

Chapter 1
Ten Principles of Economics

Test A

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

ANSWER: d. scarcity.

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

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

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

ANSWER: a. how society manages its scarce resources.

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

ANSWER: c. fairness.

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

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

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

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

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

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

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

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

9. A marginal change is a
 - a. long-term trend.
 - b. change for the worse.

- c. small incremental adjustment.
- d. large, significant adjustment.

ANSWER: c. small incremental adjustment.

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

ANSWER: d. incentives.

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

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

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

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

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

ANSWER: d. prices.

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

ANSWER: b. are more efficient.

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

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

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

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

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

ANSWER: a. emit too much smoke.

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

ANSWER: b. promote equity and to promote efficiency.

19. Market power refers to the

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

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

20. The income of a typical worker in a country is most closely linked to which of the following?

- a. population
- b. government policies
- c. labor unions
- d. productivity

ANSWER: d. productivity

21. Almost all variation in living standards is attributable to differences in countries'

- a. population growth rates.
- b. endowments of natural resources.
- c. defense budgets.
- d. productivity.

ANSWER: d. productivity.

22. Productivity is defined as the

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

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

23. Inflation is defined as

- a. a period of rising productivity in the economy.
- b. an increase in the overall level of prices in the economy.
- c. a period of rising income in the economy.
- d. an increase in the overall level of output in the economy.

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

24. Inflation causes

- a. productivity to increase.
- b. the value of money to rise.
- c. the value of money to fall.
- d. the government to lower taxes.

ANSWER: c. the value of money to fall.

25. Which of the following is the most correct statement about the relationship between inflation and unemployment?

- a. In the long run, reducing inflation is associated with rising unemployment.
- b. In the short run, reducing inflation is associated with falling unemployment.
- c. In the long run, reducing inflation is associated with falling unemployment.
- d. In the short run, reducing inflation is associated with rising unemployment.

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