Modern Principles - Macroeconomics 6th edition Cowen Test Bank

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Name:________________________ Class:________________ Date:__________

Chapter 1

1. Recall Chapter 1's opening story about the British sea captains and the convicted felons. In what way were incentives used to solve the problem of the high mortality rate on board the ships?

a. Payment (to ship captains) was to be offered for each prisoner that was taken aboard the ships.

b. Payment (to ship captains) was made independent of the regulations passed for prisoner welfare.

c. Regulations were passed so that prisoners could get better food, water, and medical care.

d. Payment (to ship captains) was made dependent on the survival rate of prisoners.

ANSWER: d

2. Recall Chapter 1's opening story about the British sea captains and the convicted felons. Instead of paying the sea captains for each prisoner placed on board the ships in Great Britain, an economist suggested:

a. paying for each prisoner who walked off the ship in Australia.

b. paying for food and water to reduce the costs of caring for prisoners during the transit.

c. doing nothing, since the suggested change would not matter.

d. that new regulations be passed to require prisoner safety and health.

ANSWER: a

3. In his book *The Wealth of Nations*, Adam Smith claimed that individuals:

a. always act in an altruistic way.

b. always consider the effect of their actions on others.

c. are motivated by self-interest.

d. are not concerned with resources.

ANSWER: c

4. According to the story that opens the chapter, paying captains of prisoner transport ships for each convict who arrived in Australia instead of for each convict who boarded the ship:

a. made no difference.

b. saved the lives of hundreds of convicts.

c. increased the volume of slave trafficking.

d. shows that people care more about morality than about their self-interest.

ANSWER: b

5. Several states offer rebates on the purchase of electric vehicles. This practice highlights the idea of:

a. self-interest.

b. trade-offs.

c. incentives.

d. thinking on the margin.

ANSWER: c

6. Every day, people who work as servers serve meals to people at restaurants all over the world. These people work for our benefit because:

a. people think on the margin.

b. trade-offs are everywhere.

c. they benefit from doing so.

d. institutions require them to do so.

ANSWER: c

7. Economists think that people are self-interested:

a. only when monetary incentives are present.

b. because they respond to incentives in predictable ways.

c. only rarely in response to incentives.

d. unless they are being altruistic.

ANSWER: b

8. A basic postulate of economics is that changes in incentives influence the:

a. actions of producers but not consumers.

b. actions of consumers but not producers.

c. choices of individuals only when they buy and sell goods in the marketplace.

d. choices of individuals with regard to a wide range of activities, including those generally perceived as social or political.

ANSWER: d

9. According to economists, people respond to:

a. other people.

b. social interest.

c. money.

d. incentives.

ANSWER: d

10. Adam Smith wrote, "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest." He meant that:

a. most of us no longer get our dinner directly from the butcher, the brewer, and the baker.

b. butchers, brewers, and bakers are not productive members of society.

c. high-interest payments mean that no one has to work anymore.

d. people work for the benefit of others because it benefits them to do so.

ANSWER: d

11. Which financing method for transporting prisoners from point A to B will result in the greatest number of prisoners surviving the trip? Assume there are 50 prisoners being transported.

a. The ship's captain is paid $100 by the government for every live prisoner loaded on board at point A.

b. The ship's captain is paid $100 by the government for every live prisoner unloaded at point B.

c. The ship's captain is paid $400 by the government for every live prisoner loaded on board at point A.

d. The ship's captain is paid a flat rate of $3,000 for the trip rather than being paid per prisoner.

ANSWER: b

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12. Suppose a certain business wants to encourage its employees to live healthier lives. The easiest way for the business to realize this goal is to:

a. give each employee $100 a month for a gym membership.

b. install a gym in the office building.

c. reduce health insurance benefits.

d. pay a monthly bonus to employees who log an hour of exercise a week on a fitness tracker.

ANSWER: d

13. Many companies pay their factory employees based on piece rates—the more employees produce, the more they earn. This practice highlights the role of:

a. marginal thinking.

b. incentives.

c. trade-offs.

d. sunk costs.

ANSWER: b

14. If there were no _____, the "invisible hand" would not function as Adam Smith describes.

a. money

b. self-interest

c. trade

d. inflation

ANSWER: b

15. Based on the ideas of Adam Smith, it is _____ barbers wash, cut, and style hair, but _____.

a. not out of benevolence that; from their regard for their own self-interest

b. out of benevolence that; also sometimes from their regard for their own self-interest

c. not out of self-interest that; out of their benevolence

d. from charity and good will that; only if they can charge high prices

ANSWER: a

16. In the 1800s, the federal government paid railroad companies for each mile of track built. This payment scheme created incentives for railroad companies to lay track:

a. between points A and B, using the most direct route.

b. between points A and B, using the most indirect route.

c. as slowly as possible.

d. using the best materials possible.

ANSWER: b

17. Adam Smith's "invisible hand" refers to the attainment of socially beneficial outcomes when:

a. people pursue their own self-interest.

b. people pursue the social interest.

c. people pursue social justice.
d. there is government control.

ANSWER: a

18. Adam Smith coined the term "invisible hand" to mean a:
   a. physical hand that leads individuals to promote the social interest by pursuing their self-interest.
   b. metaphorical hand that leads individuals to promote the social interest by pursuing their self-interest.
   c. physical hand that leads individuals to promote their self-interest by pursuing the social interest.
   d. metaphorical hand that leads individuals to promote their self-interest by pursuing the social interest.

ANSWER: b

19. What is the "invisible hand"?
   a. the idea that government economic planning tends to benefit not only the individual but also all of society
   b. the principle that most people should avoid economic transactions with so-called "outsiders"
   c. the idea that people pursuing their own self-interest benefit the public at large
   d. the notion that the pursuit of profit leads to the exploitation of consumers

ANSWER: c

20. Adam Smith sought to explain the notion that markets align self-interest with the social interest:
   a. through an analysis of wealth as productivity.
   b. by suggesting that markets are led by an invisible hand.
   c. by arguing that markets are ineffective.
   d. by advocating government regulations.

ANSWER: b

21. The idea that markets work efficiently:
   a. refers to the fact that self-interest can align with the social interest.
   b. means that trade-offs can be reduced by channeling greed toward good ends.
   c. suggests that there is never any need for government regulation, taxes, or subsidies.
   d. has been known for many centuries.

ANSWER: a

22. Which of these statements reflects Adam Smith's important insight into marketplace behavior?
   a. Society benefits when people and firms pursue their own self-interest.
   b. Markets are usually an inefficient way of organizing economic activity.
   c. Greedy, self-interested behavior must be constrained to ensure strong economic growth.
   d. Trade restrictions on imported goods increase domestic employment.

ANSWER: a

23. Adam Smith's metaphor of the "invisible hand" refers to the notion that:
   a. greed is always good when externally motivated.

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b. behavior based on self-interest can benefit society.

c. market incentives can lead to negative outcomes.

d. markets always align self-interest with the social interest.

ANSWER: b

24. When markets don't align self-interest with the social interest:

a. markets will still manage to reach an efficient outcome.

b. governments may improve the situation by changing incentives.

c. societal costs will always exceed individual benefits.

d. individual benefits will exceed societal benefits.

ANSWER: b

25. If market incentives to produce are too strong, the market will end up producing:

a. too much of a good.

b. too little of a good.

c. a quantity equal to the efficient outcome, as market incentives can never be too strong.

d. zero output.

ANSWER: a

26. If market incentives to produce are too weak, the market will end up producing:

a. too much of a good.

b. too little of a good.

c. a quantity equal to the efficient outcome, as any incentive will result in economic efficiency.

d. zero output.

ANSWER: b

27. According to economists, socially beneficial outcomes arise whenever people pursue:

a. their self-interest.

b. either their self-interest or the social interest.

c. their self-interest, and it aligns with the social interest.

d. their self-interest, and it does not align with the social interest.

ANSWER: c

28. The "invisible hand" concept is:

a. always a force in market outcomes.

b. never a force in market outcomes.

c. frequently a force in market outcomes.

d. not well understood as it relates to market outcomes.

ANSWER: c

29. When the social interest aligns with self-interest:

a. the free market functions in the best interest of society.

b. regulatory action can improve on the free market outcome.

c. the relevant market should be banned.

d. the relevant production process should be outsourced.

ANSWER: a

30. When it comes to getting a college education, most people consider _____, not _____.

a. the social interest; their self-interest

b. the public interest; the social interest

c. their costs; their benefits

d. their self-interest; the social interest

ANSWER: d

31. Government can help to align self-interest with the social interest by:

a. enacting policies that increase incentives to work and trade.

b. decreasing international trade.

c. promoting charity work.

d. banning free markets.

