Economics 2024 Release 1st edition Karlan Test Bank

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Correct answers located at the end of the chapter.

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

1) Which one of the following can the principles of economics explain?
   A) how to get rich by investing in the stock market
   B) how to prepare a company's financial statements
   C) why some people prefer Coke and other people prefer Pepsi
   D) why people choose whether to work full-time or go to college full-time

2) Who makes decisions about how to allocate resources?
   A) individuals and businesses
   B) businesses and governments
   C) governments only
   D) individuals, businesses, and governments

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

4) Alan could apply the principles of economic decision making in all of the following situations ***except***
   A) deciding whether to debit or credit a specific business transaction in the company’s general journal.
   B) deciding how to spend his paycheck.
   C) deciding whom to marry.
   D) deciding how many children to have.

5) The two broad fields that make up the subject of economics are
   A) microeconomics and macroeconomics.
   B) personal investments and business investments.
   C) fiscal policy and monetary policy.
   D) imports and exports.

6) Which one of the following is considered a microeconomic issue?
   A) The local university decides to raise tuition for online course offerings.
   B) The country of Zimbabwe has experienced a decline in inflation.
   C) The economic growth rate rises in the United States.
   D) The unemployment rate in Greece falls.

7) Which one of the following is considered a microeconomic issue?
   A) the unemployment rate in the United States from 1980 to present day
   B) Apple's newest version of the iPhone
   C) France's growth rate over the last year
   D) the inflation rate in the United States since 2020

8) Suppose Disney World decides to charge local residents a lower price than other park visitors. This topic falls in which field of economics?
   A) macroeconomics
   B) public policy
   C) customer service
   D) microeconomics

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

10) Which one of the following is a microeconomic issue?
   A) The Bureau of Economic Analysis reviews quarterly national income accounting data.
   B) A firm decides to purchase pay-per-click online advertising.
   C) The Federal Reserve increases the discount rate.
   D) The CPI reports a rise in inflation during the month of July.

11) Which one of the following questions would be studied in microeconomics?
   A) Why did our economic growth rate slow down during the 2000s?
   B) How did the recession end in 2009 if unemployment continued to rise?
   C) How did the legalization of marijuana in Colorado affect the market for cigarettes?
   D) When should Congress raise taxes in order to tackle the debt crisis?

12) Which broad field of economics most likely studies how consumers respond to a hike in alcohol taxes?
   A) microeconomics
   B) marginal economics
   C) macroeconomics
   D) monetary economics

13) The broad field of __________ studies how all consumers respond to a hike in cigarette taxes.
   A) microeconomics
   B) development economics
   C) macroeconomics
   D) labor economics

14) The Bureau of Economic Analysis releases last quarter's growth rate in real GDP. This release was most likely written by a
   A) monetary economist.
   B) macroeconomist.
   C) microeconomist.
   D) labor economist.

15) Which one of the following is a macroeconomic topic?
   A) Spotify raises the price of its subscription.
   B) Spotify raises the price paid to new artists.
   C) A local McDonald's franchise decides to hire more workers.
   D) The U.S. labor force participation rate falls.

16) Which one of the following is a macroeconomic issue?
   A) T-Mobile and Verizon announce plans for a merger.
   B) Sears goes bankrupt and the entire retail fashion industry experiences losses.
   C) The unemployment rate in the United States falls during the month of June.
   D) Microsoft decides to offer all users a free upgrade to its Windows operating system.

17) Which one of the following questions would a macroeconomist most likely try to answer?

A) What stage of the business cycle is our economy currently in?
B) Why do Broadway musicals and airlines have different price discrimination strategies?
C) How much would marijuana consumption change if the market became legal?
D) Should IZZE increase its distribution from national to international?

18) Which one of the following topics would be studied in macroeconomics?

A) gasoline price changes
B) unemployment rates over time
C) taxation strategies of major corporations
D) consumer participation in Facebook

19) A macroeconomist studies how

A) the economy works on a regional, national, or international scale.
B) rent ceilings impact the construction rates of new apartments.
C) the increase in the female labor force participation rate impacts children.
D) grocery cart rental fees impact parking lot accident rates.

20) Economists have observed that economic growth generally leads to improved standards of living. This observation is most related to the field of

A) microeconomics.
B) public policy.
C) macroeconomics.
D) financial economics.

21) Which one of the following economic decisions would most likely be studied by a macroeconomist?

A) Domino's Pizza decides to provide quantity discounts in order to increase revenue.
B) A local entrepreneur decides to open a Waffle House in the local Walmart parking lot.
C) The government of Estonia implements a flat rate personal income tax for all citizens.
D) Prices for train fares rise as labor unions negotiate higher wage rates.

22) The assumption of rational behavior

A) offers a perfect framework for how people actually behave.
B) helps economists explain how people behave in a way that will best achieve their goals.
C) explains why people voluntarily engage in decisions for which costs exceed benefits.
D) is best applied to psychology and should not be used in the science of economics.

23) Which one of the following statements about rationality is true?

A) Engaging in a behavior for which the marginal costs exceed the marginal benefits is irrational.

