

Chapter 1

Ten Principles of Economics

Test A

1. Economics deals primarily with the concept of
 - a. change.
 - b. power.
 - c. poverty.
 - d. scarcity.

ANSWER: d. scarcity.

TYPE: M KEY1: D OBJECTIVE: 1 RANDOM: Y

2. Scarcity exists when
 - a. the price of a good rises.
 - b. society can meet the wants of every individual.
 - c. there is less of a good or resource available than people wish to have.
 - d. there is less than an infinite amount of a resource or good.

ANSWER: c. there is less of a good or resource available than people wish to have.

TYPE: M KEY1: D OBJECTIVE: 1 RANDOM: Y

3. Economics is defined as the study of
 - a. how society manages its scarce resources.
 - b. business.
 - c. central planning.
 - d. government regulation.

ANSWER: a. how society manages its scarce resources.

TYPE: M KEY1: D OBJECTIVE: 1 RANDOM: Y

4. A good definition of equity would be
 - a. efficiency.
 - b. eliminating extreme affluence.
 - c. fairness.
 - d. everyone receiving the same income.

ANSWER: c. fairness.

TYPE: M KEY 1: D SECTION: 1 OBJECTIVE: 3 RANDOM: Y

5. When government policies are being designed,
 - a. increasing efficiency usually results in more equity.
 - b. there is usually a tradeoff between equity and efficiency.
 - c. equity can usually be achieved without an efficiency loss.
 - d. equity and efficiency goals are usually independent of each other.

ANSWER: b. there is usually a tradeoff between equity and efficiency.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 3 RANDOM: Y

6. The opportunity cost of an item is
 - a. what you give up to get that item.
 - b. always equal to the dollar value of the item.
 - c. always less than the dollar value of the item.
 - d. the number of hours needed to earn the money to buy it.

ANSWER: a. what you give up to get that item.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 3 RANDOM: Y

7. Ryan spends an hour studying instead of going for a bike ride. The opportunity cost to him of studying is
- the improvement in his grades from studying for the hour.
 - the enjoyment and exercise he would have received had he gone for a bike ride.
 - the difference between the improvement in his grades from studying minus the enjoyment of a bike ride.
 - zero. Since Ryan chose to study rather than to ride his bike, the value of studying must have been greater than the value of the bike ride.

ANSWER: b. the enjoyment and exercise he would have received had he gone for a bike ride.

TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 3 RANDOM: Y

8. A rational decision maker takes an action only if the
- marginal benefit is greater than the marginal cost.
 - average benefit is greater than the average cost.
 - marginal benefit is less than the marginal cost.
 - marginal benefit is greater than both the average cost and the marginal cost.

ANSWER: a. marginal benefit is greater than the marginal cost.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

9. A marginal change is a
- long-term trend.
 - change for the worse.
 - small incremental adjustment.
 - large, significant adjustment.

ANSWER: c. small incremental adjustment.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

10. Economists understand that people respond to
- the wishes of policymakers.
 - tax breaks, but not tax hikes.
 - threats more than rewards.
 - incentives.

ANSWER: d. incentives.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 5 RANDOM: Y

11. Which is the most accurate statement about trade?
- Trade can make every nation better off.
 - Trade makes some nations better off and others worse off.
 - Trade helps rich nations and hurts poor nations.
 - Trading for a good can make a nation better off only if the nation cannot produce that good.

ANSWER: a. Trade can make every nation better off.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 6 RANDOM: Y

12. If Canada is better than the United States at producing hockey sticks, but the United States is better than Canada at producing roller blades, the United States should
- put a quota on the amount of Canadian hockey sticks imported.
 - subsidize its hockey stick industry so that it can compete with Canadian hockey sticks.
 - sell roller blades to Canada, and buy Canadian hockey sticks.
 - impose a tariff on Canadian hockey sticks in order to protect jobs in the U.S. roller blade industry.

ANSWER: c. sell roller blades to Canada, and buy Canadian hockey sticks.

TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 6 RANDOM: Y

13. In a market economy, economic activity is guided by
- the government.
 - corporations.
 - central planners.
 - prices.

ANSWER: d. prices.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 7 RANDOM: Y

14. One advantage market economies have over central planning is that market economies
- solve the problem of scarcity.
 - are more efficient.
 - establish government economic control.
 - provide an equal distribution of goods and services to consumers.

ANSWER: b. are more efficient.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 7 RANDOM: Y

15. The term market failure refers to
- an unsuccessful advertising campaign.
 - a situation in which the market on its own fails to allocate resources efficiently.
 - a situation in which competition among firms becomes ruthless.
 - a firm which is forced out of business because of losses.

ANSWER: b. a situation in which the market on its own fails to allocate resources efficiently.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 7 RANDOM: Y

16. An externality is the impact of
- a person's actions on that person's well-being.
 - society's decisions on the well-being of society.
 - one person's actions on the well-being of a bystander.
 - society's decisions on the well-being of one person.