ANSWER: a

32. Suppose that you do not study for your economics course but still earn a good grade. This is an example of a bad institution because:

a. your school is not very selective; anyone can get in.

b. your self-interest in not studying conflicts with the social interest of having people who understand economics.

c. your school has a reputation of training excellent economists.

d. sometimes the "invisible hand" is absent, not just invisible.

ANSWER: b

33. During the COVID-19 pandemic, many state governors instituted stay-at-home orders to prevent the spread of the illness. This illustrates the idea that:

a. greed is bad.

b. markets align self-interest with the social interest.

c. the government can sometimes improve market outcomes.

d. incentives are not always important.

ANSWER: c

34. Which of these choices BEST illustrates the concept of Adam Smith's "invisible hand"?

a. Etsy creates a website for an artist who sells their artwork to a collector in another country.

b. A fishery is depleted due to overfishing.

c. The government requires car owners to have their vehicles' emissions tested each year.

d. A factory that provides much-needed employment is built on the site of the only children's playground in town.

ANSWER: a

35. Which of these is an example of self-interest that promotes the social interest?
   a. A factory spills chemicals into a nearby river.
   b. The prime minister of Canada restricts trade in lumber with the United States.
   c. The Cincinnati Reds beat the Atlanta Braves.
   d. An entrepreneur creates a crowd-funding website to provide funding for a public school's fine arts program.

ANSWER: d

36. Self-interest aligns with the social interest when:
   a. one company gains a monopoly over a precious metal used in high-tech products and raises its price significantly.
   b. an entrepreneur makes billions of dollars on a new tech product.
   c. commercial fishers deplete a valuable fish stock.
   d. a paper mill emits carcinogenic toxins near a residential area.

ANSWER: b

37. You may choose not to get the new COVID booster because the market for COVID boosters:
   a. aligns your personal interest in getting a booster with the public's interest that you get one.
   b. disincentivizes people from getting boosters.
   c. does not align your personal interest in getting a booster with the public's interest that you get one.
   d. is fraudulent, a corrupt institution created by the pharmaceutical companies that produce the boosters.

ANSWER: c

38. The length of time and cost of bringing a new drug to market leads to:
   a. drug lag and drug loss.
   b. drug lag but not drug loss.
   c. drug loss but not drug lag.
   d. market efficiency.

ANSWER: a

39. When the unemployment rate falls, college enrollment tends to:
   a. rise.
   b. remain the same.
   c. fall.
   d. defy prediction.

ANSWER: c

40. The great economic problem is how to arrange our scarce resources to:
   a. provide the most profit possible.
   b. meet the basic needs of all people.
   c. satisfy as many of our wants as possible.

d. prevent them from being completely depleted.

ANSWER: c

41. Scarcity:

a. is when a resource is completely used up.

b. is when there isn't enough to satisfy all our wants.

c. happens only in a few economies around the world.

d. can be fixed with good economic policy.

ANSWER: b

42. The opportunity cost of a choice is:

a. the value of the opportunities lost.

b. the net value of the opportunities gained.

c. the difference between the benefits and costs of the choice.

d. sometimes positive and sometimes negative.

ANSWER: a

43. In the market for pharmaceuticals, the issue of "drug lag" illustrates which of these ideas?

a. The longer a drug is tested for safety, the lower the opportunity cost in terms of lives lost.

b. If a drug is not tested for safety, it might kill more people.

c. Because of the higher cost of testing a drug, it takes longer to make it, and more lives are lost.

d. Lives are being lost because safe drugs that are still in the testing stage have not yet been approved.

ANSWER: d

44. In the market for pharmaceuticals, the issue of "drug loss" illustrates which of these ideas?

a. The longer a drug is tested for safety, the lower is the opportunity cost in terms of lives lost.

b. If a drug is not tested for safety, it might kill more people.

c. Because of the higher cost of testing a drug, fewer drugs are made, and more lives are lost.

d. Lives are being lost because safe drugs that are still in the testing stage have not been approved.

ANSWER: c

45. What you give up to obtain an item is called your:

a. opportunity cost.

b. explicit cost.

c. true cost.

d. direct cost.

ANSWER: a

46. Opportunity costs are important because:

a. monetary costs are higher than opportunity costs.

b. only monetary costs should be considered when making choices.

c. they determine how to make the world more productive.

d. people change their behavior when opportunity costs change.

ANSWER: d

47. The opportunity cost of a choice is the:

a. opportunity of using the same money to buy something else that is cheaper.

b. money cost that a person does not have to pay when doing something.

c. money that a buyer has to pay for an item.

d. value of the next best opportunity forgone.

ANSWER: d

48. Estimates suggest that tens of thousands of people have died because the FDA withheld beta-blockers from the market while testing them to determine whether they were safe and effective. This is an example of:

a. drug lag.

b. drug loss.

c. bureaucratic incompetence.

d. market failure.

ANSWER: a

49. According to economists, when the FDA raises the approval requirements for new drugs:

a. everyone will benefit and be better off.

b. society will potentially lose a new drug approval.

c. everyone but the drug makers will lose.

d. people will only demand more drug testing.

ANSWER: b

50. If the FDA enacts more stringent pharmaceutical drug tests, two costs of this policy would be drug:

a. lag and drug lapse.

b. lapse and drug misallocation.

c. loss and drug lag.

d. misallocation and drug loss.

ANSWER: c

51. Mark Zuckerberg dropped out of college and founded Facebook. His opportunity cost of attending college was:

a. tuition, the cost of books, and room and board.

b. tuition, the cost of books, and a low-paying job.

c. tuition, the cost of books, and the income from his Facebook pursuits.

d. only the income from his Facebook pursuits.

ANSWER: c

Chapter 1

52. When the opportunity cost of a choice decreases:
  a. individuals are more likely to choose that same option.
  b. individuals are less likely to choose that same option.
  c. the marginal benefits of that choice increase as well.
  d. the marginal benefits of that choice decrease.

ANSWER: a

53. During a recession, we expect the opportunity cost of attending college to:
  a. rise.
  b. fall.
  c. remain the same.
  d. rise and then fall.

ANSWER: b

54. Quitting your current job to work full-time at your profitable new business is MOST likely a direct application of the principle of:
  a. gains from trade.
  b. specialization.
  c. thinking on the margin.
  d. opportunity cost.

ANSWER: d

55. In an effort to prevent the spread of COVID-19, many state governors requested that businesses shut down, in accordance with stay-at-home orders. This policy caused many businesses to lay off their employees. What concept does this example illustrate?
  a. trade-offs
  b. marginal pollution
  c. sunk costs
  d. public provision

ANSWER: a

56. The opportunity cost of winning a free ticket to the World Series worth $885 and choosing to attend the game is:
  a. zero, since the ticket was free.
  b. priceless, if the person really loves baseball.
  c. at least $885, the lost market value of selling the ticket, and the time needed to go.
  d. zero, if the person would rather go to the game than do anything else.

ANSWER: c

57. You must decide whether to work this afternoon or study for your biology test. Your decision highlights the following "Big Idea" in economics.
  a. Institutions Matter

b. Incentives Matter
c. Economics Is Fun
d. Trade-offs Are Everywhere

ANSWER: d

58. Why do you think researchers sometimes find a positive relationship between the unemployment rate and college enrollment rates?

a. The opportunity cost of attending college rises during economic booms, leading to higher college enrollment rates.
b. The opportunity cost of attending college rises during recessions, leading to higher college enrollment rates.
c. The opportunity cost of attending college falls during recessions, leading to higher college enrollment rates.
d. The opportunity cost of attending college falls during economic booms, leading to higher college enrollment rates.

ANSWER: c

59. The opportunity cost of attending college is:

a. tuition and books.
b. travel expenses, tuition, and books.
c. the psychic costs of brain-fatigue from studying.
d. lost wages from not working full-time.

ANSWER: d

60. Each of these ideas is central to economics EXCEPT:

a. "good institutions can eliminate economic trade-offs."
b. "people react to incentives."
c. "specialization and trade benefit everyone."
d. "prices rise when the government prints too much money."

ANSWER: a

61. As the FDA uses _____ time and resources to ensure the safety of new drugs, _____.

a. more; more people will die from taking unsafe drugs
b. less; fewer people will die waiting for access to life-saving medicine
c. more; fewer people will die waiting for access to life-saving medicine
d. less; fewer people will die from taking unsafe drugs

ANSWER: b

62. During the Middle Ages, expensive castle-based warfare was the dominant method of conflict. Warfare was also the main function of government. Which reason BEST explains why few universities were built during this time?

a. The lack of professors meant there was no incentive to create universities.
b. The opportunity cost of building universities was fewer castles.
c. There were no benefits to attending college at the time.

d. Local rulers did not care about long-term growth.

ANSWER: b

63. Most people do not buy the safest car they can find. Why not?

a. Other factors matter besides safety, such as comfort, cost, and fuel economy.

b. People do not take the time to understand the safety features of cars.

c. Consumers are unaware of the risks of different cars.

d. The statement is false. People do buy the safest car they can find.

