produced.

Answer: C

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

6) In a laissez-faire economy, _____ what gets produced, how it is produced, and who gets it.

- A) the behavior of buyers and sellers determines
- B) the central government authority determines
- C) firms but not consumers determine
- D) consumers but not firms determine

Answer: A

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

7) An institution through which buyers and sellers interact and engage in exchange is

- A) a central authority.
- B) "laissez-faire."
- C) a market.
- D) a production frontier.

Answer: C

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Definition

Learning Outcome: Micro-1

8) Which of the following is NOT true of a market economy?

- A) In its pure form, it is also known as a laissez-faire economy.
- B) Decisions are regulated by a central agency.
- C) The interaction between buyers and sellers answers the basic economic questions of what gets produced, how it gets produced, and who gets it.
- D) It relies on millions of individual economic decisions to determine economic outcomes.

Answer: B

Diff: 2

Topic: Economic Systems and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

9) Consumer sovereignty

- A) is dependent on profits.
- B) is the idea that consumers can buy whatever they want to.
- C) is the idea that consumers determine what is produced in the economy through their demands.
- D) is only possible in a monarchy.

Answer: C

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Definition

Learning Outcome: Micro-1

10) The idea that consumers ultimately dictate what will be produced by choosing what to purchase is known as

- A) laissez-faire.
- B) the economic problem.
- C) centralized decision making.
- D) consumer sovereignty.

Answer: D

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Definition

Learning Outcome: Micro-1

- 11) The amount that households have accumulated out of past income through saving and inheritance is
- A) future income.
 - B) wealth.
 - C) consumption.
 - D) past income.

Answer: B

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Definition

Learning Outcome: Micro-1

- 12) In a free market system, the amount of output that any one household gets depends on its
- A) income.
 - B) wealth.
 - C) wage and interest income.
 - D) income and wealth.

Answer: D

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

- 13) Advocates of an unregulated market system argue that
- A) competition promotes efficiency.
 - B) competition leads to innovation.
 - C) competition leads to product variety and quality.
 - D) all of the above

Answer: D

Diff: 2

Topic: Economic Systems and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

- 14) The basic coordinating mechanism in a free market system is
- A) quantity.
 - B) price.
 - C) a central government authority.
 - D) the corporation.

Answer: B

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

15) Which of the following statements is FALSE?

- A) In a free market system, the basic economic questions are answered without the help of a central government plan or directive.
- B) Individuals guided by their own-self interest will produce products and services that other people want.
- C) The basic coordinating mechanism in a free market system is quantity adjustments toward equilibrium.
- D) In a free market system, competition forces firms to adopt efficient production techniques.

Answer: C

Diff: 2

Topic: Economic Systems and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

16) Some economists advocate government intervention in a market economy

- A) to produce collective goods and services.
- B) when resource costs for a private producer do not reflect the full cost to society.
- C) to stabilize the economy.
- D) all of the above

Answer: D

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-5

17) A laissez-faire economy is one in which individual people and firms pursue their own self-interest without any central direction or regulation.

Answer: TRUE

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Definition

Learning Outcome: Micro-1

18) A command economy is one in which a central government sets output targets, incomes and prices.

Answer: TRUE

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Definition

Learning Outcome: Micro-1

19) A command economy eliminates markets.

Answer: FALSE

Diff: 2

Topic: Economic Systems and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

20) Price is the coordinating mechanism in a planned economy.

Answer: FALSE

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

21) The notion that buyers determine what will be produced by choosing what they purchase is called consumer sovereignty.

Answer: TRUE

Diff: 1

Topic: Economic Systems and the Role of Government

Skill: Definition

Learning Outcome: Micro-1