B) Economists wish to prove that all individuals are rational.

C) As long as the marginal benefit of an action is positive, the action is rational.

D) Individuals are hardly ever rational.

24) When we believe the best result will come from the decision we have made, we are being

A) gullible.

B) short-sighted.

C) rational.

D) considerate.

25) When we assume that consumers want to pay the lowest price possible, we assume that consumers are

A) stingy.

B) deceitful.

C) rational.

D) informed.

26) Scarcity is best defined as a situation in which

A) consumers look for bargains.

B) some producers are selfish with resources.

C) people respond to incentives.

D) all wants cannot be satisfied due to resource constraints.

27) Scarcity reflects our inability to satisfy wants due to

A) an unequal distribution of resources.

B) limited resources.

C) inefficient political systems.

D) unemployed workers.

28) Which one of the following is a basic tenet of the economic concept of scarcity?

A) Developing countries will always have a battle to fight hunger.

B) Resources are often wasted, which results in shortages.

C) Income must be redistributed through taxation in order to address income disparity.

D) Limited resources require economies to make choices among production alternatives.

29) Which one of the following is ***not*** a direct result of scarcity?

A) Buildings in New York City are taller than buildings in Greenville, SC, due to fewer acres of land per person.
B) Due to high gas prices, Shana decides to trade her Chevy Tahoe for a Honda Accord.
C) A college student misses a test review in order to get a few more hours of sleep.
D) The energy industry is searching for a way to store the extra power generated by renewable energy.

30) Which one of the following is ***not*** a problem created by scarcity?

A) The college course you need to take in the fall is only offered at times that conflict with your work schedule.
B) The White House eliminates tours for the public due to budget constraints.
C) Your cell phone battery is low and you decline a phone call from a friend to conserve energy.
D) An airline cancels a flight because only 10 percent of its seats have been sold.

31) As a direct result of _________, individuals, firms, and societies are limited in the amount of goods and services that they can produce.

A) unemployment
B) waste
C) irrational behavior
D) scarcity

32) The problems created by scarcity

A) could be solved if more people worked overtime.
B) are of no concern to the top income earners.
C) concern individuals but are not a concern on the macro level.
D) apply to everyone because resources are limited in general.

33) Which one of the following statements about scarcity is true?

A) Scarcity is an undeniable part of everyone's reality due to the world's limited resources.
B) Scarcity is not a problem for billionaires such as Elon Musk.
C) Scarcity in the world can be eliminated by rational decision making.
D) Scarcity is a problem studied in microeconomics and is not a macroeconomic concern.

34) How should we best approach the issue of scarcity?

A) We should desire only things that we are capable of consuming and producing.
B) We should make changes to fiscal policy until the situation of scarcity is eliminated.
C) We should make decisions that allow us to arrange our resources rationally.
D) We should adopt economic policies that will lead to unlimited resources.

35) The problem of having unlimited wants under the constraint of limited resources is the problem of

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

36) The greatest constraint faced by banks considering the alternative of lending to Bangladeshi villagers is

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

37) Suppose Hassan wants to rent a house near the lake over a holiday weekend, but the only house available is out of his price range. This example illustrates the concept of

A) a resource constraint.
B) rising marginal benefits.
C) changing incentives.
D) sunk costs.

38) The famous saying, "There is no such thing as a free lunch," is an example of which economic concept?

A) maximization
B) trade-offs
C) basic necessities
D) the income effect

39) Mimi gets a job twenty miles from her house and purchases a new car to commute. As a result of this new expense, Mimi decides to sell her season tickets to the local football stadium. Mimi's situation can be described as

A) ignoring sunk costs.
B) a trade-off.
C) irrational decision making.
D) a normative choice.

40) Trade-offs

A) are associated with every decision.

B) do not exist if we receive something for free.

C) always result in market failure.

D) can be avoided through economic planning.

41) When making a decision, it is often more difficult to identify the __________ associated with the decision because

A) costs; an individual must weigh monetary costs and opportunity costs differently.

B) costs; an individual should consider opportunity costs but ignore sunk costs.

C) benefits; it is impossible to put a dollar value on benefits.

D) benefits; individual people identify benefits while firms identify costs.

42) Economists assume that people choose to do something when they believe

A) the benefits outweigh the costs of the decision.

B) it will make society better off.

C) their decision cannot be questioned by anyone else.

D) it won't harm anyone and will better themselves.

43) Suppose a university offers college seniors one "free" course. Is this course also free to society?

A) Yes, because the seniors live in society.

B) Yes, because the school has satisfied the assumption of making a rational choice.

C) No, because if a college senior takes the last seat in the class, then a paying student will not have the opportunity to take it.

D) No, because some students will not take a free class seriously and will ultimately become less productive workers.

44) Opportunity cost

A) includes only explicit, out-of-pocket expenses.

B) is the value of your next best alternative.

C) is never provided in dollar values.

D) would not include wages lost when you take a vacation.

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

A) is only the amount of money spent on gas.
B) is zero if the car is already paid for.
C) includes lost wages you could have earned instead of driving.
D) equals the total expenses of the trip.