ANSWER: a

64. Some people take jobs that are dangerous, but such jobs pay well. For example, oil rig workers make $78,000 per year on average. Why?

a. Oil rig workers accept the danger in exchange for higher salaries.

b. Oil rig workers do not understand the dangers of their work.

c. Oil rig workers are assessing the opportunity cost of the danger of the job.

d. Oil rig workers only care about the positive characteristics of the job.

ANSWER: a

65. Fluctuations in graduate school enrollment positively correlate with fluctuations in unemployment. What is the MOST likely reason?

a. The opportunity cost of going to graduate school is high when jobs are difficult to find.

b. When jobs are easy to find, there are strong incentives to go to grad school.

c. The opportunity cost of going to graduate school is low when jobs are hard to find.

d. Even if you have a job, the salary will be so low that going to graduate school is worth the effort.

ANSWER: c

66. Manuel insists that he places infinite value on his life. Stefan is suspicious of this claim and points out to Manuel that he sometimes eats ice cream when broccoli would be much better for him. What Big Idea is Stefan invoking?

a. Trade Makes People Better Off: Manuel could not make his own ice cream, though he could grow his own broccoli; Manuel must be trading for ice cream.

b. Incentives Matter: No one is paying Manuel to be healthy.

c. Think on the Margin: "Infinite value" is too much to be on the margin.

d. Trade-offs Are Everywhere: Gaining some enjoyment is worth giving up some safety.

ANSWER: d

67. Why is it less costly to attend college during a recession?

a. Tuition is much lower during recessions.

b. The opportunity cost is higher during recessions because there are more labor market opportunities.

c. The opportunity cost is lower during recessions because there are fewer labor market opportunities.

d. Colleges give out better grades during recessions, so the opportunity cost is lower.

ANSWER: c

Chapter 1

68. Why might the FDA err on the side of "overtesting" pharmaceutical drugs rather than use a level of testing that is economically efficient?

a. Dangerous side effects are more important than drug loss and drug lag.
b. Dangerous side effects are less important than drug loss and drug lag.
c. Drug lag and drug loss are not significant concerns in the case of most pharmaceutical drugs.
d. Dangerous side effects are not relevant in most pharmaceutical drug cases.

ANSWER: a

69. What should happen to crime rates when the unemployment rate rises?

a. Crime rates should fall because the economic gains to property crime will be lower when incomes are lower.
b. Crime rates should rise because the opportunity cost of crime (i.e., getting a legitimate job) has fallen.
c. Crime rates should fall because the opportunity cost of crime (i.e., getting a legitimate job) has risen.
d. Crime rates should rise because the trade-offs have been eliminated.

ANSWER: b

70. In the two hours between classes, a student can do one of the three things. Ranked from most to least desirable, they are: (1) chat with friends, (2) study economics, or (3) eat lunch. This student's opportunity cost of chatting with friends is:

a. the total value of studying economics and eating lunch.
b. the value of studying economics.
c. the value of chatting with friends.
d. nothing because students do not pay their friends to chat with them.

ANSWER: b

71. Over the weekend, Bella can do one of three things. Ranked from most to least desirable, they are: (1) go to the beach, (2) study economics, or (3) work. Bella's opportunity cost of going to the beach is the:

a. value of studying economics and working.
b. value of studying economics.
c. value of going to the beach.
d. value of working.

ANSWER: b

72. How is the unemployment rate related to the opportunity cost of college?

a. As the unemployment rate increases, the opportunity cost of attending college falls because fewer opportunities for employment exist.
b. As the unemployment rate decreases, the opportunity cost of attending college falls, since it becomes easier to pay for tuition when employed.
c. As the unemployment rate increases, the opportunity cost of attending college increases because fewer people are giving up the opportunity of working to attend college.
d. As the unemployment rate increases, the opportunity cost of attending college increases because more people are giving up the opportunity of working to attend college.

ANSWER: a

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Chapter 1

73. The opportunity cost of committing a crime and spending five years in jail:

a. is the same for everyone.

b. is higher for people who are employed than for the unemployed.

c. is zero because the costs of jail are paid for by the government.

d. equals one's fines and legal fees.

ANSWER: b

74. Dinah quits her administrative job, which pays $50,000 a year, to finish her four-year college degree. Her annual college expenses are $11,000 for tuition, $1,900 for books, and $2,500 for food. The opportunity cost of attending college for the year is $:

a. 15,400.

b. 12,900.

c. 65,400.

d. 62,900.

ANSWER: d

75. Air travel from Chicago to Los Angeles costs $800 and takes four hours. A bus ticket between the cities costs $100 and takes 104 hours. Other things equal, the minimum value of one's time that would induce a rational individual to fly rather than drive would be $:

a. 1 per hour.

b. 7 per hour.

c. 12 per hour.

d. 120 per hour.

ANSWER: b

76. You are given a ticket to a Garth Brooks concert worth $150. You value the ticket at only $100, sell it to a friend for $100, and attend a Chris Stapleton concert for $175. The opportunity cost of attending the Chris Stapleton concert is $:

a. 25 worth of alternative goods and services.

b. 75 worth of alternative goods and services.

c. 175 worth of alternative goods and services.

d. 275 worth of alternative goods and services.

ANSWER: c

77. On June 13, 2011, writer Sebastian Anthony at Extreme Tech wrote, "During the two days that the Les Paul [Google] doodle was online, those 740 million visitors spent 26 seconds more on the Google home page than normal. That's a total of almost 10.7 million work hours spent playing with the Les Paul Google Doodle. Assuming the average Google user earns $25/hour, the doodle cost companies around the world $268 million in lost productivity." Mr. Anthony's mistake is that he is overestimating opportunity costs. In particular, he is assuming that:

a. people have no incentive to work.

b. all those work hours would have been spent working if not for the doodle.

c. none of the Google visitors sleep.

d. workers are not making marginal decisions.

ANSWER: b

78. The economists William Stanley Jevons, Carl Menger, and Leon Walras are credited with:

a. explaining the limitations of monetary policy.

b. formulating the theory of comparative advantage.

c. developing the concept of opportunity cost.

d. starting the "marginal revolution."

ANSWER: d

79. What is meant by the term "marginal revolution"?

a. public disdain toward the institution of marginal tax rates

b. the transformation in economic thought that occurred with the discovery of marginal thinking

c. the institution of the death penalty for drug dealers

d. the effect of policies on crime

ANSWER: b

80. What is thinking on the margin?

a. making decisions that are of noneconomic importance

b. making choices based on historical precedents

c. making choices that ignore the marginal benefits, but not the marginal costs, of some activity

d. making choices by comparing the additional benefits and additional costs from doing a little bit more of some activity

ANSWER: d

81. Deciding whether to study an additional hour for an exam by comparing the additional benefits to the additional costs of an extra hour of study is an example of:

a. the social interest.

b. the invisible hand.

c. marginal thinking.

d. the power of trade.

ANSWER: c

82. When deciding whether to undertake an activity, economists compare the:

a. total cost of the activity with the total benefit.

b. total benefit of the activity with the total cost of production.

c. additional cost of the activity with the additional benefit.

d. average cost of the activity with the total benefit.

ANSWER: c

83. A student at a party deciding whether to stay a few more minutes is:

a. thinking on the margin.

b. increasing the rate of unemployment.

c. aligning their self-interest with the social interest.

d. paying high interest rates.

ANSWER: a

84. Economists believe that people make decisions by:

a. comparing marginal costs with marginal benefits.

b. thinking about costs but not benefits.

c. thinking about benefits but not costs.

d. comparing total costs with total benefits.

ANSWER: a

85. An example of a marginal decision is deciding whether to:

a. invest half your savings in Google or Microsoft.

b. buy one more apple or one more banana.

c. commit your life to economics or biology.

d. study for 5 hours or for 10 hours.

ANSWER: b

86. All of these are decisions made on the margin EXCEPT:

a. eating dessert at a restaurant.

b. budgeting $10,000 to buy a new car.

c. buying new shoes to go with your new clothes.

d. reading for one more hour before going to sleep.

ANSWER: b

87. Decreasing one's driving speed when one sees a police cruiser is an application of the principle of:

a. gains from trade.

b. returns from specialization.

c. marginal thinking.

d. opportunity cost.

ANSWER: c

88. If the costs of studying for your economics test for 30 more minutes are lower than the benefits, you should:

a. continue to study.

b. quit studying.

c. not study in the first place.

d. study for another hour.

ANSWER: a

Chapter 1

89. A grocery store is running a "buy-one-get-another-at-one-half-off" promotion on a dozen doughnuts. So the first dozen is $6, and the second would be $3. A person would buy the second dozen if their marginal benefit from the second dozen doughnuts is:

a. greater than $3.

b. greater than $6.

c. greater than $9.

d. less than $3.