ANSWER: c. one person's actions on the well-being of a bystander.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 7 RANDOM: Y

17. If a copper refinery does NOT bear the entire cost of the smoke it emits, it will
- emit too much smoke.
 - emit lower levels of smoke.
 - emit an acceptable level of smoke.
 - eliminate all smoke so as to avoid the entire cost of the smoke.

ANSWER: a. emit too much smoke.

TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 7 RANDOM: Y

18. The two best reasons for a government to intervene in a market are to
- promote equity and to raise revenues.
 - promote equity and to promote efficiency.
 - promote efficiency and to raise revenues.
 - raise revenues and to promote stability.

ANSWER: b. promote equity and to promote efficiency.

TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 7 RANDOM: Y

19. Market power refers to the
- power of the government to regulate a market.
 - relative importance of a market to the overall economy.
 - power of a single person (or small group of people) to unduly influence market prices.
 - ability of a person or group of people to successfully market new products.

ANSWER: c. power of a single person (or small group of people) to unduly influence market prices.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 7 RANDOM: Y

20. The income of a typical worker in a country is most closely linked to which of the following?
- population
 - government policies
 - labor unions
 - productivity

ANSWER: d. productivity

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 8 RANDOM: Y

21. Almost all variation in living standards is attributable to differences in countries'
- population growth rates.
 - endowments of natural resources.
 - defense budgets.
 - productivity.

ANSWER: d. productivity.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 8 RANDOM: Y

22. Productivity is defined as the
- amount of goods and services produced from each hour of a worker's time.
 - number of workers required to produce a given amount of goods and services.
 - amount of labor which can be saved by replacing workers with machines.
 - actual amount of effort workers put into an hour of working time.

ANSWER: a. amount of goods and services produced from each hour of a worker's time.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 8 RANDOM: Y

23. Inflation is defined as
- a period of rising productivity in the economy.
 - an increase in the overall level of prices in the economy.
 - a period of rising income in the economy.
 - an increase in the overall level of output in the economy.

ANSWER: b. an increase in the overall level of prices in the economy.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 8 RANDOM: Y

24. Inflation causes
- productivity to increase.
 - the value of money to rise.
 - the value of money to fall.
 - the government to lower taxes.

ANSWER: c. the value of money to fall.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 8 RANDOM: Y

25. Which of the following is the most correct statement about the relationship between inflation and unemployment?
- In the long run, reducing inflation is associated with rising unemployment.
 - In the short run, reducing inflation is associated with falling unemployment.
 - In the long run, reducing inflation is associated with falling unemployment.
 - In the short run, reducing inflation is associated with rising unemployment.

ANSWER: d. In the short run, reducing inflation is associated with rising unemployment.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 8 RANDOM: Y

1 ANSWER: d. scarcity.

TYPE: M KEY1: D OBJECTIVE: 1 RANDOM: Y

2 ANSWER: c. there is less of a good or resource available than people wish to have.
TYPE: M KEY1: D OBJECTIVE: 1 RANDOM: Y

3 ANSWER: a. how society manages its scarce resources.
TYPE: M KEY1: D OBJECTIVE: 1 RANDOM: Y

4 ANSWER: c. fairness.
TYPE: M KEY 1: D SECTION: 1 OBJECTIVE: 3 RANDOM: Y

5 ANSWER: b. there is usually a tradeoff between equity and efficiency.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 3 RANDOM: Y

6 ANSWER: a. what you give up to get that item.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 3 RANDOM: Y

7 ANSWER: b. the enjoyment and exercise he would have received had he gone for a bike ride.
TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 3 RANDOM: Y

8 ANSWER: a. marginal benefit is greater than the marginal cost.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

9 ANSWER: c. small incremental adjustment.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 4 RANDOM: Y

10 ANSWER: d. incentives.
TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 5 RANDOM: Y

11 ANSWER: a. Trade can make every nation better-off.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 6 RANDOM: Y

12 ANSWER: c. sell roller blades to Canada, and should buy Canadian hockey sticks.
TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 6 RANDOM: Y

13 ANSWER: d. prices.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 7 RANDOM: Y

14 ANSWER: b. are more efficient.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 7 RANDOM: Y

15 ANSWER: b. a situation in which the market on its own fails to allocate resources efficiently.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 7 RANDOM: Y

16 ANSWER: c. one person's actions on the well-being of a bystander.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 7 RANDOM: Y

17 ANSWER: a. emit too much smoke.
TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 7 RANDOM: Y

18 ANSWER: b. promote equity and to promote efficiency.
TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 7 RANDOM: Y

19 ANSWER: c. power of a single person (or small group of people) to unduly influence market prices.
TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 7 RANDOM: Y

20 ANSWER: d. productivity
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 8 RANDOM: Y

21 ANSWER: d. productivity.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 8 RANDOM: Y

22 ANSWER: a. amount of goods and services produced from each hour of a worker's time.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 8 RANDOM: Y

23 ANSWER: b. an increase in the overall level of prices in the economy.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 8 RANDOM: Y

24 ANSWER: c. the value of money to fall.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 8 RANDOM: Y

25 ANSWER: d. In the short run, reducing inflation is associated with rising unemployment.
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 8 RANDOM: Y