Microeconomics for Life 3rd edition Cohen Test Bank

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Macroeconomics for Life: Smart Choices for All?, 3Ce (Cohen)
Chapter 1 What's in Economics for You? Scarcity, Opportunity Cost, Trade, and Models

1.1 Are You Getting Enough? Scarcity and Choice

1) Who can satisfy all their wants?
A) individuals
B) businesses
C) governments
D) high paid athletes
E) none of the above
Answer: E
Diff: 1 Type: MC
Skill: Recall
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

2) Economics is about
A) how individuals make the best possible choices.
B) how businesses make the best possible choices.
C) how governments make the best possible choices.
D) how choices interact in markets.
E) all of the above.
Answer: E
Diff: 1 Type: MC
Skill: Recall
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

3) Which of the following limits our ability to get everything we want?
A) specialization
B) socialism
C) socialization
D) time
E) none of the above
Answer: D
Diff: 1 Type: MC
Skill: Applied
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

4) Which of the following limits our ability to get everything we want?
A) capitalism
B) socialism
C) democracy
D) resources
E) none of the above
Answer: D
Diff: 1 Type: MC
Skill: Applied
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

5) Who needs to make smart choices?
A) high-paid athletes
B) plumbers
C) Federal Government of Canada
D) billionaires
E) all of the above
Answer: E
Diff: 1 Type: MC
Skill: Recall
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

6) Economics is the study of how individual choices interact in
A) markets.
B) schools.
C) governments.
D) businesses.
E) all of the above.
Answer: A
Diff: 2 Type: MC
Skill: Recall
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

7) The inability to satisfy all our wants is called the problem of
A) opportunity cost.
B) scarcity.
C) incentives.
D) marginal cost.
E) comparative advantage.
Answer: B
Diff: 1 Type: MC
Skill: Applied
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

8) A billionaire is most likely to face scarce
A) wants.
B) money.
C) time.
D) taxes.
E) none of the above.
Answer: C
Diff: 2 Type: MC
Skill: Recall
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

9) The textbook title - *Economics for Life* - comes from a quote by George Bernard Shaw.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

10) The textbook title - *Economics for Life* - comes from the quote "Economy is the art of making the most of life."
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

11) Scarcity is not a problem for a wealthy professional athlete like Tiger Woods.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

12) Scarcity arises because we all have limited money, time, and energy.
Answer: TRUE
Diff: 1 Type: TF
Skill: Recall
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

13) A non-profit organization like the National Ballet of Canada does not face a problem of scarcity.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

14) There are some people and organizations who do not face the problem of scarcity.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

15) If you could live forever, have unlimited energy, and be infinitely rich, you would not face the problem of scarcity.
Answer: TRUE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

16) Economics is about overcoming scarcity.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

17) Economics is about overcoming our wants.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

18) A government that has a budget surplus does not face the problem of scarcity.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

19) The main implication of scarcity in economics is that people must be selfish.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

20) The main implication of scarcity in economics is that people must make choices.
Answer: TRUE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

21) The main implication of scarcity in economics is that people must be unhappy.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

22) Scarcity is a problem only for people who want more money.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.1 Explain scarcity and describe why you must make smart choices among your wants.

1.2 Give It Up for Opportunity Cost! Opportunity Cost

1) Which of the following best describes the concept of opportunity cost?
A) The cost associated with an accounting method.
B) The money paid caused by a decision like going to the movies.
C) The benefit forgone from all alternatives given up.
D) The total cost of all alternatives not chosen.
E) The cost of the best alternative given up.
Answer: E
Diff: 2 Type: MC
Skill: Recall
Objective: 1.2 Define and describe opportunity cost.

2) The value of the fork in the road not taken is called the
A) marginal cost.
B) opportunity cost.
C) monetary cost.
D) fiduciary cost.
E) cutlery cost.
Answer: B
Diff: 2 Type: MC
Skill: Recall
Objective: 1.2 Define and describe opportunity cost.

3) John gave Margaret a $20,000 painting for her birthday. Last week, an art dealer offered to buy the painting from Margaret for $25,000. Margaret said no. The opportunity cost of her decision is
A) $5,000.
B) $45,000.
C) $0.
D) $20,000.
E) $25,000.
Answer: E
Diff: 3 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

4) Meera missed her shift at the restaurant to attend a soccer game. She paid $30 for the ticket, $20 for parking, and ate $10 worth of popcorn. Had she worked her shift, Meera would have earned $100. Her opportunity cost of attending the game is
A) $0.
B) $60.
C) $100.
D) $150.
E) $160.
Answer: E
Diff: 3 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

5) Meera missed her shift at the restaurant to attend a soccer game. She paid $30 for the ticket, $20 for parking, and ate $10 worth of popcorn. Had she worked her shift, Meera would have earned $100. Her money cost of attending the game is
A) $0.
B) $60.
C) $100.
D) $150.
E) $160.
Answer: B
Diff: 2 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

6) Haoran decides to open a laboratory in his basement. He quits his job that paid $30,000 a year; sells $200,000 of Canada Savings Bonds that were paying him interest of $10,000 per year; and evicts a tenant who was paying $10,000 a year in rent to live in the basement. The opportunity cost of Haoran's decision is
A) $0.
B) $30,000.
C) $40,000.
D) $50,000.
E) $240,000.
Answer: D
Diff: 3 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

7) Last week Santiago found a new pair of red Nike Air Soles in the parking lot. He had just paid $120 to buy a pair of blue Nike Air Soles a few days earlier. A friend offers $80 to buy the pair of red Air Soles. Santiago says no and decides to keep both pairs for himself. The opportunity cost of this decision is
A) $0.
B) $40.
C) $80.
D) $120.
E) $200.
Answer: C
Diff: 3 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

8) A bank assigns their best six new employees to work in accounts receivable. These employees are no longer available to work in financial planning. This illustrates the concept of
A) a market.
B) macroeconomics.
C) opportunity cost.
D) incentives.
E) gains from trade.
Answer: C
Diff: 2 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

9) A bank assigns their best manager to accounts receivable who is no longer available to work in financial planning. This illustrates the concept of
A) a market.
B) macroeconomics.
C) opportunity cost.
D) incentives.
E) gains from trade.
Answer: C
Diff: 2 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