ANSWER: a

90. What is a plausible economic explanation of why Braille "dots" are commonly found on drive-up automatic teller machines, even though blind customers are unlikely to use them?

a. Blind people must be able to use such machines because the Americans with Disabilities Act requires it.

b. The marginal benefit of providing keypads with the Braille dots exceeds the marginal cost of making them.

c. The marginal cost of making keypads with the Braille dots is less than the marginal cost of making them without the Braille dots.

d. There is no economic concept that explains why the keypads have Braille dots.

ANSWER: b

91. Suppose your teacher finishes class 30 minutes early on the day before an exam. They indicate that you may leave, or you may stay on for an optional study period that will last for the remaining 30 minutes of the scheduled class time. You should:

a. always choose to stay for the study period, since you have already paid for the class time.

b. choose to stay only if you like the instructor, since the value obtained is higher than if you disliked the instructor.

c. choose to stay only if the benefits gained from the extra study session exceed the cost of another 30 minutes in class.

d. choose to stay for the study session only if you do not plan to study on your own for the exam.

ANSWER: c

92. Suppose you have ordered a value meal at a local fast-food restaurant. The cashier asks if you would like to upgrade your meal to a larger portion. In order to make an efficient decision, you should compare the:

a. total cost of the upgraded meal versus the total benefits received.

b. additional cost of the larger meal versus the additional benefits received.

c. total cost of the larger meal versus the additional cost to the restaurant.

d. benefits of the smaller meal versus the additional benefits obtained from consuming the upgraded meal.

ANSWER: b

93. If the costs of staying at a party a few more minutes are higher than the benefits, you should:

a. stay longer.

b. leave the party.

c. never have attended the party in the first place.

d. have thrown your own party.

ANSWER: b

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94. If the costs of studying for your economics test for 30 more minutes are higher than the benefits, you should:

a. continue to study.

b. quit studying.

c. not study in the first place.

d. study for another hour.

ANSWER: b

95. When deciding how much to study for an economics class, students should study until the:

a. total benefits exceed the total costs.

b. total costs equal the total benefits.

c. marginal benefits exceed the marginal costs.

d. marginal costs exceed the marginal benefits.

ANSWER: d

96. When deciding whether to eat more food at a buffet, diners should eat until the:

a. total benefit exceeds the total cost.

b. total cost equals the total benefit.

c. marginal benefit exceeds the marginal cost.

d. marginal cost exceeds the marginal benefit.

ANSWER: d

97. A high-school graduate deciding to go to college makes that decision by:

a. comparing the total income earned per year after graduating from college with the total cost of going to college.

b. comparing the additional income earned per year after graduating from college with the additional cost of going to college.

c. thinking about the benefit to society if she goes to college.

d. following what her friends do.

ANSWER: b

98. Suppose a customer at a restaurant is deciding whether to order dessert. Marginal thinking means that the customer should compare the:

a. total benefit from the entire meal and dessert with the additional cost of the dessert.

b. total benefit from the entire meal and dessert with the total cost of the meal and dessert.

c. additional benefit from the dessert with the additional cost of the dessert.

d. marginal benefit from the meal with the marginal cost of the dessert.

ANSWER: c

99. A customer at a fast-food restaurant may choose to order a burger for $4.00 and fries for $1.50 or order a value meal (that includes the burger, fries, and a drink) for $6.00. What is the marginal cost of the drink if the customer orders the value meal?

a. $6.00
b. $1.50
c. $0.00
d. $0.50

ANSWER: d

100. At Cordless Cellular Phone Services, an unlimited cell phone plan costs $50 per month and has unlimited minutes, texts, and data. What is the marginal fee for the 1,000th minute used?

a. $0.50
b. $0
c. $0.05
d. $0.10

ANSWER: b

101. An automobile gets 40 miles per gallon, and a gallon of fuel costs $4.00. What is the marginal fuel cost for a typical mile of driving with this vehicle?

a. $0.05
b. $0.10
c. $0.15
d. $0.20

ANSWER: b

102. The average tax on a professor's income of $100,000 is 18%, and the marginal tax rate above $100,000 is 45%. If the professor teaches during the summer and earns an additional $10,000 (bringing their total earnings for the year to $110,000), how much of the summer income do they keep after paying taxes?

a. $4,500
b. $1,800
c. $6,300
d. $5,500

ANSWER: d

103. Joe runs a landscaping business. He knows that providing landscaping services costs him $100 per hour on average, while the cost of providing such services is $150 per hour after 5 PM (due to overtime pay, reduced productivity, and the added wear and tear on his equipment). A potential client offers Joe $130 per hour to provide services but needs him to provide the services after 5 PM, due to circumstances at the property.

a. Joe should take the job, since $130 exceeds his average cost of production.
b. Joe should take the job, since he is making a $30 profit per hour.
c. Joe should decline the job, since he would lose $150 per hour worked on the job.
d. Joe should decline the job, since he would lose $20 per hour worked.

ANSWER: d

104. A person has a comparative advantage in activity X when that person's:

a. opportunity cost of performing that activity is very high.

b. ability to perform that activity exceeds that of all other people.

c. government negotiates a favorable trade agreement.

d. opportunity cost is lower for them than for their trading partners.

ANSWER: d

105. The real power of trade lies in people's ability to:

a. get things they can't produce.

b. get the lowest price possible.

c. increase their consumption.

d. specialize and increase production.

ANSWER: d

106. One benefit of trade is that it:

a. increases the division of knowledge because trade makes people more self-sufficient, producing more of what they consume.

b. allows for increased specialization and mass-production techniques that lower per unit costs of production.

c. lowers productivity, leading to greater domestic employment.

d. decreases economies of scale, making production more efficient.

ANSWER: b

107. When two people voluntarily trade with each other:

a. one person will be better off, and the other person will be worse off.

b. both of them will be better off.

c. both of them will be worse off.

d. whether they will be better off or worse off depends on how they negotiate with each other.

ANSWER: b

108. Patterns of specialization and trade are explained by:

a. the principle of comparative advantage.

b. the principle of absolute advantage.

c. people's productivity.

d. government control and regulation.

ANSWER: a

109. When Angel has a comparative advantage over Blake in cooking:

a. the opportunity cost of cooking is higher for Angel than for Blake.

b. the opportunity cost of cooking is lower for Angel than for Blake.

c. Angel can cook faster than Blake can.

d. Blake can cook faster than Angel can.

ANSWER: b

Name:______________________________ Class:____________________ Date:__________

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110. When Asha has a comparative advantage over Jabari in welding:

a. the opportunity cost of welding is higher for Asha than for Jabari.

b. the opportunity cost of welding is lower for Asha than for Jabari.

c. Asha can weld faster than Jabari can.

d. Jabari can weld faster than Asha can.

ANSWER: b

111. It makes sense for Martha Stewart to hire another person to do her ironing because:

a. she never learned how to iron.

b. her opportunity cost of ironing is the same as that of the person she hires.

c. her opportunity cost of ironing is lower than that of the person she hires.

d. her opportunity cost of ironing is higher than that of the person she hires.

ANSWER: d

112. Trade increases production by allowing us to take advantage of:

a. economies of scale.

b. economies of scope.

c. realism.

d. pluralism.

ANSWER: a

113. Trade enables us to increase production through:

a. specialization.

b. mercantilism.

c. idealism.

d. internalization.

ANSWER: a

114. Self-sufficiency:

a. is the key to prosperity.

b. is not a popular idea.

c. limits prosperity.

d. means being able and willing to trade.

ANSWER: c

115. Which of these statements is TRUE about trade?

a. Everyone can benefit from trade, even people who trade with someone from a foreign country.

b. Comparative advantage is based on specializing in products that have a high opportunity cost of production.

c. If a person can do everything better than anyone else, there is no reason for that person to trade with others.

d. Trade makes one party better off but the other party worse off, so there is no net gain to society.

ANSWER: a

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116. Without trade, we would be able to produce:

a. all of the products we enjoy now with trade.

b. nothing.

c. less than we do now.

d. more than we do now.

ANSWER: c

117. As the United States becomes more productive in manufacturing chemicals and pharmaceutical drugs, the opportunity cost of producing other items such as textiles _____, leading to _____ demand for foreign textiles.

a. increases; increased

b. decreases; increased

c. increases; decreased

d. decreases; decreased

ANSWER: a

118. The better Martha Stewart is at running her business the:

a. higher is her opportunity cost of ironing her own shirts.

b. lower is her opportunity cost of ironing her own shirts.

c. more it makes sense for her to iron her own shirts because she will have more time.

d. more it makes sense for her to spend her time away from her business.