46) If Johnny weren't in economics class this morning, he'd be sleeping. The value Johnny places on sleeping is his

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

47) Your sister always brags about how savvy she is as a grocery shopper, claiming she saves lots of money by using coupons and shopping at multiple stores to get the lowest prices on all goods. Why might your sister be overestimating her savings?

A) She is using dollars to put a value on the savings she has achieved.
B) She does not take into account how her decisions affect the employment rate in the grocery industry.
C) She does not count the value of the time it takes her to check out at multiple stores and use multiple coupons, compared to a trip to one store with no coupons.
D) She does not realize that by spending less money on groceries, she is helping to move the economy toward a contraction or recession.

48) A gas station that does not offer pay-at-the-pump service decides to require drivers to prepay for gas to decrease the amount of drive-offs. Which one of the following could be an opportunity cost of this decision?

A) the value of the gas that is no longer stolen by people who drove off
B) the time saved from not having to look for people waiting for you to turn on the pump
C) lost revenue from people who underestimate how much their gas tank can hold so they don't end up overpaying
D) a loss of snack sales due to people paying for gas before pumping rather than after pumping

49) The drug approval process regulated in the United States by the Federal Drug Administration (FDA) slows the pace at which helpful medications reach the marketplace. The alternative of having the medication available to consumers earlier is an example of

A) the opportunity cost of the FDA's regulation.
B) how easy it is to identify and evaluate sunk costs.
C) the marginal benefit of the FDA's regulation.
D) promoting consumer health in the population.

50) You're trying to determine whether to spend your Saturday afternoon attending a street festival, working to earn $100, or studying for your midterm exam. You really don't want to work, so you flip a coin to decide whether you will attend the street festival or spend your time studying. The coin flip determines that you should stay home and study. The opportunity cost of your time spent studying includes

A) the loss of $100 worth of wages and the joy from going to the street festival.
B) earning a high score on your midterm and thus improving your grade in the class.
C) only the benefit that you could have received from attending the street festival.
D) the time you spent deciding and using a coin flip to determine your Saturday afternoon activity.

51) Devon is invited to a costume party with a 1990s theme. His first thought is to dress up as MC Hammer (a popular rap artist from the 1980s and 1990s), but he is also considering going as a lifeguard from the hit TV series *Baywatch*. The opportunity cost of arriving dressed like MC Hammer includes

A) the cost of purchasing a pirate costume, his third choice of costume.
B) the money he saves because he doesn't need to purchase red swimming trunks.
C) the enjoyment he would have received if he had dressed as a lifeguard.
D) There is no opportunity cost because he was going to attend the party either way.

52) A local fast-food restaurant mails coupons for a free fried chicken sandwich to every home in the community. Natasha, who is trying to stick to a diet of fresh produce and whole foods, receives one of the coupons. Which one of the following is an opportunity cost of redeeming the sandwich coupon for Natasha?

A) lost wages due to spending time going out to eat rather than eating the pre-prepared meal she brought to work
B) the benefit she would receive from sticking to her fresh produce and whole foods diet plan
C) the benefit she would receive from eating a fried chicken sandwich, one of her favorite fast-food options
D) There is no opportunity cost of redeeming the coupon because the sandwich is free.

53) You are shopping at the local mall with an $80 gift card that expires tomorrow. Only three items catch your attention: a bottle of perfume, a remote control helicopter, and a backpack. You would be willing to pay up to $60 for the perfume, $70 for the backpack, and $80 for the helicopter. Knowing this, you decide to purchase the helicopter. The opportunity cost of the helicopter is

A) $130, the combined value of the alternatives forgone.
B) $80, the amount spent using the gift card.
C) $70, the value of the backpack.
D) $60, the value of the perfume.

54) Tyrone can spend his weekend afternoon doing one of three things: playing golf, driving his boat, or cleaning his house. Although he enjoys golfing, he sometimes becomes frustrated when playing, so he decides to enjoy a more relaxing afternoon on his boat. Tyrone never really considered the idea of cleaning the house, but he did give playing golf some serious thought. Tyrone's opportunity cost of driving the boat is

A) having a messy house, because he decided not to clean it.
B) the enjoyment he would have gotten from playing golf.
C) having a messy house and not being able to enjoy playing golf.
D) enjoying a relaxing day out on the lake.

55) Making a decision "on the margin" involves comparing

A) additional benefits against additional costs.
B) total benefits against total costs, including benefits and costs from past decisions.
C) sunk costs against opportunity costs.
D) all of the benefits you could expect to get, without considering costs.

56) Jasmin purchases a coffee cup from her local gas station for $5.00 that can be refilled at any time for $0.50. The marginal cost of her 10th cup of coffee is

A) $0.50.
B) $5.00.
C) $10.00.
D) $5.50.

57) Aria purchases a coffee cup from her local gas station for $5.00 that can be refilled at any time for $0.50. Economists would say that the $5.00 she spent on the cup is

A) an opportunity cost.
B) a sunk cost.
C) a marginal cost.
D) an average cost.