10) A technology company wants to attract talented young people to work for them. The company builds a beautiful new work campus in sunny California to attract new employees. This is the concept of
A) a market.
B) macroeconomics.
C) opportunity cost.
D) incentives.
E) gains from trade.
Answer: D
Diff: 2 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

11) Violent crime has been rising in a city. A law is passed to increase jail time for offenders. This is the concept of
A) a market.
B) macroeconomics.
C) opportunity cost.
D) incentives.
E) gains from trade.
Answer: D
Diff: 2 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

12) When the government of New Brunswick chooses to use inputs to build a dam, those inputs are no longer available to build a highway. This illustrates the concept of
A) a market.
B) macroeconomics.
C) opportunity cost.
D) incentives.
E) gains from trade.
Answer: C
Diff: 2 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

13) Which of the following sayings best describes opportunity cost?
A) "Make hay while the sun shines."
B) "Love of money is the root of all evil."
C) "Boldly go where no one has gone before."
D) "There's no such thing as a free lunch."
E) "Baseball has been very good to me."
Answer: D
Diff: 1 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

14) Scarcity often requires we give up some of one product to get more of another. This is the concept of
A) specialization.
B) implicit cost.
C) comparative advantage.
D) opportunity cost.
E) absolute advantage.
Answer: D
Diff: 2 Type: MC
Skill: Recall
Objective: 1.2 Define and describe opportunity cost.

15) The opportunity cost of attending college
A) depends on your major.
B) depends on what you could earn without attending college.
C) depends on what you expect to earn with your college degree.
D) must be greater than the money cost.
E) must be less than the money cost.
Answer: B
Diff: 2 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

16) Which statement(s) is/are *true*?

1 When jobs are more difficult to get, the opportunity cost of attending college decreases.

2 When men without college education generally earn more than women without college education, the opportunity cost of attending college is higher for men than for women.

A) 1 only
B) 2 only
C) 1 and 2
D) neither 1 nor 2
E) impossible to tell without more information
Answer: A
Diff: 3 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

17) Which statement(s) is/are *true*?

1 When jobs are easier to get, the opportunity cost of attending college decreases.

2 When men without a college education generally earn more than women without a college education, the opportunity cost of attending college is higher for men than for women.

A) 1 only
B) 2 only
C) 1 and 2
D) neither 1 nor 2
E) impossible to tell without more information
Answer: D
Diff: 3 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

18) Which statement(s) is/are *true*?

1 When jobs are more difficult to get, the opportunity cost of attending college decreases.

2 When men without a college education generally earn more than women without a college education, the opportunity cost of attending college is lower for men than for women.

A) 1 only
B) 2 only
C) 1 and 2
D) neither 1 nor 2
E) impossible to tell without more information
Answer: A
Diff: 3 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

19) Alex could earn $65,000 as a carpenter without attending college. Sam could earn $40,000 as a clerk without attending college. Both Alex and Sam could earn $90,000 as an accountant by attending college. The opportunity cost of attending college is
A) the same for both Alex and Sam.
B) higher for Alex.
C) lower for Alex.
D) higher for Sam.
E) uncertain.
Answer: B
Diff: 2 Type: MC
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

20) Scarcity means every choice involves a trade-off.
Answer: TRUE
Diff: 1 Type: TF
Skill: Recall
Objective: 1.2 Define and describe opportunity cost.

21) To make a smart choice, the value of what you get must be greater than the value of what you give up.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.2 Define and describe opportunity cost.

22) The true cost of any choice is the cost of the best alternative given up.
Answer: TRUE
Diff: 1 Type: TF
Skill: Recall
Objective: 1.2 Define and describe opportunity cost.

23) The true cost of any choice is the cost of all alternatives given up.
Answer: FALSE
Diff: 1 Type: TF
Skill: Recall
Objective: 1.2 Define and describe opportunity cost.

24) The true cost of any choice is the money cost.
Answer: FALSE
Diff: 1 Type: TF
Skill: Recall
Objective: 1.2 Define and describe opportunity cost.

25) There is no such thing as a free lunch.
Answer: TRUE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

26) Opportunity cost includes money cost.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.2 Define and describe opportunity cost.

27) Opportunity cost is always greater than money cost.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

28) Opportunity cost is always less than money cost.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

29) Money cost includes opportunity cost.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

30) Germaine plans to attend college next year. Tuition costs $3,000, books cost $600, and residence fees cost $4,000. She currently earns $24,000 a year working at Chapters but would have to quit work. Germaine's opportunity cost of attending college is $7,600.
Answer: FALSE
Diff: 3 Type: TF
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

31) Germaine plans to attend college next year. Tuition costs $3,000, books cost $600, and residence fees cost $4,000. She currently earns $24,000 a year working at Chapters but would have to quit work. Germaine's opportunity cost of attending college is $24,000.
Answer: FALSE
Diff: 3 Type: TF
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

32) Germaine plans to attend college next year. Tuition costs $3,000, books cost $600, and residence fees cost $4,000. She currently earns $24,000 a year working at Chapters but would have to quit work. Germaine's opportunity cost of attending college is $31,600.
Answer: TRUE
Diff: 3 Type: TF
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

33) Incentives work because these rewards and penalties change the costs and benefits of the choices you make.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.2 Define and describe opportunity cost.

34) Smart choices will not change when incentives change.
Answer: FALSE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.2 Define and describe opportunity cost.

35) You should include the risk of getting a parking ticket in opportunity cost when making a smart choice between parking illegally and buying a parking permit.
Answer: TRUE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

36) When you have no alternatives, the opportunity cost is zero.
Answer: TRUE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

37) Women who do *not* go to college or university give up a bigger income gain than men who do not go.
Answer: TRUE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

38) The opportunity cost of going to college or university is the same for men and women.
Answer: FALSE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

39) To encourage a child to do his chores, you should either increase the reward for doing, or increase the penalty for not doing the chores.
Answer: TRUE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.2 Define and describe opportunity cost.

