

TEST BANK



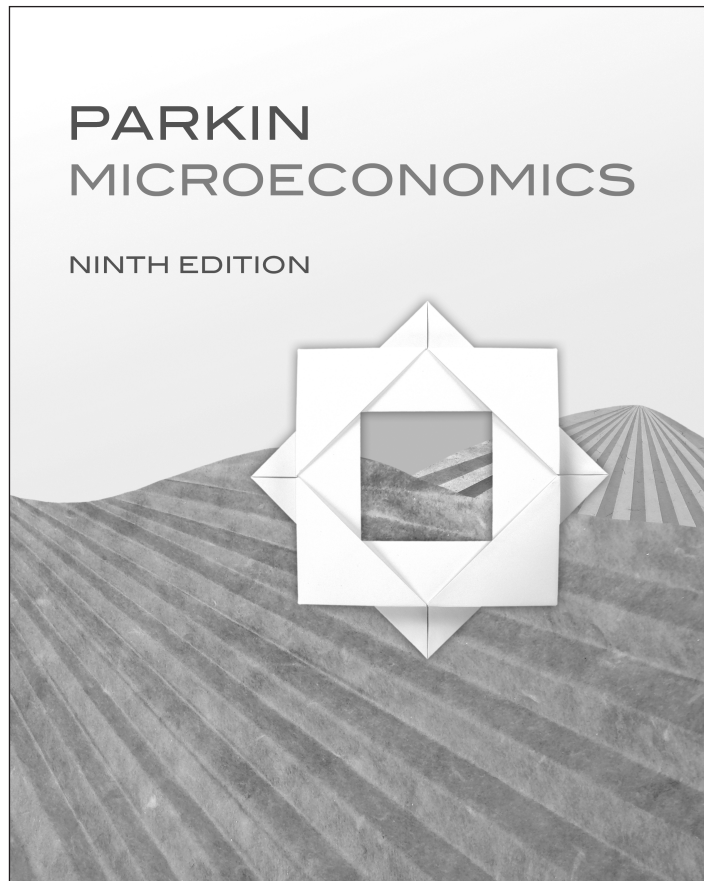
PARKIN
MICROECONOMICS

NINTH EDITION



Test Bank 1

Chapters 1-7
to accompany



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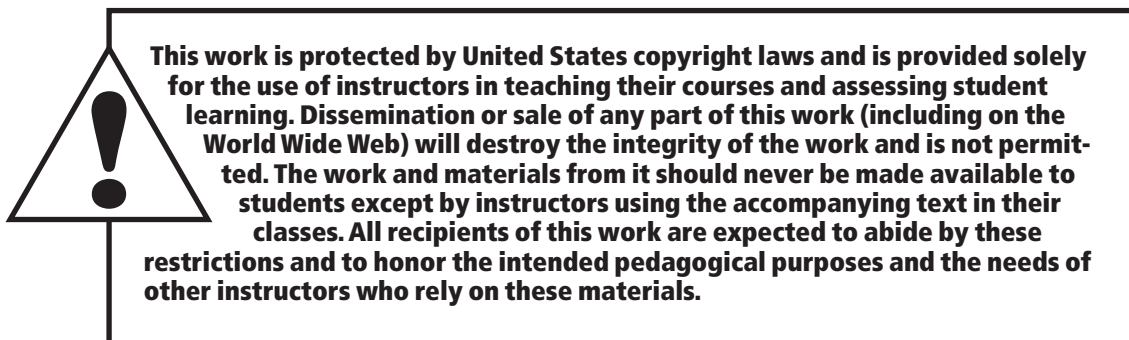
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www.pearsonhighered.com

1 2 3 4 5 6 OPM 12 11 10 09

ISBN-13: 978-0-321-60714-0
ISBN-10: 0-321-60714-7



■ Introduction

This book is one of six test banks, each carefully crafted to be part of the most complete package of test banks ever offered to support a beginning economics textbook. Three of the test banks are designed to accompany Michael Parkin's *Microeconomics*, Ninth Edition and three accompany Michael Parkin's *Macroeconomics*, Ninth Edition. The complete set of six books comprises *Microeconomics Test Bank*, Volumes I, II, and III and *Macroeconomics Test Bank*, Volumes I, II, and III. Volume 1 of the *Microeconomics Test Bank* contains questions from Chapters 1 through 7; volume 2 contains questions from Chapters 8 through 13; and volume 3 contains questions from Chapters 14 through 20. Volume 1 of the *Macroeconomics Test Bank* contains questions from Chapters 1 through 5; volume 2 contains questions from Chapters 6 through 9; and volume 3 contains questions from Chapters 10 through 15.