58) A local street festival that previously sold bracelets in exchange for unlimited alcohol consumption is now concerned about overconsumption of alcohol. If the festival providers decide to instead sell tickets for each drink, will overall alcohol consumption at the next festival decrease?

A) No, because the marginal cost per additional drink will decrease for consumers.
B) No, because the marginal cost per additional drink will increase for consumers.
C) Yes, because the marginal cost per additional drink will increase for consumers.
D) Yes, because the marginal benefit per additional drink will increase for consumers.

59) A college student decides to spend his afternoon watching three rental movies. The cost of each movie is $1. The student was willing to pay $4 to rent each of the first two movies and $2 to rent the third movie. What was the marginal benefit received by the student when renting the second movie?

A) $1
B) $8
C) $4
D) $2

60) A college student decides to spend his afternoon watching three rental movies. The cost of each movie is $1. The student was willing to pay $4 to rent each of the first two movies and $2 to rent the third movie. What was the marginal benefit received by the student when renting the first movie?

A) $1
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61) A college student decides to spend his afternoon watching three rental movies. The cost of each movie is $1. The student was willing to pay $4 to rent each of the first two movies and $2 to rent the third movie. What was the marginal benefit received by the student when renting the third movie?

A) $1
B) $8
C) $4
D) $2

62) The additional cost associated with producing or consuming the next unit of a good or service is the

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

63) Many theaters sell empty seats at a deep discount just before show time. What economic concept is displayed by this behavior?

A) consumer demand
B) sunk costs
C) price optimization
D) thinking at the margin

64) The extra benefit associated with producing or consuming the next unit of a good or service is the

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

65) The deadline for your research paper is tomorrow and you anticipate you'll need a full day's worth of writing to complete the paper. Unfortunately, you are scheduled to work all day in the cafeteria. You can turn the paper in one day late for a 10 percent penalty or take the day off of work and turn the paper in by the deadline. Losing a day of wages will cost you $90. The marginal cost of turning the paper in on time is

A) the 10 percent penalty on your final score.
B) $90 in forgone wages.
C) respect from your professor.
D) the 10 percent penalty on your score and $90 in forgone wages.

66) You and a friend decide to go see a movie at the theater, spending $15 each on the tickets. Halfway through the movie you're struggling to stay awake and your friend is scrolling through their social media. You suggest leaving the movie to do something else, since you're both obviously bored. However, your friend declines, stating he doesn't want to waste the $15 he spent on the ticket. Your friend is considering the __________ of the movie.

A) opportunity cost
B) sunk cost
C) marginal benefit
D) total cost

67) You have paid all expenses to travel to your favorite beach for a vacation. You made these payments early in order to receive a discount, and all payments are nonrefundable. Unfortunately, the meteorologist is now predicting that a hurricane will hit the area during your vacation dates. As you decide whether or not to take the trip, you should ***not*** consider the

A) money that has already been spent on the trip.
B) satisfaction you are likely to receive at the beach during a hurricane.
C) best alternative use of your time if you do not take the trip.
D) additional costs you didn't anticipate while on the trip.

68) Emir decides to sign up for a college accounting course. He pays the $500 tuition, but before the course starts he is offered a job that conflicts with the class time. The tuition is no longer refundable. In deciding whether to accept or decline the job offer, the $500 spent on the class is

A) the opportunity cost of the job.
B) the expected gain in pay from taking the accounting course.
C) a sunk cost.
D) a sunk benefit.

69) After paying $12 for an all-you-can-eat buffet, you can eat as much food as you desire. The marginal cost of an additional plate of food is

A) the benefit you will get from consuming the food.
B) $12 minus the time it takes you to eat the food.
C) zero dollars.
D) a sunk cost, and therefore irrelevant.

70) After paying $12 for an all-you-can-eat buffet, you can eat as much food as you desire. Which one of the following statements is true?

A) The marginal benefit of your first plate of food is larger than the marginal benefit of your third plate of food.
B) The marginal cost of a plate of food is sunk.
C) You should eat as much as possible to maximize your benefit.
D) It is inefficient to eat at buffet restaurants.

71) Which one of the following is the most useful concept for understanding and evaluating trade-offs?

A) opportunity cost
B) correlation/causation
C) efficiency
D) the circular flow model

72) Suppose that a policy maker knows there are currently 1,000 cars purchased each year in the city. In order to build a new park next year, which will cost $500,000, the policy maker decides to impose a tax of $500 on each car purchased. Which one of the following scenarios is most likely to occur?

A) The $500 tax will disincentivize car purchases, and less than $500,000 will be raised.
B) The $500 tax will have no effect on car purchases, and the $500,000 will be raised.
C) Knowing the purpose of the $500 tax, more people will be incentivized to make car purchases, and the park will be funded.
D) The $500 tax is a sunk cost and thus will be ignored by people making car purchases.

73) An Italian restaurant decreases the price of pizza relative to the price of spaghetti, so customers buy more pizza. This is an example of responding to

A) marginal science.
B) incentives.
C) disincentives.
D) sunk benefit.