1.3 Why Don't You Cook Breakfast? Gains From Trade

1) Mutually beneficial trade occurs if both persons
A) increase production of the product for which they have a comparative advantage.
B) decrease production of the product for which they have a lower opportunity cost.
C) increase production of the product for which they have a higher opportunity cost.
D) increase production of the product for which they have an absolute advantage.
E) increase consumption of the product for which they have a higher opportunity cost.
Answer: A
Diff: 2 Type: MC
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

2) Mutually beneficial trade is also called
A) a zero-sum game.
B) self-sufficiency.
C) international subsidization.
D) voluntary trade.
E) involuntary trade.
Answer: D
Diff: 2 Type: MC
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

3) When Jodi purchases a textbook from Sally, this is the concept of
A) involuntary trade.
B) voluntary trade.
C) zero-sum trade.
D) comparative advantage.
E) absolute advantage.
Answer: B
Diff: 2 Type: MC
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

4) Mutual gains from voluntary trade require differences in
A) internal costs.
B) implicit costs.
C) opportunity costs.
D) import tariffs.
E) external costs.
Answer: C
Diff: 2 Type: MC
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

5) In a zero-sum game
A) both players can lose.
B) the number of players is zero.
C) both players can win.
D) one player gains only when another player loses.
E) both players get zero gains.
Answer: D
Diff: 2 Type: MC
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

6) Historically, specialization led to ________ self-sufficiency and a ________ standard of living.
A) more; higher
B) more; lower
C) less; higher
D) less; lower
E) the same; higher
Answer: C
Diff: 2 Type: MC
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

7) It takes Mom 30 minutes to cook dinner. In the same time, she can iron 6 shirts. Dad takes an hour to cook dinner and 30 minutes to iron a single shirt.
A) Dad has an absolute advantage in ironing shirts.
B) Mom's opportunity cost of cooking dinner is ironing 6 shirts.
C) Mom has a comparative advantage in cooking dinner.
D) Dad's opportunity cost of cooking dinner is ironing half a shirt.
E) Dad's opportunity cost of cooking dinner is 6 shirts.
Answer: B
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

8) It takes Mom 30 minutes to cook dinner. In the same time, she can iron 6 shirts. Dad takes an hour to cook dinner and 30 minutes to iron a single shirt.
A) Dad has an absolute advantage in cooking.
B) Mom should cook dinner and iron; trade is impossible.
C) Dad has an absolute advantage in ironing shirts.
D) Dad should cook dinner; the opportunity cost is only 2 shirts.
E) Dad should cook dinner; the opportunity cost is only 1 shirt.
Answer: D
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

9) It takes Mom 30 minutes to cook dinner. In the same time, she can iron 6 shirts. Dad takes an hour to cook dinner and 30 minutes to iron a single shirt.
A) Mom should cook dinner; even though the opportunity cost is 12 shirts.
B) there are no gains from trade.
C) Dad has an absolute advantage in cooking dinner.
D) Dad has an absolute advantage in ironing shirts.
E) Mom shouldn't cook dinner; her opportunity cost is 6 shirts.
Answer: E
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

10) In one hour, Chloe can bake 24 cookies or 12 blueberry muffins; Zabeen can bake 6 cookies or 2 blueberry muffins. Which statement is *true*?
A) Zabeen's opportunity cost of a cookie is 2 muffins.
B) Zabeen's opportunity cost of a cookie is 6 muffins.
C) Chloe's opportunity cost of a muffin is 12 cookies.
D) Chloe's opportunity cost of a muffin is 2 cookies.
E) Zabeen's opportunity cost of a cookie is 4 muffins.
Answer: D
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

11) In one hour, Chloe can bake 24 cookies or 12 blueberry muffins; Zabeen can bake 6 cookies or 2 blueberry muffins. For mutually beneficial trade, Chloe should
A) bake muffins because she has a comparative advantage.
B) give up. Mutually beneficial trade is impossible in this situation.
C) bake cookies because she has an absolute advantage.
D) bake cookies because she has a comparative advantage.
E) bake muffins because she has an absolute advantage.
Answer: A
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

12) When Canada specializes in the production of wine, Canada can produce 10,000 bottles per month. When Canada specializes in the production of wheat, Canada can produce 200,000 bushels per month. The opportunity cost of a bottle of wine in Canada is
A) 120,000 bottles of wine.
B) 20 bushels of wheat.
C) 200 bushels of wheat.
D) 2,500 bottles of wine.
E) 1/20 of a bushel of wheat.
Answer: B
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

13) In two hours of work, Clinton can catch 4 fish or he can pick 5 pints of berries. In two hours, Dong can catch 6 fish or she can pick 9 pints of berries. Which statement is *true*?
A) Clinton has a comparative advantage in catching fish.
B) Clinton has an absolute advantage in picking berries.
C) Clinton has an absolute advantage in catching fish.
D) Clinton has a comparative advantage in picking berries.
E) Clinton will lose if he trades.
Answer: A
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

14) In two hours of work, Clinton can catch 4 fish or he can pick 5 pints of berries. In two hours, Dong can catch 6 fish or she can pick 9 pints of berries. Which statement is *true*?
A) Clinton and Dong will trade and both persons will benefit.
B) Clinton and Dong will trade but only Dong will benefit.
C) Clinton and Dong will not trade.
D) Clinton and Dong will trade but only Clinton will benefit.
E) Clinton and Dong will both lose if they trade.
Answer: A
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

15) Canada has an absolute advantage in situations where Canada
A) can produce the product on weekends.
B) consumes less of this product than do people in other countries.
C) consumes more of this product than do people in other countries.
D) has a very high opportunity cost of production.
E) can produce at lower cost than producers in other countries.
Answer: E
Diff: 2 Type: MC
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

16) Benjamin and Ravi are the only two people on the planet Mellow. It takes Benjamin 2 hours to produce a widget and 1 hour to produce a woggle. It takes Ravi 3 hours to produce a widget and 3 hours to produce a woggle.