ANSWER: a

119. What factor is responsible for ending malaria in the United States?

a. inflation

b. wealth

c. the gold standard

d. yardstick competition

ANSWER: b

120. Which of these helped the MOST to bring an end to malaria in the United States?

a. government aid to the poor

b. climate change

c. economic growth

d. spending on health care

ANSWER: c

121. Which of these BEST explains why economists want to understand the determinants of economic wealth?

a. Economists, like everyone else, are self-interested.

b. As overall wealth increases, the distribution of wealth tends to become more equal.

c. Higher levels of wealth tend to generate better health and human rights outcomes across countries.

d. The determinants of economic wealth are easier to study than the determinants of economic growth.

ANSWER: c

122. One of the effects of economic growth is:

a. a higher rate of infant mortality.

b. less leisure time.

c. a lower level of reported happiness.

d. better sanitation and health outcomes.

ANSWER: d

123. How are wealth and economic growth related?

a. Increased wealth leads to economic growth.

b. Economic growth leads to increased wealth.

c. Wealth and economic growth are negatively related.

d. Economic growth causes resource depletion and reduces a society's wealth.

ANSWER: b

124. The historical rise in living standards of American workers is primarily a result of:

a. the influence of labor unions in America.

b. tariff protections imposed by the American government.

c. the enactment of minimum wage laws in America.

d. the rise in American productivity.

ANSWER: d

125. Countries with higher GDP per capita tend to score higher on ratings of:

a. happiness.

b. inequality.

c. incidence of malaria.

d. autocracy.

ANSWER: a

126. Wealth eliminated malaria in the United States in part by enabling:

a. the construction of indoor spaces that have shielded Americans from mosquitoes.

b. better drainage, removal of mosquito-breeding sites, and the spraying of insecticides.

c. the development of a vaccine against malaria.

d. greater nutrition, so that people can better ward off the disease.

ANSWER: b

127. Wealth leads to higher living standards by:

a. enabling a society to afford life-improving resources.

b. providing people with a stronger sense of self-worth.

c. eliminating the psychological dysfunction that plagues poor societies.

d. making democratic institutions and the rule of law seem more attractive to people.

ANSWER: a

128. Countries with _____ have _____ infant survival.

a. greater wealth; higher

b. greater wealth; lower

c. higher productivity; lower

d. higher productivity; higher

ANSWER: a

129. Wealthy countries tend to have _____ physical capital per worker and _____ human capital per worker.

a. little; a lot of

b. a lot of; little

c. a lot of; a lot of

d. no; a lot of

ANSWER: c

130. Today, GDP per capita in South Korea is _____ than in North Korea.

a. much less

b. slightly less

c. slightly greater

d. much greater

ANSWER: d

131. In 1950, GDP per capita in South Korea was _____ GDP per capita in North Korea.

a. 10 times less than

b. two times less than

c. roughly equal to

d. two times greater than

ANSWER: c

132. South Korea became much richer than North Korea as a result of:

a. foreign aid from the United States.

b. a different cultural background.

c. a different language.

d. its economic system and incentives.

ANSWER: d

133. North Korea and South Korea were equally poor in 1950, but today South Korea is _____ than North Korea.

a. much richer
b. slightly richer
c. slightly poorer
d. much poorer

ANSWER: a

134. Which of these BEST characterizes rich countries?

a. many workers
b. significant levels of human and physical capital per worker
c. strong government restrictions on private property rights
d. closed markets and the use of the latest technology

ANSWER: b

135. What institutions foster the appropriate incentives for economic growth?

a. regulated labor and credit markets, and unions
b. communal property rights and the absence of a profit–loss system
c. a dependable legal system, property rights, and competitive and open markets
d. production and export quotas, and supply and demand

ANSWER: c

136. An economy in which entrepreneurs are free to experiment with new ideas and bring innovative products to the market will:

a. facilitate economic growth but not affect living standards.
b. boost living standards and facilitate economic growth.
c. boost living standards but hinder economic growth.
d. suppress living standards but facilitate economic growth.

ANSWER: b

137. Among the most powerful institutions for supporting good incentives is:

a. government price controls.
b. monopolies.
c. legal limits on excessive profits.
d. property rights.

ANSWER: d

138. Each of these incentivizes innovation and facilitates economic growth EXCEPT:

a. government regulations.
b. a dependable legal system.
c. political stability.
d. property rights.

ANSWER: a

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139. A dependable legal system and competitive, open markets:
   a. shape incentives that facilitate economic growth.
   b. reduce liberty and other freedoms.
   c. bring about honest government and political stability.
   d. increase inefficiencies.

ANSWER: a

140. Entrepreneurial activity is encouraged by:
   a. good institutions.
   b. opportunity costs.
   c. economic growth.
   d. trade-offs.

ANSWER: a

141. Macroeconomists place great importance on incentives to produce new ideas because new ideas:
   a. create possibilities for economic activity and growth that otherwise would not exist.
   b. contribute positively to people's moral development.
   c. provide new subject matter for economists to analyze.
   d. enable companies to exploit workers and consumers more intensively.

ANSWER: a

142. Institutions that promote economic growth include:
   a. policies that provide incentives for people to produce and trade.
   b. government control of markets.
   c. income redistribution from the rich to the poor.
   d. the provision of goods and services to citizens by the government.

ANSWER: a

143. Ideas:
   a. will run out some day.
   b. are not depleted when they are used.
   c. are not an important factor in economic growth.
   d. occur at the same rate no matter what.

ANSWER: b

144. Institutions that support economic growth are those that:
   a. encourage consumption and discourage savings.
   b. give the government more control over what is produced and how it is produced.
   c. require companies to act in the social interest.
   d. provide incentives for entrepreneurs to take risks and innovate.

ANSWER: d

145. Which of these BEST explains why firms develop new ideas for production techniques and product features?
   a. They are interested in sharing their new ideas with the world.
   b. They are interested in making a profit.
   c. It will be in the social interest.
   d. It will make their customers happy.

ANSWER: b

146. If North Korea and South Korea were both equally poor in 1950, why has South Korea developed so much faster than North Korea since then?
   a. The two countries have different linguistic, cultural, and historical backgrounds.
   b. North Korea's economic system is characterized by incentives to invest and innovate.
   c. South Korea has maintained a more market-based economic system.
   d. South Korea began with a higher per capita GDP.

ANSWER: c

147. A National Geographic Channel special, *Inside North Korea*, reported on Dr. Sanduk Ruit's humanitarian mission to North Korea, one of the poorest countries in the world. Over a 10-day period, he performed 1,000 relatively straightforward eye surgeries to remove blindness due to cataracts. Why is it not surprising that North Korea doesn't have doctors to perform this surgery?
   a. North Korea specializes in other things and trades for medical services.
   b. North Korea is too poor to afford qualified eye doctors.
   c. The "invisible hand" allocates resources to other areas.
   d. North Korea's economy is too dynamic—with many booms and busts—to provide such medical services.

ANSWER: b

148. Research spearheaded by Dr. Norman Borlaug in the 1950s and 1960s led to the development of high-yield wheat that is now used all over the world. It was so successful that some credit Borlaug with saving more than 1 billion people from dying of starvation. What quality do ideas have that makes this claim so credible?
   a. They don't require many resources to develop, just careful thought.
   b. They create incentives, transform human behavior, and allow people to pursue their own self-interest.
   c. They are intangible, allowing them to easily be improved upon.
   d. They aren't depleted when they are used, allowing them to spread quickly and without limit.

ANSWER: d

149. The Great Depression was:
   a. a natural manifestation of competitive markets.
   b. cut short because of well-thought-out monetary policy.
   c. to date, the worst economic period in U.S. economic history.
   d. about as severe as the 2008–2009 recession.

ANSWER: c

150. In a recession, generally:
a. unemployment increases.
b. employment increases.
c. wages decrease, and unemployment increases.
d. wages increase, and unemployment increases.

ANSWER: c

151. During the Great Depression, the U.S. unemployment rate exceeded:
a. 35%.
b. 30%.
c. 25%.
d. 20%.

ANSWER: d

152. During the Great Depression, U.S. national output fell by:
a. 35%.
b. 30%.
c. 25%.
d. 20%.

ANSWER: b

153. The Great Depression:
a. was the normal response of an economy to changing economic conditions.
b. could not have been lessened with appropriate monetary policy.
c. generated unemployment rates of more than 20%.
d. was not an important economic event.

ANSWER: c

154. Which of these statements is TRUE?
a. The Great Depression, despite its name, was a minor economic downturn characterized by minimal unemployment.
b. The Great Depression refers to the severe economic downturn that occurred during the nineteenth century.
c. The Great Depression would have been less severe if the Federal Reserve had acted more appropriately.
d. Well-functioning economies grow at a constant rate and do not experience booms and busts.

ANSWER: c

155. Booms and busts refer to:
a. fluctuations in economic activity over time.
b. the theory of the second best.
c. decreases in a nation's economic growth over time.

d. monetary inflation and deflation caused by the central bank.