74) Muhammad Yunus revolutionized banking in Bangladesh by issuing loans using group responsibility. This change to group responsibility

A) reduced the trade-offs faced when making a loan.
B) provided an incentive for villagers to repay loans.
C) increased scarcity, making it easier to repay loans.
D) provided an incentive for villagers to offer collateral for loans.

75) A fast-food chain announces a "buy one get one free" offer on breakfast sandwiches bought before 9 a.m. This offer is an example of

A) the use of incentives.
B) a macroeconomic decision.
C) hoarding scarce resources.
D) trade-offs.

76) A car dealership advertises free satellite radio for one year with the purchase of a new car. This offer is an example of

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

77) Applying for a loan in five-person groups is an example of

A) family and friends lending.
B) party of five lending.
C) group responsibility.
D) trade-off.

78) A university posts a notice that anyone who registers for classes after the deadline will be charged an additional $30 fee. This fee is an example of

A) a trade-off.
B) a disincentive.
C) marginal cost.
D) group responsibility.

79) Muhammad Yunus, founder of the Grameen bank, was highly successful in his use of applying social incentives through group responsibility in order to maximize loan repayment rates. This success created an incentive for other banks to

A) offer similar loans to the poor.
B) go out of business.
C) seek government action to ban group responsibility lending.
D) avoid catering to a high-risk group.

80) Which one of the following is an example of a positive incentive?

A) Discover offers zero percent balance transfer rates to anyone who opens a new credit card.
B) McDonald's decides to add a white chocolate mocha to its menu.
C) A teacher who has taught for 30 years decides to retire and focus on gardening.
D) A business decides to leave the industry after facing stiff competition.

81) An incentive is

A) the marginal cost of engaging in a course of action.
B) the marginal benefit of engaging in a course of action.
C) something that changes the trade-offs people face.
D) rational behavior that involves thinking on the margin.

82) Which one of the following is an example of a positive incentive?

A) deciding not to play golf due to rain
B) making a donation to the Red Cross
C) hiring 10 new workers as you expand your operations
D) offering a reward to anyone who finds your missing pet

83) Which one of the following is an example of a disincentive?

A) Law enforcement creates a "Mug Shots" webpage that shows the faces of law breakers.

B) A technology company offers a bonus to any employee who sells more than 100 widgets per month.

C) A local gym sponsors a marathon, with the prize being a free trip to Bermuda.

D) Your professor offers to give you feedback on your paper and allow a revision before grading it if you turn it in early.

84) Suppose that a policymaker is considering offering free college tuition to all low-to-moderate income families in your state. There are currently 1,000 students attending college who would meet the income qualifications to receive free tuition, and tuition is $10,000 per year. Which one of the following statements is most likely to be true?

A) This program will cost the state approximately $10 million per year.

B) Some of the students will be disincentivized from attending college because they will have to apply for the program.

C) The $10,000 is a sunk cost that policymakers shouldn't consider when estimating the funds needed to administer this program.

D) Free tuition will incentivize more students to attend college, and this program will cost more than $10 million per year.

85) Suppose a salon owner notices that the salon's pedicures are very popular with customers. The owner decides to double the price of the pedicure in order to raise more revenue. Which one of the following statements is most likely to be true?

A) The owner will double her revenue as a result of the price increase.
B) More customers will get pedicures because the price indicates it is a desirable service.
C) The salon's revenue will less than double as customers are disincentivized from getting a pedicure.
D) Customers will no longer visit the salon as a result of the price increase.

86) Suppose the government would like to reduce smoking rates among teenagers. Which one of the following policies is designed to achieve this goal by changing incentives?

A) The government requires all high school students to take a health class, and the harmful effects of cigarette smoke will be a required component of the curriculum.
B) The government asks all high schools to post "Thank you for not smoking" signs around the school grounds.
C) The government raises the legal age for purchasing cigarettes to 20.
D) The government raises the tax on cigarettes.

87) The idea of efficiency is used to address which one of the following questions?

A) What are the wants and constraints of those involved?
B) What are the trade-offs?
C) How will others respond?
D) Are resources being allocated in the best way possible?

88) Something is valuable if

A) it does not involve a trade-off.
B) it is a good or a service.
C) someone wants it.
D) it was made using resources.

89) A resource is
- A) something that people respond to.
- B) anything that can be used to make something of value.
- C) a good or service.
- D) something of value.

90) The use of resources in the most productive way possible to produce the goods and services that have the greatest total economic value to society is called
- A) innovation.
- B) efficiency.
- C) sustainability.
- D) economic quantity.

91) Suppose you have an idea that you believe offers substantial opportunity, but no one has ever implemented this idea before. What conclusion might you accurately draw?
- A) People are irrational.
- B) You are being irrational.
- C) You have come up with a new, innovative idea.
- D) Nobody will fund your idea.

92) For which reason might you incorrectly conclude that an idea no other person has implemented is highly profitable?
- A) You've accurately judged people's wants and constraints.
- B) You've correctly calculated the trade-offs people face.
- C) You've estimated your possible profits using dollars instead of time.
- D) You've misunderstood how people will respond to incentives.