Based on the information above, Benjamin and Ravi
A) can both gain from trade if Benjamin specializes in producing widgets and Ravi specializes in producing woggles.
B) can both gain from trade if Benjamin specializes in producing woggles and Ravi specializes in producing widgets.
C) cannot both gain from trade because Benjamin has an absolute advantage in producing widgets and woggles.
D) can trade, but only Benjamin will gain.
E) can trade, but only Ravi will gain.
Answer: B
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

Figure 1.3.2
Monthly Production Possibilities for a Country Producing Only Hockey Sticks and Maple Leaves

Possibility	Hockey Sticks	Maple Leaves
a	3	0
b	2	3
c	0	9

17) In Figure 1.3.2, moving from possibility *b* to possibility *c*, the opportunity cost of producing one additional maple leaf is
A) 2 hockey sticks.
B) 3 hockey sticks.
C) 6 hockey sticks.
D) 1/6 hockey stick.
E) 1/3 hockey stick.
Answer: E
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

18) According to Figure 1.3.2,
A) the opportunity cost of producing hockey sticks stays the same as more hockey sticks are produced.
B) a combination of 3 hockey sticks and 9 maples leaves is possible.
C) a combination of 3 hockey sticks and 2 maple leaves is possible.
D) the opportunity cost of producing hockey sticks increases as more hockey sticks are produced.
E) the opportunity cost of producing hockey sticks decreases as more hockey sticks are produced.
Answer: A
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

19) In Figure 1.3.2, moving from possibility *c* to possibility *b*, the opportunity cost of producing one additional hockey stick is
A) 2 maple leaves.
B) 3 maple leaves.
C) 6 maple leaves.
D) 1/6 maple leaves.
E) 1/3 maple leaves.
Answer: B
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

20) According to Figure 1.3.2,
A) the best possibility is 2 hockey sticks and 3 maple leaves.
B) a combination of 3 hockey sticks and 9 maples leaves is *not* possible.
C) a combination of 3 hockey sticks and 2 maple leaves is possible.
D) the opportunity cost of producing hockey sticks increases as more hockey sticks are produced.
E) the opportunity cost of producing hockey sticks decreases as more hockey sticks are produced.
Answer: B
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

21) In Portugal, the opportunity cost of a bale of wool is 3 bottles of wine. In England, the opportunity cost of 1 bottle of wine is 3 bales of wool. Based on this information,
A) England has an absolute advantage in producing wine.
B) England has an absolute advantage in producing wool.
C) no trade will occur.
D) Portugal has a comparative advantage in producing wool.
E) Portugal has a comparative advantage in producing wine.
Answer: E
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

22) **Figure 1.3.3**
Monthly Production Possibilities for a Country Producing Only Butter and Guns

Possibility	Butter	Guns
a	8	0
b	6	1
c	0	4

According to the production possibilities in Figure 1.3.3,
A) a combination of 1 butter and 6 gun is possible.
B) a combination of 4 butter and 0 guns is possible.
C) the opportunity cost of producing guns increases as more guns are produced.
D) the opportunity cost of producing guns decreases as more guns are produced.
E) the opportunity cost of producing guns stays the same as more guns are produced.
Answer: E
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

23) In an eight-hour day, Andy can produce either 24 loaves of bread or 8 kilograms of butter. In an eight-hour day, Rolfe can produce either 24 loaves of bread or 24 kilograms of butter.

Based on the information above, which statement is *true*?
A) Andy has an absolute advantage in producing butter.
B) Rolfe has an absolute advantage in producing bread.
C) Andy has an absolute advantage is producing bread.
D) Andy has a comparative advantage in producing bread.
E) Rolfe has a comparative advantage in producing bread.
Answer: D
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

24) In an eight-hour day, Andy can produce either 24 loaves of bread or 8 kilograms of butter. In an eight-hour day, Rolfe can produce either 8 loaves of bread or 8 kilograms of butter.

Based on the information above, the opportunity cost of producing 1 loaf of bread is
A) 1 hour for Andy and 20 minutes (1/3 hour) for Rolfe.
B) 1/3 kilogram of butter for Andy and 1 kilogram of butter for Rolfe.
C) 3 kilograms of butter for Andy and 1 kilogram of butter for Rolfe.
D) 8 kilograms of butter for both Andy and Rolfe.
E) not calculable from the given information.
Answer: B
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

25) Mexico and Canada produce both oil and apples using labour only. A barrel of oil can be produced with 8 hours of labour in Mexico and 4 hours of labour in Canada. A bushel of apples can be produced with 12 hours of labour in Mexico and 8 hours of labour in Canada. *Mexico* has
A) an absolute advantage in producing oil.
B) an absolute advantage in producing apples.
C) a comparative advantage in producing oil.
D) a comparative advantage in producing apples.
E) none of the above.
Answer: D
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

26) Canada and Chile produce both oil and apples using labour only. A barrel of oil can be produced with 4 hours of labour in Canada and 8 hours of labour in Chile. A bushel of apples can be produced with 8 hours of labour in Canada and 12 hours of labour in Chile. *Chile* has
A) an absolute advantage in producing oil.
B) an absolute advantage in producing apples.
C) a comparative advantage in producing oil.
D) a comparative advantage in producing apples.
E) none of the above.
Answer: D
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

27) Tova and Ron are the only two people on the planet Melmac.
It takes Tova 3 hours to produce a widget and 3 hours to produce a woggle.
It takes Ron 1 hour to produce a widget and 2 hours to produce a woggle.

Based on the information above, Tova and Ron
A) can both gain from trade if Tova specializes in producing widgets and Ron specializes in producing woggles.
B) can both gain from trade if Tova specializes in producing woggles and Ron specializes in producing widgets.
C) cannot both gain from trade because Tova has an absolute advantage in producing widgets and woggles.
D) can trade, but only Tova will gain.
E) can trade, but only Ron will gain.
Answer: B
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

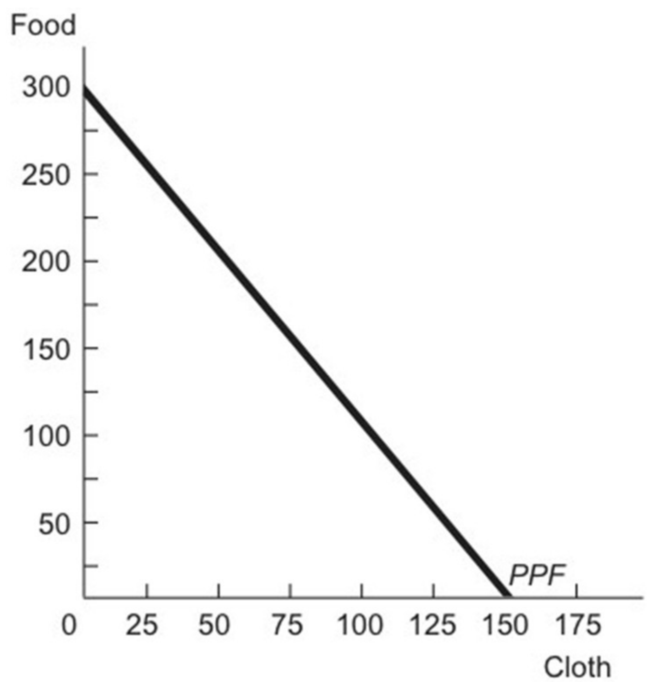
28) **Figure 1.3.7**
Monthly Production Possibilities for a Country Producing Only Butter and Guns