ANSWER: a

156. Two types of policy used by the government to affect economic conditions are:

a. acceleration and recalibration policy.

b. recalculation and normalization policy.

c. fiscal and monetary policy.

d. passive and active policy.

ANSWER: c

157. Monetary and fiscal policies:

a. can reduce the severity of economic busts.

b. have been proven to be ineffective and are no longer used during recessions.

c. work only during times of rapid inflation.

d. are tools used during economic booms but not economic busts.

ANSWER: a

158. Economists have discovered that economic booms and busts:

a. are needless and can be eliminated.

b. should be encouraged because they help make people better off.

c. can be moderated but not eliminated.

d. cause people to specialize so that they become more productive.

ANSWER: c

159. Most developed countries:

a. have stopped growing.

b. grow at an unsteady rate.

c. grow at a steady rate.

d. grow at an increasing rate.

ANSWER: b

160. Economic booms and busts:

a. can be moderated but not avoided.

b. can be avoided by cultivating institutions that foster growth.

c. do not occur, since the economy always grows at a constant pace.

d. occur only if countries have bad institutions.

ANSWER: a

161. All booms and busts:

a. are part of an economy's normal response to changing economic conditions.

b. are avoidable.

c. are caused by the weather.

d. affect the rate of economic growth.

ANSWER: d

162. Monetary and fiscal policy:

a. can make matters worse if poorly used.

b. are useless.

c. can prevent all recessions.

d. are all-powerful.

ANSWER: a

163. Which of these explains why economic booms and busts cannot be avoided?

a. The effects of fiscal and monetary policies will never be completely understood.

b. The time lags of both fiscal and monetary policies make eliminating boom–bust cycles impossible.

c. Economic booms and busts could be avoided if politicians would put good economics ahead of good politics.

d. The economy is regularly hit by unanticipated shocks.

ANSWER: d

164. In Zimbabwe, the government's sustained _____ in the _____ money caused the country's severe inflation.

a. decrease; demand for

b. decrease; supply of

c. increase; supply of

d. increase; demand for

ANSWER: c

165. Inflation is a(n):

a. decrease in the general level of prices.

b. increase in a price of a good.

c. increase in the general level of prices.

d. increase in the prices of goods in a particular classification, like food or energy.

ANSWER: c

166. According to Milton Friedman, "Inflation is always and everywhere:

a. a capitalist problem."

b. a communist problem."

c. a monetary phenomenon."

d. caused by haphazard technological growth."

ANSWER: c

167. The _____ has the power to regulate the money supply in the United States.

a. Federal Reserve

b. president

c. Senate

d. House of Representatives

ANSWER: a

168. From 2007 to 2009, the inflation rate in Zimbabwe could be characterized as:

a. negative.

b. zero.

c. positive but low.

d. positive and high.

ANSWER: d

169. The Zimbabwean government printed money as fast as it could for years. As a result:

a. prices fell rapidly in Zimbabwe.

b. the Zimbabwean economy grew rapidly.

c. Zimbabwe experienced mild inflation.

d. Zimbabwe experienced very drastic inflation.

ANSWER: d

170. Milton Friedman argued that:

a. prices need to be regulated and set by the government to prevent inflation.

b. general price level increases result from the government printing too much money.

c. inflation is a phenomenon of capitalist economies.

d. appropriate antitrust policy can prevent businesses from causing inflation.

ANSWER: b

171. The central bank of the United States is known as the:

a. Federal Reserve.

b. Central Bank of the United States.

c. Central Reserve Union.

d. Federal Central Bank.

ANSWER: a

172. The central bank of the United States is:

a. the Senate.

b. the Department of Treasury.

c. the Federal Reserve.

d. Wall Street.

ANSWER: c

173. Inflation can be defined as:

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a. a general rise in the level of output in an economy.
b. the boom–bust cycle of an economy.
c. the rise and fall of the general level of prices in an economy.
d. an increase in the general level of prices in an economy.

ANSWER: d

174. An increase in the general price level is:
a. depreciation.
b. appreciation.
c. deflation.
d. inflation.

ANSWER: d

175. Inflation:
a. is a decrease in the general level of prices.
b. is an increase in the general level of prices.
c. makes it easier to determine the real values of goods, services, and investments.
d. is a rare problem in macroeconomics.

ANSWER: b

176. Central banking in the United States refers to:
a. the operation of the Federal Reserve in its attempts to affect the economy.
b. how commercial banks interact with one another to earn more profits.
c. the federal government's control of the U.S. banking system.
d. how banking decisions are centralized in New York City.

ANSWER: a

177. Inflation is primarily caused by:
a. businesses raising their prices in response to increasing energy prices.
b. the government printing too much money.
c. misguided fiscal policy.
d. economic downturns in GDP.

ANSWER: b

178. Most economists believe that an increase in the supply of money results in:
a. a decrease in the demand for goods and services.
b. higher unemployment in the short run.
c. higher inflation in the long run.
d. no change in the economy.

ANSWER: c

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179. Inflation is bad for an economy because it:
   a. causes an increase in the demand for goods and services.
   b. leads to higher employment and wages.
   c. makes it hard for people to determine the real values of goods, services, and investments.
   d. makes people feel richer.

ANSWER: c

180. Inflation occurs largely as a result of:
   a. the government having a large debt.
   b. a shortage in the supply of goods or services.
   c. the government printing too much money.
   d. a recession.

ANSWER: c

181. Which of these would be the MOST likely to cause inflation?
   a. massive increases in government spending
   b. sustained increases in the money supply
   c. increases in interest rates
   d. a decline in the purchasing power of the dollar

ANSWER: b

182. When people spend more money without an increase in the supply of goods, prices:
   a. must rise.
   b. must fall.
   c. may rise or fall.
   d. must stay the same.

ANSWER: a

183. In Zimbabwe, price increases of 150,000% per year were caused by:
   a. the country's unsustainable trade deficit.
   b. marginal tax rates as high as 90%.
   c. large increases in the money supply.
   d. deregulated prices.

ANSWER: c

184. Inflation typically arises from a(n):
   a. sufficiently rapid contraction of the money supply.
   b. constant money supply.
   c. sufficiently rapid increase in the money supply.
   d. increase in the price level.

ANSWER: c

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185. What is one cause of inflation?
   a. a persistent rise in prices
   b. the inability of production to keep up with spending
   c. decreased spending by people and the government
   d. economic growth without monetary growth

ANSWER: b

186. A policymaker wants to reduce inflation. In order to make an intelligent decision about how to do so, the policymaker:
   a. should use a simple rule: once inflation is gone, it will always be gone.
   b. needs to know the causes of inflation, for example, the government printing too much money.
   c. should find out if people are really better off as a result of the inflation.
   d. should realize that inflation can be reduced without any costs.

ANSWER: b

187. In an episode of *DuckTales* (a Disney cartoon starring Scrooge McDuck) entitled "Dough Ray Me," one of the characters invents a duplicating machine. Other characters then use the machine to duplicate money at a massive rate. What would you expect to happen in this scenario? (And indeed, the episode does show this happening.)
   a. More people would save money.
   b. The government would print more money.
   c. There would be massive inflation.
   d. Wages would fall.

ANSWER: c

188. Which statement is correct regarding the Federal Reserve?
   a. Most economists believe that the Federal Reserve does more good than harm.
   b. The Federal Reserve has developed the ability to manage the economy with great precision.
   c. Its control of the money supply is not connected to the performance of the economy.
   d. The Federal Reserve's decisions immediately impact the economy's unemployment rate.

ANSWER: a

189. Which statement explains why the Federal Reserve has a tough job?
   a. There are lags in the effects of monetary policy, and economic conditions continuously change.
   b. Legally, the Federal Reserve cannot change the supply of money; it can only make recommendations to the president.
   c. It takes a long time for Congress to agree on a policy.
   d. The Federal Reserve can change the supply of money, but that doesn't affect spending or the rate of unemployment.

ANSWER: a

190. Decisions made by the Federal Reserve sometimes negatively impact the economy because:

a. the economy is weakened when the Fed uses monetary policy.
b. the government uses money inefficiently when it comes to fiscal policy.
c. the Fed finds that forecasting economic conditions is easy but that controlling the money supply is difficult.
d. too much money or too little money might induce inflation or unemployment due to bad timing.

ANSWER: d

191. The Federal Reserve conducts monetary policy by:
a. altering the amount of government spending.
b. manipulating the money supply.
c. regulating companies whose activities have harmful social effects.
d. setting prices and wages.

ANSWER: b

192. The main objective of a central bank is to:
a. supply the right amount of money to keep the economy stable.
b. supply as much money as it can to help the economy grow.
c. supply the government with the money it needs to operate.
d. make sure every citizen has the amount of money they want to have.

