

Chapter 1 review questions

Student:

1. Economics is a social science that studies how individuals, institutions, and society may:

- A) Expand the amount of productive resources available to them
- B) Attain a minimum level of unemployment
- C) Best use scarce resources to achieve the maximum satisfaction of economic wants
- D) Reduce the prices of goods and services to consumers

2. A recurring theme in economics is that people:

- A) Have unlimited resources, but limited economic wants
- B) Can increase resources by limiting their economic wants
- C) Have limited economic wants and limited resources
- D) Have unlimited economic wants, but limited resources

3. Opportunity cost is best defined as:

- A) Marginal cost minus marginal benefit
- B) The time spent on an economic activity
- C) The value of the best forgone alternative
- D) The money cost of an economic decision

4. Tammie makes \$150 a day as a bank clerk. She takes off two days off work without pay to fly to another city to attend the concert of her favorite music group. The cost of transportation for the trip is \$250. The cost of the concert ticket is \$50. The opportunity cost of Tammie's attending the concert is:

- A) \$600
- B) \$450
- C) \$300
- D) \$50

5. The opportunity cost of constructing a new public highway is the:

- A) Money cost of hiring contractors and construction workers for the new highway
- B) Value of other goods and services that must be sacrificed to construct the new highway
- C) Expected cost of constructing the new highway in a future year
- D) Value of shorter driving times and distances when the new highway is completed

6. Which expression is another way of saying "marginal cost"?

- A) Scarce resources
- B) Additional cost
- C) Opportunity cost
- D) Unrecognized cost

7. From an economic perspective, when a student decides to attend another year of college, the student has concluded that the marginal:

- A) Benefits of attending college are greater than the marginal costs
- B) Costs of attending college has decreased that year
- C) Benefits of attending college has increased that year
- D) Costs of attending college will be partly subsidized by the parents or the government

8. Economic models do not reflect the full complexity of reality, but instead are based on:

- A) Simplifications
- B) Tradeoffs
- C) Value judgments
- D) The fallacy of composition

9. Another description for *ceteris paribus* is:

- A) Other things equal
- B) Loaded terminology
- C) The fallacy of composition
- D) *Post hoc, ergo propter hoc*

10. The purpose of the *ceteris paribus* assumption used in economic analysis is to:

- A) Avoid making normative statements
- B) Avoid the *post hoc, ergo propter hoc* fallacy
- C) Make sure that all relevant factors are considered
- D) Focus on the effect of a single factor on a certain variable

11. Which question is an example of a microeconomic question?

- A) What should the Federal government do to reduce the trade deficit with Japan?
- B) Will the merger of two airlines likely lead to higher airline ticket prices?
- C) What factors are contributing to the rise of unemployment in the economy?
- D) Will the inflation rate remain relatively stable this year?

12. Which question is an illustration of a macroeconomic question?

- A) Is a business unresponsive to the demands of consumers?
- B) Is a consumer boycott an effective means of reducing product prices?
- C) Is the level of employment in the economy sensitive to the quantity of consumer spending?
- D) Are oil companies engaging in a rip-off of the consumer by charging exorbitantly high prices for gasoline?

13. Which of the following is a normative economic statement?

- A) The Federal budget surplus rose by 10 billion dollars
- B) A fall in the unemployment rate is expected next month
- C) A trade deficit of 20 billion dollars will harm the economy
- D) The Federal funds rate was reduced by half a percentage point

14. The statement in a newspaper that "consumer prices rose last month by 1 percent, and if this trend continues, the annual rate of inflation will be 12 percent for the year" is an example of:

- A) A normative economic statement
- B) A positive economic statement
- C) Loaded terminology
- D) The fallacy of composition

15. A U.S. senator states: "The minimum wage should be raised to give people a decent living wage." This quote is an example of:

- A) A hypothesis
- B) The fallacy of composition
- C) A positive economic statement
- D) A normative economic statement

16. Assume that a consumer purchases only two products. Suppose that the consumer's money income doubles, and the prices of the two products also double. These changes in income and prices will result in

- A) A shift of the budget line inward to the left
- B) A shift of the budget line outward to the right
- C) No change in the budget line
- D) An increase in the slope of the budget line