Possibility	Butter	Guns
a	8	0
b	6	1
c	0	2

According to the production possibilities in Figure 1.3.7,
A) a combination of 1 butter and 6 gun is possible.
B) a combination of 0 butter and 4 guns is possible.
C) the opportunity cost of producing guns increases as more guns are produced.
D) the opportunity cost of producing guns decreases as more guns are produced.
E) the opportunity cost of producing guns stays the same as more guns are produced.
Answer: C
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

29) To gain from comparative advantage, countries must trade and
A) save.
B) invest.
C) research and develop technology.
D) add capital equipment.
E) specialize.
Answer: E
Diff: 1 Type: MC
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

30) **Figure 1.3.8**



The graph in Figure 1.3.8 shows Adam's *PPF* for food and cloth. The shape of the *PPF* tells us that Adam has ________ opportunity cost of food and ________ opportunity of cloth.
A) increasing; decreasing
B) constant; constant
C) decreasing; increasing
D) increasing; increasing
E) decreasing; decreasing
Answer: B
Diff: 2 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

31) On a graph of a production possibilities frontier (*PPF*), opportunity cost is measured by
A) the points inside the *PPF.*
B) the points outside the *PPF.*
C) where the *PPF* touches the vertical axis.
D) the slope of the *PPF.*
E) where the *PPF* touches the horizontal axis.
Answer: D
Diff: 1 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

32) On a graph of a production possibilities frontier (*PPF*), possible combinations of outputs are represented by
A) points inside the *PPF.*
B) points outside the *PPF.*
C) points only on the *PPF.*
D) the slope of the *PPF.*
E) all of the above.
Answer: A
Diff: 1 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

33) On a graph of a production possibilities frontier (*PPF*), impossible combinations of outputs are represented by
A) points inside the *PPF.*
B) points outside the *PPF.*
C) points on the *PPF.*
D) the slope of the *PPF.*
E) none of the above.
Answer: B
Diff: 1 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

34) Introducing trade to a straight-line production possibilities frontier (PPF) causes
A) a higher potential amount of both goods.
B) a lower potential amount of both goods.
C) a move up along the PPF.
D) a move down along the PPF.
E) no change.
Answer: A
Diff: 3 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

35) If Ying must decrease production of some other product to increase his production of houses, then Ying
A) is producing on his production possibilities frontier.
B) is producing outside his production possibilities frontier.
C) is producing inside his production possibilities frontier.
D) must prefer houses to any other product.
E) has too little capital equipment.
Answer: A
Diff: 2 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

36) If Ying can increase production of houses without decreasing production of any other product, then Ying
A) is producing on his production possibilities frontier.
B) is producing outside his production possibilities frontier.
C) is producing inside his production possibilities frontier.
D) must have constant opportunity costs.
E) must prefer houses to any other product.
Answer: C
Diff: 2 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

37) Charu can earn $200 an hour as an technology consultant. If she spends an hour in the backyard, she can rake up 2 bags of leaves. Her opportunity cost of playing online poker is measured in units of
A) bags per rake.
B) rakes per dollar.
C) dollars per bag.
D) hours per hour.
E) bags per hour.
Answer: E
Diff: 2 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

38) Mario divides his time between fishing and farming. In one day he can catch 20 kilograms of fish *or* harvest 10 bushels of potatoes. Mario's opportunity cost of farming is
A) 1/2 bushel potatoes per kilogram of fish.
B) 1/2 kilogram fish per bushel of potatoes.
C) 2 bushels potatoes per kilogram of fish.
D) 2 potatoes per fish.
E) 2 kilograms fish per bushel of potatoes.
Answer: E
Diff: 2 Type: MC
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

39) Specializing and trading makes us all better off.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

40) Specializing and trading makes us dependent on others.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

41) Specializing and trading makes each of us *less* able to support ourselves compared to Canadian pioneers.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

42) Opportunity cost is the key to achieving the mutual benefits from trade.
Answer: TRUE
Diff: 1 Type: TF
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

43) Opportunity cost can be calculated as *Get* divided by *Give Up*.
Answer: FALSE
Diff: 1 Type: TF
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

44) Absolute advantage is the ability to produce a product or service at a lower opportunity cost than another producer.
Answer: FALSE
Diff: 3 Type: TF
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

45) Differences in comparative advantage are the key to mutually beneficial gains from trade.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

46) Specialization and voluntary trade eliminate the problem of scarcity.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

47) Voluntary trade is a smart choice because the value of what you give up is less than the value of what you get.
Answer: TRUE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

48) It takes Amber 5 minutes to iron a shirt and 20 minutes to wash her car. Gina can wash her car in 15 minutes but it takes her 10 minutes to iron a shirt. There is a mutually beneficial trade if Amber specializes in ironing shirts and Gina specializes in washing cars.
Answer: TRUE
Diff: 3 Type: TF
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

49) Absolute advantage is the key to mutually beneficial gains from trade.
Answer: FALSE
Diff: 1 Type: TF
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

50) Differences in opportunity costs are the key to mutually beneficial gains from trade.
Answer: TRUE
Diff: 1 Type: TF
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

51) Voluntary trade is a smart decision because we can specialize and produce what we are good at producing, rather than work at producing only what we wish to consume.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

52) Voluntary trade is a zero-sum game.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

53) In a zero-sum game, one person's gain equals another person's loss.
Answer: TRUE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

54) In a zero-sum game, there is a loser for every winner.
Answer: TRUE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

55) Trade is only mutually beneficial if the traders have different comparative advantages.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

56) If China has an absolute advantage in producing everything at lower cost then Canada, mutually beneficial trade is impossible.
Answer: FALSE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

57) In one hour, Francis can read 10 pages of an economics textbook or read 20 pages of an accounting textbook. Francis' opportunity cost of reading a page of accounting is 2 pages of economics.
Answer: FALSE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

58) In one hour, Francis can read 10 pages of an economics textbook or read 20 pages of an accounting textbook. Francis' opportunity cost of reading a page of economics is 2 pages of accounting.
Answer: TRUE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.3 Describe how comparative advantage, specialization, and trade make us all better off.