ANSWER: a

193. If the central bank creates too much money, ______ will result. If the central bank doesn't create enough money, an economic ______ will result.
a. deflation; boom
b. inflation; boom
c. deflation; slowdown
d. inflation; slowdown

ANSWER: d

194. If the Fed reduces the money supply to fight inflation, it could inadvertently:
a. cause very drastic inflation.
b. put the economy into a recession.
c. cause wages to rise, putting upward pressure on prices.
d. cause a decrease in spending, putting upward pressure on prices.

ANSWER: b

195. If the Fed increases the money supply to bring the economy out of recession, it could inadvertently:
a. cause high inflation.
b. put the economy into a depression.
c. cause profits to plummet.
d. cause the real value of the dollar to rise, making U.S. goods and services uncompetitive in global markets.

ANSWER: b

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196. A bachelor's degree in economics is:

a. valuable for one's personal growth but not financially rewarding.

b. can help you land a government job but not a business job.

c. one of the best-paying degrees offered at U.S. colleges.

d. valuable exclusively if your goal is to teach at the college level.

ANSWER: c

197. You can utilize the principles of economics to analyze:

a. industrialized economies but not developing ones.

b. all economies.

c. economies with capitalist but not socialist systems.

d. poor economies but not rich ones, as only the former are characterized by scarcity.

ANSWER: b

198. You can apply economic analysis:

a. to financial transactions only.

b. to any decision that involves a trade-off, except for ordinary decisions one makes in everyday life.

c. exclusively to transactions that involve the exchange of money for goods or services.

d. to any decision that involves a cost and a benefit, including many common decisions one makes in everyday life.

ANSWER: d

199. Economists believe that people are self-interested all the time.

a. True

b. False

ANSWER: b

200. People are rational and sometimes respond in unpredictable ways to incentives.

a. True

b. False

ANSWER: b

201. People are often irrational and respond in unpredictable ways to incentives.

a. True

b. False

ANSWER: b

202. Economists think that no one is ever self-interested.

a. True

b. False

ANSWER: b

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203. Economists think that people behaving in their self-interest is bad for society.
   a. True
   b. False

ANSWER: b

204. Economists believe that people will not respond to nonmonetary incentives, like love or status.
   a. True
   b. False

ANSWER: b

205. In addition to monetary incentives, economists also believe people respond to incentives like fame, power, reputation, and love.
   a. True
   b. False

ANSWER: a

206. Economists argue that self-interested people respond only to monetary incentives.
   a. True
   b. False

ANSWER: b

207. Because people instinctively act in their self-interest, markets will often produce outcomes in line with the social interest.
   a. True
   b. False

ANSWER: a

208. Markets align self-interest with the social interest as long as the government doesn't interfere.
   a. True
   b. False

ANSWER: b

209. Under the right conditions, markets align self-interest with the social interest, but sometimes government intervention is necessary.
   a. True
   b. False

ANSWER: a

210. An example of a case in which free markets do not align self-interest with the social interest is pollution-emitting production.
   a. True
   b. False

ANSWER: a

211. An example of Adam Smith's "invisible hand" is self-interested businesspeople developing a better keyboard for the blind in hopes of making large profits.

a. True

b. False

ANSWER: a

212. The opportunity cost of attending college includes tuition, room and board, the cost of meals, and the lost opportunity to make money at a job.

a. True

b. False

ANSWER: b

213. The opportunity cost of playing two hours of Fortnite is the value of the opportunity lost from the two hours of playing outside.

a. True

b. False

ANSWER: a

214. With careful planning, we can usually get something that we like without having to give up something else that we like.

a. True

b. False

ANSWER: b

215. In a large class, each student's opportunity cost of taking an exam is likely to be the same.

a. True

b. False

ANSWER: b

216. One student's opportunity cost of studying for an exam may be lost work time, while another's may be lost time for playing video games.

a. True

b. False

ANSWER: a

217. The FDA faces societal trade-offs when it decides how safe drugs need to be before allowing patients to use them. For example, if the FDA raises the cost of testing for drug safety, some safe drugs will never be developed, and people will die unnecessarily.

a. True

b. False

ANSWER: a

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218. A student spends four years in college. College tuition, fees, and room and board cost $10,000 per year. This student's opportunity cost of attending college is $10,000.

a. True

b. False

ANSWER: b

219. Marginal thinking was simultaneously described by three economists—William Stanley Jevons, Carl Menger, and Adam Smith.

a. True

b. False

ANSWER: b

220. A marginal change is a small incremental adjustment to an existing plan of action.

a. True

b. False

ANSWER: a

221. The term "marginal" in economics means "additional."

a. True

b. False

ANSWER: a

222. When deciding whether to eat a second piece of pizza, you should compare the total benefit of the two pieces of pizza with the total cost.

a. True

b. False

ANSWER: b

223. One of the Big Ideas in economic thinking is that there is an incentive to do something if the total benefit is greater than the total cost.

a. True

b. False

ANSWER: b

224. One of the Big Ideas in economic thinking is that there is an incentive to do something if the marginal benefit is greater than the marginal cost.

a. True

b. False

ANSWER: a

225. The general manager of a major league baseball team reasons that hiring an all-star-caliber third baseman would allow the team to win 13 more games per season, generating more fan interest and higher ticket sales.

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The estimated increase in ticket and merchandise sales is $10.5 million per year, but it would cost the team $12 million per year to hire an all-star-caliber third baseman. If the general manager employs marginal cost–benefit thinking, they will not hire the all-star-caliber third baseman.

a. True

b. False

ANSWER: a

226. The economics of trade depends on whether trading partners live in the same country and share the same language and religion.

a. True

b. False

ANSWER: b

227. Everyone can benefit from trade through increased specialization, division of knowledge, and productivity.

a. True

b. False

ANSWER: a

228. While trade has many benefits, the division of knowledge is a negative outcome of trade.

a. True

b. False

ANSWER: b

229. Two people can benefit from trade if they live in the same country but not if they live in different countries.

a. True

b. False

ANSWER: b

230. The theory of comparative advantage concludes that people can produce more by specializing than by doing everything themselves.

a. True

b. False

ANSWER: a

231. Greater emphasis on self-sufficiency and trading less with foreign countries would increase incomes and living standards in the United States.

a. True

b. False

ANSWER: b

232. Less emphasis on self-sufficiency and trading more with other nations will increase incomes and living standards in the United States.

a. True

b. False

ANSWER: a

233. By trading in free markets, firms and consumers benefit, but workers do not.

a. True

b. False

ANSWER: b

234. A country's wealth is uncorrelated with the status of women's rights and political liberty in that country.

a. True

b. False

ANSWER: b

235. America was so poor in past centuries that even George Washington caught malaria.

a. True

b. False

ANSWER: a

236. Because of their low incomes, about a million people in the United States die of malaria each year.

a. True

b. False

ANSWER: b

237. While economic growth does increase the quality of life, the trade-off is that life expectancy is now shorter than in the past.

a. True

b. False

ANSWER: b

238. People in developing countries are more vulnerable to illness and disease than people in developed countries mainly because they lack the ability to pay for preventative interventions.

a. True

b. False

ANSWER: a

239. People in wealthier economies tend to lead richer and more fulfilled lives.

a. True

b. False

ANSWER: a

240. Understanding economic growth is one of the most important tasks of economics.

a. True

b. False

ANSWER: a

241. Understanding economic growth is not important in economics, but understanding wealth is.

a. True

b. False

ANSWER: b

242. South Korea is an example of a country that has adopted good institutions for promoting economic growth.

a. True

b. False

ANSWER: a

243. To be wealthy, a country needs lots of physical and human capital per worker, which, in turn, depends on a system of private property rights, political stability, a just legal system, honest government, and competitive and open markets.

a. True

b. False

ANSWER: a

244. If two countries are initially at the same level of development, the existence of well-functioning markets in one country can allow it to develop faster than the other.

a. True

b. False

ANSWER: a

245. The environment BEST suited for economic growth is one with well-functioning competitive markets, property rights, and creativity in firms.

a. True

b. False

ANSWER: a

246. Monetary and fiscal policies are among a government's tools for mitigating economic fluctuations.

a. True

b. False

ANSWER: a

247. The Federal Reserve acted quickly and appropriately to diffuse the Great Depression.

a. True

b. False

ANSWER: b

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248. During the Great Depression, the unemployment rate rose above 20%.
   a. True
   b. False

ANSWER: a

249. During the Great Depression, the unemployment rate rose above 35%.
   a. True
   b. False

ANSWER: b

250. A period marked by falling wages, falling national output, and rising unemployment is called a recession.
   a. True
   b. False

ANSWER: a

251. Economies MUST experience both booms and busts. All economists can do is work to limit the extent of economic fluctuations.
   a. True
   b. False

ANSWER: a

252. Monetary and fiscal policies have the potential to make a recession worse.
   a. True
   b. False

ANSWER: a

253. Monetary and fiscal policies can improve unemployment and GDP during a recession.
   a. True
   b. False

ANSWER: a

254. Modern economic understanding allows us to avoid economic booms and busts, although political constraints prevent the needed policies from being implemented.
   a. True
   b. False