17. The individual who brings together economic resources and assumes the risk of business ventures in a capitalist economy is called the:

- A) Manager
- B) Entrepreneur
- C) Stockbroker
- D) Banker

18. Which would *not* be considered as a capital resource by an economist?

- A) A van used by a mother to transport the family around
- B) An office computer used by an accountant
- C) A crane used by a building contractor
- D) A razor used by a barber

19. Which is considered a factor of production?

- A) Money in a checking account
- B) A firm's common stock
- C) U.S. savings bonds
- D) An auto plant

20. Money is *not* considered to be an economic resource because:

- A) As such it is not productive
- B) Money is not a free gift of nature
- C) Money is made by man
- D) Idle money balances do not earn interest income

21. The production possibilities curve represents:

- A) The maximum amount of labor and capital available for production
- B) The combinations of goods and services among which consumers are indifferent
- C) The maximum combinations of products that can be produced with fixed resources and technology
- D) The maximum rate of growth of capital and labor in an economy over time

22. On a production possibilities curve, the single optimal or best combination of output for any society:

- A) Is at a point near the top of the curve
- B) Is at the precise midpoint of the curve
- C) Is at a point near the bottom of the curve
- D) Depends upon the preferences of society

23. All of the following would affect the position of a country's production possibilities curve, *except*:

- A) The amount of labor available
- B) The level of unemployment
- C) The amount of the capital stock
- D) Technological progress

(The following economy produces two products.)

Production Possibilities						
Product	A	B	C	D	E	F
Steel	0	1	2	3	4	5
Wheat	100	90	75	55	30	0

24. Refer to the above table. The *total* opportunity cost of the three units of steel is:

- A) 15 units of wheat
- B) 20 units of wheat
- C) 45 units of wheat
- D) 55 units of wheat

25. Refer to the above table. The *marginal* opportunity cost of the third unit of steel is:

- A) 10 units of wheat
- B) 15 units of wheat
- C) 20 units of wheat
- D) 30 units of wheat

(The following economy produces two products.)

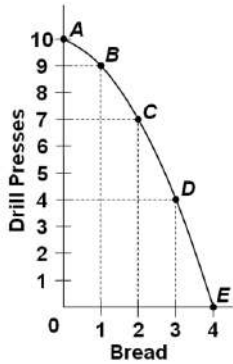
Production Possibilities						
Product	A	B	C	D	E	F
Tanks	0	1	2	3	4	5
Autos	1000	950	850	650	350	0

26. Refer to the above table. In moving from possibility C to D, the cost of a tank in terms of autos is:

- A) 50
- B) 100
- C) 200
- D) 300

27. Refer to the above table. According to the production possibilities schedule, a combination of four tanks and 650 autos is:

- A) Attainable, and involves an efficient use of society's resources
- B) Attainable, but would not be in the best interests of a strong national defense
- C) Not attainable because it is not listed in the schedule
- D) Not attainable because society does not have sufficient resources



28. Refer to the above graph. The combination 5 drill presses and 2 bread is:

- A) An unattainable combination
- B) An inefficient combination
- C) An ideal combination
- D) An efficient combination

29. Refer to the above graph. The *marginal* opportunity cost of the fourth unit of bread is:

- A) 1 unit of drill presses
- B) 2 units of drill presses
- C) 3 units of drill presses
- D) 4 units of drill presses

30. A point outside the production possibilities curve is:

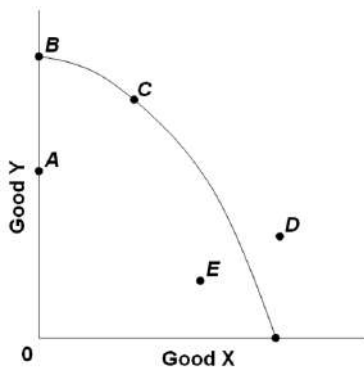
- A) Attainable, but there is not full employment
- B) Attainable, but there is not optimal allocation
- C) Unattainable because the economy is inefficient
- D) Unattainable because of limited resources

31. A movement along the production possibilities curve would imply that:

- A) The labor force available to society has grown
- B) Productivity has increased over time
- C) Productivity has declined over time
- D) Society is producing a different combination of outputs