1.4 Economists As Mapmakers and Scientists: Thinking Like An Economist

1) All of the following are inputs *except*
A) natural resources.
B) capital equipment.
C) entrepreneurial ability.
D) government.
E) labour.
Answer: D
Diff: 2 Type: MC
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

2) Who suggested *"Economics is the study of mankind in the ordinary business of life"*?
A) Adam Smith
B) Alfred Pennyworth
C) Alfred Marshall
D) Adam West
E) Alfred E. Newman
Answer: C
Diff: 1 Type: MC
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

3) Who wrote *The Wealth of Nations*?
A) Alfred Marshall
B) Alfred Pennyworth
C) Alfred E. Newman
D) Adam West
E) Adam Smith
Answer: E
Diff: 1 Type: MC
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

4) The three sets of players in the circular flow of economic life include
A) wheat.
B) machines.
C) buildings.
D) houses.
E) governments.
Answer: E
Diff: 2 Type: MC
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

5) Inputs in the circular flow of economic life include
A) businesses.
B) people.
C) households.
D) churches.
E) governments.
Answer: B
Diff: 2 Type: MC
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

6) In the circular flow of economic life, the role that only governments can play is to
A) boldly go where no one has gone before.
B) hire entrepreneurial abilities from corporations.
C) own the assets of all large corporations.
D) sell businesses' labour services.
E) set the rules of the game.
Answer: E
Diff: 2 Type: MC
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

7) The markets in the circular flow of economic life model are
A) input and output.
B) input, output, and government.
C) government, households, and businesses.
D) households and businesses.
E) goods/services and dollar.
Answer: A
Diff: 1 Type: MC
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

8) Positive statements are
A) evaluated by checking the facts.
B) inefficient.
C) rarely used in economics.
D) unfair.
E) value judgements.
Answer: A
Diff: 2 Type: MC
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

9) Normative statements
A) can be rejected simply by checking the facts.
B) are unfair.
C) are never used in economics.
D) can be evaluated as true simply by checking the facts.
E) involve value judgements.
Answer: E
Diff: 2 Type: MC
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

10) Which of the following is a normative statement?
A) Specialization increases productivity.
B) Trade allows for greater access to goods and services.
C) The market allocates resources.
D) Equal distribution of wealth is fair.
E) Economic growth leads to higher living standards.
Answer: D
Diff: 2 Type: MC
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

11) A normative statement is about
A) what might happen in the future.
B) what has happened in the past.
C) what ought to be.
D) the assumptions of economists.
E) the predictions of economists.
Answer: C
Diff: 2 Type: MC
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

12) Which statement is *normative*?
A) Drinking 14 beers in one hour will probably make you ill.
B) Young drivers cause more accidents than older drivers.
C) Women live longer than men.
D) You should call your mother at least once a week.
E) Men live longer than women.
Answer: D
Diff: 1 Type: MC
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

13) Which statement is *normative*?
A) People who have high grades in economics have more friends.
B) People who have high grades in calculus have no friends.
C) Sound travels faster than light.
D) Everyone is entitled to his or her own opinion.
E) A 2-litre carton of milk can survive being dropped from a 20-story building.
Answer: D
Diff: 2 Type: MC
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

14) A good economic model
A) leaves out unnecessary information.
B) is difficult to test.
C) assumes that "other things are unchanged."
D) is the mental equivalent of controlled experiments in a laboratory.
E) does all of the above.
Answer: E
Diff: 1 Type: MC
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

15) A good economic model
A) leaves out unnecessary information.
B) includes all possible factors.
C) is complicated.
D) is quantitative.
E) is all of the above.
Answer: A
Diff: 1 Type: MC
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

16) Individuals in households ultimately own all of the inputs of an economy.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

17) Businesses are sellers and households are buyers in input markets.
Answer: FALSE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

18) Businesses are buyers and households are sellers in input markets.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

19) Businesses are sellers and households are buyers in output markets.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

20) Businesses are buyers and households are sellers in output markets.
Answer: FALSE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

21) An investor purchases 1,000 shares of stock in General Motors. This interaction takes place in input markets.
Answer: TRUE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

22) Businesses are sellers in input markets.
Answer: FALSE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

23) Businesses are buyers in input markets.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

24) Households are buyers in input markets.
Answer: FALSE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

25) When you get hired as a cashier at Canadian Tire, that interaction happens in an input market.
Answer: TRUE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

26) Households are buyers in output markets.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

27) Businesses are buyers in output markets.
Answer: FALSE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

28) Businesses are sellers in output markets.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

29) When the government hires contractors to repair potholes, that is an example of setting the rules of the game.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

30) Positive statements can be evaluated as true or false simply by checking the facts.
Answer: TRUE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

31) Normative statements can be evaluated as true or false simply by checking the facts.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

32) Normative statements involve value judgments.
Answer: TRUE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

33) "Men live longer than women" is a positive statement.
Answer: TRUE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

34) "Who was the greatest rock star?" is a positive question.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

35) "Who was the greatest rock star?" is a normative question.
Answer: TRUE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

36) The suggestion that "cats have nine lives" is a normative statement.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

37) Student leaders who argue that "tuition should be free" are making a positive statement.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

38) Student leaders who argue that "75 percent of students live below the poverty line" are making a positive statement.
Answer: TRUE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.4 Explain how models like the circular flow of economic life make smart choices easier.