93) Which one of the following is an assumption that economists make?
- A) Most people possess entrepreneurial talent.
- B) People are very good at assessing the costs of decisions accurately.
- C) Individuals and firms will act to provide the things people want.
- D) Individuals usually fail to optimize the use of their resources because they think on the margin.

94) __________ occurs when the government alters normal market activity.
- A) Innovation
- B) Intervention
- C) Market failure
- D) Unexpected outcomes

95) If you generate a new idea that has not yet been implemented by others, and the idea offers a more profitable use of some resource, it is likely an example of

A) innovation.
B) market failure.
C) intervention.
D) a goal other than profit.

96) Yasmin has an idea, but she cannot implement it because a monopoly producer has placed a barrier to entry. What makes this an abnormal circumstance?

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

97) You have an idea to open a rooftop restaurant in the downtown area of your community, as none currently exists. However, after some investigation you discover that any rooftop restaurant would violate city regulations. What makes this an abnormal circumstance?

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

98) Which one of the following is an example of a goal other than making a profit?

A) maximizing the excess of revenues over expenses
B) creating a business plan to ensure that a company's revenues exceed the break-even point
C) sending jobs overseas to minimize expenditures on labor
D) helping people who struggle with poverty or illiteracy

99) Muhammad Yunus, founder of Grameen Bank, was a pioneer in implementing group responsibility to lend to the poor. Why wasn't someone else already doing it?

A) The government regulated against group responsibility.
B) The idea of group responsibility was genuinely new.
C) Group responsibility lending was not profitable.
D) It was easy for groups to provide false social security numbers for members who did not exist.

100) Economic analysis requires us to combine

A) unlimited resources with limited wants.
B) theory with observations.
C) developed nations and developing nations.
D) views from different political parties.

101) Suppose the owner of a rare piece of art has recently died, and her will specified that an economist should make sure that the painting is passed on "efficiently." Which one of the following methods is most likely to result in efficiency?

A) The painting is given to the owner's only child.
B) The painting is put into storage to preserve its quality.
C) The painting is auctioned to the highest bidder.
D) The painting is donated to a large museum in New York City.

102) Consider two neighbors who each run a small business. Juan grows and sells vegetables. Amber grows and sells flowers. Currently, Juan uses an herbicide on his vegetables, because he can grow more crops with the use of herbicide. Specifically, he earns $1,500 more during the years when he uses herbicide. Amber's flower farm is harmed by Juan's use of herbicide because it drifts to her farm and kills $3,000 worth of flowers each year. Which would be an efficient solution to this problem?

A) The government bans the use of herbicide.
B) Amber sells her flower business.
C) Amber pays Juan $1,500 not to use an herbicide.
D) There is no need for an intervention, as the current situation is efficient.

103) When two variables have been observed to have a tendency to occur at the same time, we can say there is __________ but not necessarily

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

104) The statement "People who drink coffee tend to wake up early" implies that

A) drinking coffee causes people to wake up early.
B) drinking coffee is negatively correlated with waking up early.
C) drinking coffee is positively correlated with waking up early.
D) waking up early causes people to drink coffee.

105) The Widgetville County Wolfpack has won 90 percent of their last 20 games played under a full moon. What does this fact imply?

A) The weather affects how they play.
B) There is a positive correlation between their play and the occurrence of a full moon.
C) Full moons cause the team to play better.
D) Causation can be found between their play and a full moon.

106) Suppose that out of the two cities that send football teams to the Super Bowl, the city with the lower unemployment rate wins 70 percent of the time. What does this fact imply?

A) a positive correlation between Super Bowl wins and low unemployment rates
B) evidence that richer cities always have better football teams
C) the condition of ceteris paribus present in the winning cities
D) a negative correlation between Super Bowl wins and low unemployment rates

107) When toilet paper sales increase, quarterly economic growth rates tend to rise. This is an example of

A) two variables that are negatively correlated.
B) the presence of ceteris paribus.
C) correlation without causation.
D) causation with no correlation.

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

A) indifference trade-off between the two goods.
B) the interaction between two correlated goods.
C) two items that are uncorrelated.
D) the value people place on dogs versus milk.

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

A) a positive correlation.
B) inferior goods.
C) two uncorrelated events.
D) a negative correlation.

110) When the unemployment rate rises, college enrollment increases as workers seek to expand training. This is an example of

A) correlation and causation.
B) a negative correlation.
C) normative economics.
D) government failure.

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

A) scarcity.
B) macroeconomics.
C) normative analysis.
D) correlation and causation.

112) A journal reports that students who attend private schools have higher test scores. Which one of the following is an example of an omitted variable that could explain this correlation?

A) private school tuition
B) the inclusion of a Latin elective in the curriculum
C) students' differing tastes in music (classical vs. pop)
D) parents' education level

113) When the occurrence of one event brings about the other, the relationship between the two events is best described as

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

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

A) life jacket sales.
B) prices of flights to Las Vegas.
C) real estate prices in Las Vegas.
D) increased disposable income.