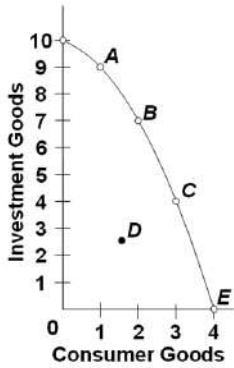
32. Along a production possibilities curve, an increase in the production of one good can be accomplished only by:

- A) Decreasing the production of the other good
- B) Increasing the production of the other good
- C) Holding constant the production of the other good
- D) Decreasing the price of the other good



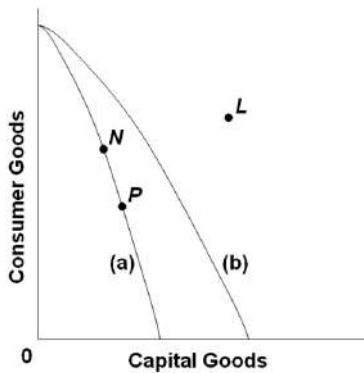
33. The graph above shows the production possibilities curve for an economy producing two goods, X and Y. All of the following may allow the economy to produce combination D in the future, except?

- A) Lower unemployment
- B) Increasing labor supply
- C) Economic growth
- D) Technological advances



34. Refer to the above graph. The selection of which point on the production possibilities curve is most likely to result in the largest increase in economic growth over time?

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



35. Refer to the above production possibilities curves. Curve (a) is the current curve for the economy. Other things being equal, society's current choice of point P on curve (a) will:

- A) Allow it to achieve more rapid economic growth than would the choice of point N
- B) Entail a slower rate of economic growth than would the choice of point N
- C) Entail the same rate of growth as would the choice of point N
- D) Be inefficient because it is below the productive capacity of the economy

Chapter 1 review questions **Key**

1. C
2. D
3. C
4. A
5. B
6. B
7. A
8. A
9. A
10. D
11. B
12. C
13. C
14. B
15. D
16. C
17. B
18. A
19. D
20. A
21. C
22. D
23. B
24. C
25. C
26. C
27. D
28. B
29. D

30. D

31. D

32. A

33. C

34. A

35. A

Chapter 1 review questions Summary

<u>Category</u>	<u># of Questions</u>
AACSB: Analytic	35
Blooms: Level 1 Remember	2
Blooms: Level 1 Remember	1
Blooms: Level 1 Remember	1
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Blooms: Level 1 Remember	3
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Blooms: Level 2 Understand	1
Blooms: Level 2 Understand	1
Blooms: Level 3 Apply	1
Blooms: Level 3 Apply	1
Blooms: Level 3 Apply	1
Blooms: Level 3 Apply	1
Blooms: Level 3 Apply	3
Blooms: Level 3 Apply	1
Blooms: Level 3 Apply	1
Blooms: Level 3 Apply	2
Blooms: Level 3 Apply	3
Blooms: Level 3 Apply	1
Blooms: Level 3 Apply	2
Blooms: Level 3 Apply	1
Difficulty: 1 Easy	16
Difficulty: 2 Medium	11
Difficulty: 3 Hard	8
Learning Objective: 01-01 Define economics and the features of the economic perspective.	7
Learning Objective: 01-02 Describe the role of economic theory in economics.	3
Learning Objective: 01-03 Distinguish microeconomics from macroeconomics and positive economics from normative economics.	5
Learning Objective: 01-04 List the categories of scarce resources and delineate the nature of the economizing problem.	5
Learning Objective: 01-05 Apply production possibilities analysis; increasing opportunity costs; and economic growth.	12
Learning Objective: 01-06 Explain how economic growth and international trade increase consumption possibilities.	3
McConnell - Chapter 01	41
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Topic: Microeconomics and Macroeconomics	5
Topic: Production Possibilities Model	12
Topic: Society's Economizing Problem	2
Topic: Society's Economizing Problem	1
Topic: Society's Economizing Problem	1
Topic: The Economic Perspective	7

Topic: Theories, Principles, and Models	3
Topic: Unemployment, Growth, and the Future	3