1.5 Where and How to Look: Models for Microeconomics and Macroeconomics

1) Opportunity cost does *not* include
A) external consequences from making a choice.
B) legal costs from making a choice.
C) monetary costs from making a choice.
D) income that you sacrifice from making a choice.
E) benefits that you get from making a choice.
Answer: E
Diff: 1 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

2) Which is a macroeconomic decision?
A) How you divide your spending between food and clothing.
B) You decide to buy a hybrid car to protect the environment.
C) The Bank of Canada decides to raise interest rates.
D) Whether or not you adopt a pet.
E) How many hours a week you will work at a wage of $20 an hour.
Answer: C
Diff: 2 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

3) Which is a macroeconomic decision?
A) The Government of Canada reduces the HST.
B) You switch your cellular plan from Fido to Bell.
C) You switch your cellular plan from Rogers to Fido.
D) You add international calling to your cellular plan.
E) You add Canada-wide calling to your cellular plan.
Answer: A
Diff: 2 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

4) Which is a microeconomic decision?
A) A reduction in the HST intended to stimulate consumer spending.
B) A decision by the Bank of Canada to allow the Canadian dollar to depreciate in response to world trade patterns.
C) The Government of Canada lends Peru 7 billion dollars.
D) A decision by the Conservative Party to reduce the role of government in the economy.
E) A 10% tariff on imported wines to protect the Canadian wine-making industry.
Answer: E
Diff: 2 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

5) The study of Canadian employment and wages is a
A) macroeconomic topic.
B) microeconomic topic.
C) positive externality.
D) negative externality.
E) bore.
Answer: A
Diff: 1 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

6) The study of how wages are set for New Brunswick call centre workers is a
A) macroeconomic topic.
B) microeconomic topic.
C) positive externality.
D) negative externality.
E) bore.
Answer: B
Diff: 1 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

7) Which headline is about macroeconomics?
A) Consumers switching from minivans to hybrids
B) Chapters/Indigo bookstores fight tax on e-commerce
C) Unexpected freeze in Nova Scotia will make blueberry pie more expensive in the Maritimes
D) Japan's economy still stagnating
E) Farmers avoiding pesticides
Answer: D
Diff: 1 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

8) All are macroeconomic topics *except* the
A) reasons for increasing unemployment.
B) cause of recessions.
C) effect of a government budget deficit on inflation.
D) rising value of the Canadian dollar.
E) switch from workers to robots in automobile factories.
Answer: E
Diff: 1 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

9) Macroeconomics analyzes
A) the operation of individual markets in the economy.
B) the economic choices of individual households.
C) government decisions to regulate the cellular phone industry.
D) insider trading in the stock market.
E) the performance of the national economy and the global economy.
Answer: E
Diff: 2 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

10) Macroeconomics analyzes
A) decisions of individual businesses.
B) effects of government safety regulations on the price of cars.
C) the performance of the global economy.
D) prices of individual products and services.
E) the effects of federal taxes on the price of gasoline.
Answer: C
Diff: 1 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

11) Microeconomics analyzes the
A) reasons for a fall in the price of oil.
B) effect of a rise in the value of the Canadian dollar on Canada's exports.
C) effect of interest rates on Canada's economic growth rate.
D) effect of a government budget deficit on employment.
E) reasons for a fall in the inflation rate.
Answer: A
Diff: 1 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

12) Microeconomics analyzes the
A) length of a recession.
B) cause of unemployment in the economy.
C) effect of a government budget surplus on election outcomes.
D) the determination of aggregate income.
E) size of prize money awards for kite-boarding competitions.
Answer: E
Diff: 1 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

13) George spends $2,000 for a plane ticket to Vancouver and gives up $500 because he has to take time off work. He spends $1,500 on his hotel room. In Vancouver, George is trying to decide whether he should spend $1,000 to take a side trip to go snowboarding in Whistler or just snooze in the hotel. Going to Whistler would be a smart decision as long as his benefits from the side trip are at least
A) $1,500.
B) $4,000.
C) $5,000.
D) $1,000.
E) $500.
Answer: D
Diff: 3 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

14) Charles paid $12 for a ticket to see the Blue Jays play baseball at the Rogers Centre. Once inside, he must decide whether or not he wants to pay $8 for a beer. Buying a beer would be a smart decision only if Charles gets benefits of at least
A) $12.
B) $8.
C) $16.
D) $4.
E) $20.
Answer: B
Diff: 2 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

15) Viki paid $12 to see the new Star Trek movie. Once inside, she must decide whether or not to buy a bag of popcorn for $4. Buying the popcorn would be a smart decision if Viki gets benefits of at least
A) $12.
B) $16.
C) $4.
D) $8.
E) $20.
Answer: C
Diff: 2 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

16) José spent $800 to fly home for the holidays. He can fly home early if he pays another $300, but he would miss three days of work. He earns $50 per day. Flying home early is a smart decision if the benefit is at least
A) $300.
B) $350.
C) $450.
D) $800.
E) $1250.
Answer: C
Diff: 2 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

17) José spent $800 to fly home for the holidays. He can fly home early if he pays another $300, but he would miss three days of work. He earns $50 per day. The implicit cost to flying home early is
A) $150.
B) $300.
C) $450.
D) $800.
E) $1250.
Answer: A
Diff: 2 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

18) Which is an example of a negative externality?
A) automobile emissions
B) a cut in pay
C) a peace treaty
D) brand proliferation
E) education
Answer: A
Diff: 2 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

19) Which is an example of a positive externality?
A) non-refundable deposits
B) scarcity
C) a statue in your closet
D) government
E) anti-virus software on your computer
Answer: E
Diff: 2 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

20) Failure to consider the impact of a positive externality from an activity results in
A) an internality.
B) too little of that activity.
C) scarcity.
D) too much of that activity.
E) a negative externality.
Answer: B
Diff: 1 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

21) Failure to consider the impact of a negative externality results in
A) scarcity.
B) an internality.
C) a positive externality.
D) too little of that activity.
E) too much of that activity.
Answer: E
Diff: 1 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

22) Governments can try and correct the problem of negative externalities from smoking by
A) providing free medical care for smokers.
B) investing in tobacco companies.
C) using taxes and fines to reward smoking.
D) using taxes and fines to penalize smokers.
E) using subsidies to lower the cost of buying cigarettes.
Answer: D
Diff: 2 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

23) Amber baked five chocolate cheesecakes. When all costs, including implicit and external costs are included, the five cheesecakes cost her a total of $100. Producing a sixth cheesecake would increase these costs from $100 to $120. The smart choice for Amber is to produce the sixth cheesecake only if the benefits from the sixth cheesecake are more than
A) $25.
B) $20.
C) $24.
D) $120.
E) $30.
Answer: B
Diff: 3 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

24) Julia's total benefit from taking four university courses is $10,000. If she takes a fifth course, her total benefits increase to $12,000. Julia should take this fifth course only if her
A) total costs are less than $10,000.
B) additional costs are less than $2,000.
C) additional costs are less than $2,400.
D) total costs are less than $12,000.
E) course is free.
Answer: B
Diff: 3 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