■ Test Bank Principles

Three principles guided the writing and revising of the questions:

- ◆ The questions should be “fail-safe” insofar as the topic of the questions has been explained in the textbook.
- ◆ A question should not be a guessing game forcing the students to puzzle out what the question asks.
- ◆ An instructor must be absolutely secure in the knowledge that each question contains material covered in the textbook.

I endeavored to insure that all questions meet all the criteria so that they are, as Donald Dutkowsky put it, “bullet proof.”

■ Ninth Edition Revisions

We have made substantial revisions in preparing the test banks for the Ninth Edition:

- ◆ An important innovation is the inclusion of “News based multiple choice questions.” These questions feature either a brief news story before the question or else a sentence or two sketching out an event in the real world. The following question(s) are then based on these real-world events. These questions will help give your students practice in applying what they are learning to the events and issues they see around them.
- ◆ The questions have all been classified using AACSB standards.
- ◆ All the questions have been reviewed to ensure consistency with the text as well as clarity for the students. Questions dealing with material eliminated from the ninth edition of the textbook were deleted and a large number of new questions were added to cover both the new as well as the old topics in the ninth edition.
- ◆ The artwork was reviewed and changed to remain consistent with the ninth edition of the textbook.
- ◆ To the greatest extent possible, the questions have been ordered so that they follow the order the material is presented in the corresponding textbook chapter. If you assign only part of a chapter to the students, it will be easy to select questions from that specific part.
- ◆ Though not strictly a new revision, it remains worthwhile to note that the test banks are available in a user-friendly computerized test bank.

■ Multiple Choice Questions

Taken together, there are nearly 15,000 multiple choice in the test banks. These questions have been written by many contributors. I have edited the questions to ensure that each conformed with the writing style established in the book because this style has been carefully crafted for maximum student comprehension. I also arranged the questions so that they are in the same order that the topics are presented within the textbook. Among questions dealing with a similar topic, the questions are ordered with non-numerical questions first, questions dealing with a numerical table second, and questions dealing with a figure third.

In addition to questions drawn directly from the text, there also are multiple choice questions that are either the same as or else closely related to the questions in the *Study Guide* and on the *MyEconLab* student website for the book. Each of these questions is identified as to its source. If you have assigned these student supplements to your class, you have the means to “reward” students who are using them by asking questions drawing on what they have been studying.

As mentioned in the revisions section, this edition includes a new style of questions, “News Based Questions.” These questions feature a brief news clip or a sentence with some news or facts and then question(s) based on that information. These are practical questions that stress applying the economics the students are learning to events taking place in the world around them.

The questions in each section of the chapter are based on the material covered only in that section. However we have also included “Part Review” multiple choice questions. These sections feature questions that are drawn from material covered in more than one chapter in each Part. You can use these questions if you want more integrative questions that lead students to think about broader issues.

■ Other Styles of Questions

In addition to multiple choice questions, each chapter also features essay questions, numeric questions, graphing questions, true or false questions, and extended problems. Within each chapter, you will find each type of question grouped together—that is, the essay questions for each chapter are first, followed by the numeric/graphing questions for each chapter, and so on.

In this fashion, if you want to write a strictly essay question exam, it will be easy to do so. Of course, within each chapter, the questions are arranged in the same order that the topics appear in the textbook.

For each chapter there are 3 to 5 extended problems. These questions, are, as the name implies, longer questions. Sometimes the questions for a chapter build upon each other; other times the questions are independent. These questions can be used on exam. However, they may also be given to the students and used as homework. I think the best way to view these questions is as a valuable supplement to the outstanding questions already in the textbook.

■ Final Comments

I have been teaching principles classes for over two decades, have written hundreds of exams, and won several teaching awards. Nonetheless, I was stunned by the quality of the questions in the test banks. I lost count of the number of times that I marveled at a question and wished that *I* had thought of it. While creating this test bank took significantly more effort than preparing an ordinary test bank, I am sure that the quality you will find made the task worthwhile.

Just as Sir Isaac Newton stood on the shoulders of the giants who came before him, so, too do these test banks reflect the superb work of the authors who initially wrote and compiled them. It is entirely fitting to thank them:

- ◆ Peter von Allmen of Moravian College
- ◆ Sue Bartlett of the University of South Florida
- ◆ Kevin Carey of American University
- ◆ Leo Chan of the University of Kansas
- ◆ Carol Dole of Jacksonville University
- ◆ Donald H. Dutkowsky of Syracuse University
- ◆ Andrew Foshee of McNeese State University
- ◆ James Giordano of Villanova University
- ◆ John Graham of Rutgers University
- ◆ Jill Boylston Herndon of the University of Florida
- ◆ Veronica Z. Kalich of Baldwin-Wallace College
- ◆ Sang Lee of Southeastern Louisiana University
- ◆ William Mosher of Clark University
- ◆ Melinda Nish of Salt Lake Community College
- ◆ Constantin Oglobin of Georgia Southern University