ANSWER: b

255. High inflation in Zimbabwe in 2009 was the result of the Zimbabwean government printing too much money.
   a. True
   b. False

ANSWER: a

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256. When the government decreases the supply of money, there is an increase in the general level of prices.
   a. True
   b. False

ANSWER: b

257. Central banks can cause inflation.
   a. True
   b. False

ANSWER: a

258. If sustained over the long run, excess money printing by the government causes high inflation and economic crisis.
   a. True
   b. False

ANSWER: a

259. A drawback of inflation is that it creates a lot of uncertainty about prices.
   a. True
   b. False

ANSWER: a

260. Inflation makes it more difficult to figure out the real values of goods and services.
   a. True
   b. False

ANSWER: a

261. During the period of dramatic inflation in Zimbabwe, if you had 1 trillion Zimbabwean dollars, you still were not very rich.
   a. True
   b. False

ANSWER: a

262. Inflation increases the value of money by increasing the purchasing power of money.
   a. True
   b. False

ANSWER: b

263. If there is high inflation, individual households will be hurt, but economic disruptions on a national level will not result.
   a. True
   b. False

ANSWER: b

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264. Most economists believe that the Federal Reserve does more good than harm to the U.S. economy.

a. True

b. False

ANSWER: a

265. The Federal Reserve's attempts to combat recessions and high unemployment could result in higher inflation.

a. True

b. False

ANSWER: a

266. The Federal Reserve has a dual mandate to promote maximum employment and stable prices. This can be hard because attempts to reduce unemployment can cause more inflation.

a. True

b. False

ANSWER: a

267. The study of economics increases your understanding of the distant past, present events, and future possibilities.

a. True

b. False

ANSWER: a

268. Among other things, an understanding of economics can help you better manage your finances.

a. True

b. False

ANSWER: a

269. One of the limitations of economics is that the principles of economics apply only to the American economic system and not to foreign economies.

a. True

b. False

ANSWER: b

270. The Fed's decisions:

a. are always right.

b. affect the economy immediately.

c. often take months for their effects to be felt in the economy.

d. never help to avoid recessions.

ANSWER: c

271. Which of these quotes from the text captures what makes central banking difficult?

a. "No one can foresee the future."

b. "We cannot avoid all recessions."

c. "Markets, however, do not always align self-interest with the social interest."

d. "In some situations, the Fed must accept a certain amount of either inflation or unemployment."

ANSWER: a

272. Because people instinctively act in the social interest, markets will produce outcomes that are in the social interest.

a. True

b. False

ANSWER: b

273. There are 10 Big Ideas in Chapter 1. List four of them.

ANSWER: *The 10 Big Ideas in Chapter 1 are:*
1. Incentives matter
2. Good institutions align self-interest with the social interest
3. Trade-offs are everywhere
4. Think on the margin
5. Trade makes people better off
6. Wealth and economic growth are important
7. Institutions matter
8. Economic booms and busts cannot be avoided but can be moderated
9. Inflation is caused by increases in the supply of money
10. Central banking is a hard job

274. In his book *The Wealth of Nations*, Adam Smith explained, "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest." Explain what Adam Smith meant by this. Be sure to tie your explanation to one or more of the Big Ideas in economics discussed in the text.

ANSWER: *Adam Smith was referring to how the butcher, the brewer, and the baker are all motivated by incentives. They do not cut meat, brew drinks, or bake bread out of the goodness of their own heart, but because they are pursuing their self-interest. The interest in their cases being their livelihoods. They have these jobs so that they can sustain their own lives, and by doing their jobs we have an easier access to our own dinners. Their self-interest aligns with the social interest; by working jobs in pursuit of their self-interest to have means to live, others are able to have easier access to food.*

275. How do self-interested businesses benefit society?

ANSWER: *Self-interest businesses can benefit society by producing products or services that people in society want or need. Their self-interest is profit, the profit they get from producing the goods or services. These products are then used by people who want or need them. This is an example of when self-interest aligns with the social interest.*

276. Let's assume that your favorite musician (who sells platinum records and has sold-out concerts) is a great cook. They also make splendid cakes and pies. They could sell the pies and cakes for $30 each. Why don't they spend their whole day baking and cooking?

ANSWER: *In this situation, the musician's opportunity cost of baking is too high. The musician can profit way more by producing music than they can by making pies and cakes. The musician is better off producing music to make money than they are making pies and cakes for money.*

Chapter 1

277. Define opportunity cost. What is the opportunity cost to you of attending college? What was your opportunity cost of coming to class today?

ANSWER: *The opportunity cost of a choice is the value of the opportunities lost by making that choice. The opportunity cost of attending college is the price of tuition, books, room and board (only if you would have had a place to stay for free had you not attended college, if not then this would not be included in the opportunity cost of attending college since you would have to pay for it anyway), and the opportunity to have a full-time job. The opportunity cost of coming to class today is anything you could have done that you value instead, such as sleeping in, playing video games, hanging out with friends, watching a movie, etc.*

278. Why do airlines sometimes advertise last-minute airline ticket sales at low prices? What economic principle are they applying?

ANSWER: *The economic principle airlines are applying is thinking on the margin. They are making a choice by thinking in terms of marginal benefits (the profits from one more customer that would otherwise just be an empty seat) and marginal costs (the extra cost of jet fuel, e.g., required to carry a heavier plane). If the airline is advertising this sale, the airline probably would benefit more from one extra passenger than it would cost them to have the extra passenger on the plane.*

279. Using the marginal thinking concept, explain a student's decision to wake up and attend an 8 AM class in the winter (the student is already registered for the class).

ANSWER: *Marginal thinking, or thinking on the margin, is just making choices by thinking in terms of marginal benefits and marginal costs of a little bit more (or a little bit less). In this case, the student has to wake up to make it to their 8 AM class during the winter. Depending on how early the student went to sleep, they might feel inclined to sleep in longer, especially considering that they still have to arrive to class by 8 AM, so they have to wake up even earlier. The marginal cost here is the sleep missed out on or maybe activities forgone the previous night to be able to make it to the class. The benefits are the valuable class time that the student receives that can help them achieve better in the class they are taking and maybe even just starting the day earlier.*

280. Why do you think economists generally support increased trade?

ANSWER: *Economists generally support increased trade because it makes people better off. Few of us could survive if we had to produce our own food, clothing, and shelter. We survive and prosper only because specialization through trade increases productivity. Through the division of knowledge, the sum total of knowledge increases and in this way so does productivity. Trade also allows us to take advantage of economies of scale, the reduction in costs created when goods are mass-produced.*

281. Wherein lies the power of trade?

ANSWER: *The real power of trade is the power to increase production through specialization. Take an auto mechanic and a doctor. If the auto mechanic focuses on learning about cars and the doctor focuses on learning about health and the human body, more knowledge is gained than if both of them had to learn how to repair cars and cure illnesses. Through the division of knowledge, the sum total of knowledge increases and in this way so does productivity.*

282. Using the concepts of incentives and good institutions, explain how a country might achieve economic growth.

ANSWER: *Among the most powerful institutions for supporting good incentives are property rights, political stability, honest government, a dependable legal system, and competitive and open markets. These institutions incentivize entrepreneurs, investors, and savers to save and invest in physical capital, human capital, innovation, and efficient organization. All of these factors are important for achieving economic growth in a country.*

283. Many industrialized nations have been pumping trillions of dollars into their economies in the form of stimulus packages, tax rebates, and bailouts in order to stimulate additional consumer spending and business investment and to ward off global recession. If a large portion of these funds are obtained through the printing

of new money, explain whether or not this will help or hurt these economies in the long run.

ANSWER: *While these programs might help the economies in the short run, in the long run these might lead to inflation, an increase in the general level of prices. When people have more money, they spend it, and without an increase in the supply of goods, prices must rise. Inflation makes people feel poorer and makes it harder for people to figure out the real values of goods, services, and investments.*

284. Explain why central banking is a hard job.

ANSWER: *The Federal Reserve is often called on to combat recessions; however, this is not always easy to do. Usually, there is a lag, often of many months, between when the Federal Reserve makes a decision and when the effects of that decision on the economy are known. In the meantime, economic conditions have changed. The Federal Reserve is sort of shooting at a moving a target. No one can foresee the future perfectly, and thus the Federal Reserve's decisions are not always the right ones. Too much money in the economy means that inflation will result. Not enough money in the economy can lead to a recession or a slowing of economic growth. The Federal Reserve is always trying to get it "just right," but some of the time it fails. Sometimes failure is a mistake the Federal Reserve could have avoided, but other times it simply is not possible to always make the right guess about where the world is headed. Therefore, in some situations, the Federal Reserve must accept a certain amount of either inflation or unemployment.*