25) Smart choices require that
A) typical benefits exceed typical costs.
B) additional benefits exceed average costs.
C) additional benefits exceed additional costs.
D) average benefits exceed additional costs.
E) expected benefits exceed total costs.
Answer: C
Diff: 1 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

26) Key 1 to smart choices says: Choose only when
A) average benefits are greater than average opportunity costs.
B) additional benefits are greater than additional opportunity costs.
C) average benefits are greater than average implicit costs.
D) total benefits are greater than total opportunity costs.
E) additional benefits are greater than additional implicit costs.
Answer: B
Diff: 2 Type: MC
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

27) Marginal benefits are the
A) additional costs from your next choice.
B) average costs from your next choice.
C) benefits that affect others external to a choice of a trade.
D) additional benefits from your next choice.
E) average benefits from your next choices.
Answer: D
Diff: 2 Type: MC
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

28) Saskatchewan used to have more hospitals than Ontario, despite having far fewer people. The Saskatchewan government closed many of these hospitals despite local protests. Which statement is *true*?
A) Since hospitals have positive benefits, they should never be closed.
B) If Saskatchewan had more hospitals than Ontario, it must have had too many hospitals.
C) The Saskatchewan government must have thought the marginal benefit from one of these closed hospitals exceeded its marginal cost.
D) The Saskatchewan government must have thought the marginal benefit from one of these closed hospitals was less than its marginal cost.
E) These closures did not impose costs on the communities where the hospitals were located because the communities did not pay any of the hospital operating costs.
Answer: D
Diff: 2 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

29) Monika will choose to eat a seventh pizza slice if
A) the marginal benefit from the seventh slice is greater than its marginal cost.
B) the marginal benefit from the seventh slice is less than its marginal cost.
C) the total benefit from all seven slices is greater than their total cost.
D) the total benefit from all seven slices is less than their total cost.
E) she has enough money to pay for it.
Answer: A
Diff: 2 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

30) Before starring in *Iron Man*, Robert Downey Jr. had played in many movies with first-weekend box office revenues averaging about $5 million. *Iron Man* earned $102 million in its first weekend. The success of *Iron Man* ________ the opportunity cost of hiring Robert Downey Jr. and ________ the marginal benefit to movie producers of hiring him.
A) increases; decreases
B) decreases; decreases
C) decreases; increases
D) increases; increases
E) decreases; does not change
Answer: D
Diff: 2 Type: MC
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

31) The Three Keys to Smart Choices focus your attention on information most useful for making a smart choice, leaving all other information in the background.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

32) A university adds a 10% surcharge to tuition fees to pay for a new cafeteria. This is a microeconomic decision.
Answer: TRUE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

33) In response to a wage increase, a manufacturer decides to hire fewer workers. This a microeconomic decision.
Answer: TRUE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

34) When your employer offers a higher wage, you decide to work more hours. This is a macroeconomic decision.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

35) More drivers in Canada are buying imported automobiles. This is a macroeconomic decision.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

36) Microeconomics analyzes choices that individuals in households, individual businesses, and governments make, and how those choices interact in markets.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

37) Macroeconomics analyzes performance of the whole Canadian economy and global economy; the combined outcomes of all individual microeconomic choices.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

38) Macroeconomics analyzes choices that individuals in households, individual businesses, and governments make, and how those choices interact in markets.
Answer: FALSE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

39) Microeconomics analyzes performance of the whole Canadian economy and global economy; the combined outcomes of all individual microeconomic choices.
Answer: FALSE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

40) When you buy macrobiotic food at a health food store, that is a macroeconomic decision.
Answer: FALSE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

41) The Three Keys to Smart Choices summarize the core of macroeconomics.
Answer: FALSE
Diff: 1 Type: TF
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

42) The Three Keys to Smart Choices summarize the core of microeconomics.
Answer: TRUE
Diff: 1 Type: TF
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

43) A smart choice is based on a comparison of *marginal* benefits and *marginal* opportunity costs.
Answer: TRUE
Diff: 1 Type: TF
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

44) Costs paid in the past are not relevant in making smart choices about your future.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

45) Resale value is irrelevant when you are deciding about leasing a car.
Answer: FALSE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

46) Deciding how many hours to study should *not* depend on how much you have paid for tuition.
Answer: TRUE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

47) Implicit costs measure the opportunity costs of investing your own money or time.
Answer: TRUE
Diff: 1 Type: TF
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

48) Andrew decides to open a tattoo parlour in his basement and quits his job at TD Securities, sacrificing an annual salary of $64,000. Andrew will have to evict his tenant who currently pays $16,000 a year to rent the basement. Andrew's implicit cost of opening the tattoo parlour is $80,000.
Answer: TRUE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

49) Andrew decides to open a tattoo parlour in his basement and quits his job at TD Securities, sacrificing an annual salary of $64,000. Andrew will have to evict his tenant who currently pays $16,000 a year to rent the basement. Andrew's implicit cost of opening the tattoo parlour is $64,000.
Answer: FALSE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

50) Failure to recognize the negative externality costs of producing electricity with coal-burning generators results in over-production of electricity.
Answer: TRUE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

51) A generous roommate who buys a large number of the latest DVDs creates a positive externality for you.
Answer: TRUE
Diff: 1 Type: TF
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

52) A roommate who throws wild parties every weekend might create positive externalities or negative externalities, depending on your mood.
Answer: TRUE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

53) The decision to take this economics course creates a positive externality because your skills will help businesses who might hire you.
Answer: TRUE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

54) If you are thinking about starting to smoke, a smart choice will *not* consider the external costs associated with smoking.
Answer: FALSE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

55) If you are thinking about starting to smoke, a smart choice will consider the effects of second-hand smoke on others.
Answer: TRUE
Diff: 2 Type: TF
Skill: Applied
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

56) Implicit costs are costs that affect others external to a choice or a trade.
Answer: FALSE
Diff: 1 Type: TF
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

57) Positive externalities are costs that affect others external to a choice or a trade.
Answer: FALSE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

58) Negative externalities are costs that affect others external to a choice or a trade.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

59) Positive externalities are benefits that affect others external to a choice or a trade.
Answer: TRUE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.

60) Negative externalities are benefits that affect others external to a choice or a trade.
Answer: FALSE
Diff: 2 Type: TF
Skill: Recall
Objective: 1.5 Differentiate microeconomic and macroeconomic choices, and explain the Three Keys model to Smart Choices.