115) In the past, there was a strong correlation between ice cream consumption and polio diagnoses in children. However, this was shown ***not*** to be a causal relationship by

A) identifying a common underlying omitted variable.
B) demonstrating reverse causality.
C) correcting errors in data reporting.
D) eliminating coincidences.

116) The classic conundrum, "Which came first, the chicken or the egg?" seeks to address the common fallacy of __________ in the context of correlation and causation.

A) reverse causality
B) omitted variables
C) linear relationships
D) comparative analysis

117) A journal reports that both minivan sales and birth rates are on the rise. If you were to conclude that minivans cause people to have children, you would be making the mistake of

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

118) A news article reports that students who take SAT preparation courses tend to have higher test scores. Which one of the following describes an omitted variable that could explain this correlation?

A) Colleges have begun to base their admissions decisions on factors other than SAT scores.
B) In 2021, the average SAT score was 1050.
C) Many students find the Math part of the SAT test more difficult than the Reading and Writing/Language parts of the test.
D) Students who are more motivated to attend college are more likely to enroll in SAT preparation courses.

119) Suppose researchers are interested in the health effects of diet soda. It has been observed that individuals who consume diet soda are more likely to be overweight. Which one of the following describes how reverse causation could explain this correlation?

A) Overweight individuals have a genetic predisposition to seek out sweet foods and beverages.
B) Individuals who wish to lose weight choose to drink diet soda.
C) Diet soda advertises to people who wish to lose weight.
D) Diet soda has hidden calories that are not reported by the soda companies.

120) You read a news article that states, "More people purchase ChapStick after the weather report predicts a windy week." Which one of the following statements is true?

A) Buying ChapStick is negatively correlated with the announcement of a windy week.
B) Reverse causation can explain this observed correlation.
C) Buying ChapStick is positively correlated with the announcement of a windy week.
D) The observation reflects a normative statement.

121) Good economic models should

A) attempt to include every detail of the situation being studied.
B) attempt to describe a situation with perfect accuracy.
C) not be applied to microeconomics.
D) describe a real-life situation accurately.

122) The purpose of an economic model is to

A) describe the way economists think the world should be.
B) provide a simplified representation of a complicated situation.
C) describe the best possible outcomes for society.
D) explain a situation without making strong assumptions.

123) Which is ***not*** a characteristic of a good economic model?

A) focuses on important details
B) predicts cause and effect
C) utilizes vague assumptions
D) describes the world accurately

124) One of the most basic models of the economy is

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

125) The two most important actors of the economy are

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

126) Households are vital to the circular flow model in which two ways?

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

127) Which actor in the simplified circular flow model buys or rents land, labor, and capital?

A) firms
B) households
C) markets for factors of production
D) government

128) Which actor in the simplified circular flow model is on the supply side of the goods market?

A) firms
B) households
C) consumers
D) government

129) Which actor in the simplified circular flow model is on the supply side of the factor market?

A) firms
B) households
C) market for goods and services
D) government

130) The two flows, or things being exchanged, in the circular flow model are

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

131) An economic model
- A) exactly explains what happens in the real economy.
- B) discards unnecessary details to clearly demonstrate the central principles of the economic activity.
- C) approximates all facets of what happens in the real economy.
- D) does not make clear assumptions about the economic activity.

132) When attempting to understand why a model may not be accurate, which one of the following is ***not*** an action you should take?
- A) Identify what important details were omitted when developing the model.
- B) Make sure assumptions made in the model are clear and accurate.
- C) Test the model for accuracy.
- D) Make sure the model includes all possible details.

133) Which one of the following statements about an economic model is true?
- A) An economic model should include all possible details.
- B) An economic model always accurately predicts cause and effect.
- C) An economic model should make clear assumptions.
- D) An economic model should never use simplifying assumptions.

134) Thomas Malthus was an early 19th century economist who created a model describing the relationship between population growth and
- A) war.
- B) birth control.
- C) crime.
- D) food production.

135) Thomas Malthus's model made the mistake of failing to consider
- A) technological progress.
- B) inflation.
- C) comparative advantage.
- D) scarcity.

136) A __________ statement is most likely to include the word "should."
- A) positive
- B) normative
- C) factual
- D) marginal

137) A normative statement is generally based on
- A) data that can be tested.
- B) a factual claim.
- C) subjective beliefs.
- D) scientific fact.

138) A factual claim about how the world actually works is a(n) __________ statement.

A) positive
B) marginal
C) irrational
D) normative

139) The sentence "Economies that adopt more open trade policies have often historically enjoyed faster economic growth rates as a result" is an example of a __________ statement.

A) marginal
B) normative
C) positive
D) biased

140) The sentence "The United States should adopt more open trade policies because they historically have caused increased economic growth" is an example of a(n) __________ statement.

A) unequivocally true
B) normative
C) positive
D) unequivocally false

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

A) political statements and non-political statements.
B) rational statements and irrational statements.
C) macroeconomic theories and microeconomic theories.
D) positive statements and normative statements.

142) A positive statement

A) can actually be false.
B) must always be true.
C) provides an opinion with a positive outlook.
D) is the same as a normative statement.

143) Which one of the following is an example of a positive statement?

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

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

A) Tom is a college student.
B) Immigration into the United States should be encouraged.
C) The cost of basic health insurance rose from the previous year.
D) The federal minimum wage is $7.25.

145) Which one of the following is an example of a positive statement?

A) NCAA Football should have adopted a playoff system 10 years ago.
B) An increase in the minimum wage results in higher teenage unemployment.
C) No one should be allowed to carry guns into the classroom.
D) Cats make better house pets than dogs.

146) Which one of the following is an example of a normative statement?

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

147) Which one of the following is an example of a normative statement?

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

148) Which one of the following is an example of a normative statement?

A) The average price of a Whopper Jr. across the United States is $2.19.

B) The United States ought to adopt a flat rate personal income tax.

C) Unemployment in the United States is too high.

D) Average growth in real GDP per year was 1.84 percent between 2000 and 2010.

149) Your friend comments that "A hair stylist should not have to obtain a cosmetology license." Her statement is an example of what kind of statement?

A) uninformed

B) biased

C) positive

D) normative

150) Which one of the following is considered a microeconomic issue?

A) The local Starbucks goes out of business due to competition from Dunkin'.

B) The value of Venezuela's currency has dropped to almost zero.

C) China has achieved high economic growth rates due to productivity increases.

D) The European Union often suffers from high levels of unemployment.

151) Which one of the following is considered a macroeconomic topic?

A) You decide that a ticket to a Baltimore Orioles game is not worth the $75 price of admission.

B) Rents in your small town have increased by 10 percent for the last three years in a row.

C) Your college's English department decides to hire a full-time assistant.

D) The U.S. central bank decides to increase interest rates to get inflation under control.

152) Which statement contradicts the basic assumption of rational behavior?

A) Jose moves money from his savings account into a certificate of deposit because the CD pays a much higher interest rate.

B) Amy stores her savings in a hidden box in her closet so that the money will be safe.

C) Fatima decides to work 10 hours of overtime because she will earn time and a half for those 10 hours.

D) Tyler sells a book for less than he paid for it because he knows he will never read that book again.

153) Scarcity exists because

A) we assume that people make rational choices.

B) Earth cannot produce enough food to feed the human population.

C) we want more than we can get with available resources.

D) companies restrict the supply of essential goods during pandemics such as COVID-19.

154) Suppose you decide to spend Saturday night babysitting three bratty children for a negotiated fee of $35 and all the potato chips you can eat. Which one of the following is ***not*** a trade-off involved in your decision?

A) the time you could have spent with a study group to improve your understanding of economics

B) the wages you could have earned by working instead at your usual job as a barista at a local coffee house

C) the price of the potato chips that you ate while babysitting

D) the "speed dating" party you could have attended for singles (such as yourself) who are looking for a romantic partner

155) Which one of the following is an example of making a decision on the margin?

A) You decide to study one hour more because you believe the extra study will improve your grade on tomorrow's exam.

B) You look at your paycheck and decide to stop working because you're sick of paying so much money in taxes.

C) Because you like Coca-Cola better, you buy a 2-liter bottle of Coke for $1.99 when you could have paid $1.49 for a 2-liter bottle of Pepsi.

D) You decide that you prefer to spend time with your friend Evan (who's fun to be with) instead of your friend Evelyn (who complains constantly).

156) Which one of the following is ***not*** an example of an incentive?

A) Your professor assigns what you consider to be an unreasonable amount of homework over the Thanksgiving holiday.

B) One of your relatives offers you $20 to wash and vacuum his car.

C) Your mother tells you that if you don’t maintain a 3.0 GPA, she'll stop paying your tuition.

D) When you buy two pairs of Crocs from the company website, you get a third pair at 50 percent off.

157) Which one of the following is an example of an irrational decision based on an imperfect understanding of sunk costs?

A) You turn down another slice of birthday cake because one slice was enough for you.
B) You ask your manager for a raise because you have an excellent work record.
C) You bought a box of 12 donuts, and you keep eating them even after your stomach is full and you're sick of donuts because you paid good money for those donuts.
D) You pay a high price for an enormous TV because you want the largest possible screen for gaming.

158) Which one of the following statements confuses correlation with causation?

A) Getting a good night's sleep before an exam is associated with better performance on the exam.
B) Influenza is caused by one of several flu viruses.
C) You got the COVID-19 vaccination, and therefore you got the flu.
D) Your friend Jesse didn't attend class, didn't read the textbook, skipped all the exams, and then failed the course.

159) Which one of the following is an example of a normative statement?

A) In 2023, Apple's CEO, Tim Cook, received compensation of $49 million.
B) In fall 2021, female students made up 58 percent of total undergraduate enrollment.
C) Earth's population is approximately 8 billion people.
D) The wealthy should pay a higher share of their income in taxes.

Answer Key

Test name: Chapter 01

1) D
2) D
3) B
4) A
5) A
6) A
7) B
8) D
9) C
10) B
11) C
12) A
13) A
14) B
15) D
16) C
17) A
18) B
19) A
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157) C

158) C
159) D