- ◆ Terry Olson of Truman State University
- ◆ Ed Price of Oklahoma State University
- ◆ Jeff Reynolds of Northern Illinois University
- ◆ Rochelle L. Ruffer of Youngstown State University
- ◆ Virginia Shingleton of Valparaiso University
- ◆ Della Sue of Marist College
- ◆ Nora Underwood of the University of California, Davis
- ◆ Robert Whaples of Wake Forest University
- ◆ Peter A. Zaleski of Villanova University

Contributing questions for the Ninth edition are:

- ◆ Carol Dole, of Jacksonville University
- ◆ Constantin Oglobin of Georgia Southern University
- ◆ Nora Underwood of the University of California, Davis

In a previous edition, Constantin also created all the Extended Problems for the entire book. And, to be frank, working with Carol, Constantin, and Nora was a true delight: The questions they contributed are quite likely the highest quality I have ever seen!

I have tried to make these *Test Banks* as helpful and useful as possible. Undoubtedly I have made some mis-

takes; mistakes that you may see. I have a standing offer in the *Study Guide* asking students who find any errors to notify me and promising that I will acknowledge them in all future editions of the *Study Guide*. I will make the same offer here: If you find any errors or have any comments or questions, *please* let me know and, if you want, I will note your help in all future editions of the test banks. And so keeping this promise:

- ◆ Dr. B. N. Ghosh of Eastern Mediterranean University in North Cyprus. Dr. Ghosh found several errors and I greatly appreciate his efforts!

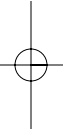
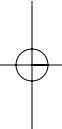
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 January 2008



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Chapter 1

What Is Economics?

1 Definition of Economics

- 1) All economic questions are about
- A) how to make money.
 - B) what to produce.
 - C) how to cope with scarcity.
 - D) how to satisfy all our wants.

Answer: C

Topic: Definition of Economics

Skill: Recognition

AACSB: Reflective Thinking

- 2) An incentive
- A) could be a reward but could not be a penalty.
 - B) could be a penalty but could not be a reward.
 - C) could be either a reward or a penalty.
 - D) is the opposite of a tradeoff.

Answer: C

Topic: Definition of Economics

Skill: Recognition

AACSB: Reflective Thinking

- 3) An inducement to take a particular action is called
- A) the marginal benefit.
 - B) the marginal cost.
 - C) opportunity cost.
 - D) an incentive.

Answer: D

Topic: Incentive

Skill: Recognition

AACSB: Reflective Thinking

- 4) All economic questions arise because we
- A) want more than we can get.
 - B) want more than we need.
 - C) have an abundance of resources.
 - D) have limited wants that need to be satisfied.

Answer: A

Topic: Scarcity

Skill: Recognition

AACSB: Reflective Thinking

5) The most fundamental economic problem is

- A) security.
- B) scarcity.
- C) health.
- D) the fact the United States buys more goods from foreigners than we sell to foreigners.

Answer: B

Topic: Scarcity

Skill: Recognition

AACSB: Reflective Thinking

6) Economics is best defined as the study of how people, businesses, governments, and societies

- A) choose abundance over scarcity.
- B) make choices to cope with scarcity.
- C) use their infinite resources.
- D) attain wealth.

Answer: B

Topic: Scarcity

Skill: Conceptual

AACSB: Reflective Thinking

7) Scarcity is a situation in which

- A) people cannot satisfy all their wants.
- B) most people can get only bare necessities.
- C) people can satisfy all their wants.
- D) some people can get all they want and some cannot.

Answer: A

Topic: Scarcity

Skill: Recognition

AACSB: Reflective Thinking

8) Economists point out that scarcity confronts

- A) neither the poor nor the rich.
- B) the poor but not the rich.
- C) the rich but not the poor.
- D) both the poor and the rich.

Answer: D

Topic: Scarcity

Skill: Conceptual

AACSB: Ethical Reasoning

9) Scarcity requires that people must

- A) cooperate.
- B) compete.
- C) trade.
- D) make choices.

Answer: D

Topic: Scarcity

Skill: Conceptual

AACSB: Reflective Thinking

- 10) All economic questions arise because
- A) people are greedy.
 - B) production possibilities are unlimited.
 - C) we want more than we can get.
 - D) people are irrational.

Answer: C

Topic: Scarcity

Skill: Recognition

AACSB: Reflective Thinking

- 11) Scarcity is
- A) our inability to satisfy all our wants.
 - B) a situation that exists during economic recessions but not during economic booms.
 - C) when a child wants a \$1.00 can of soda and two 50 ¢ packs of gum and has \$2.00 in her pocket.
 - D) an economic problem only for poor people.

Answer: A

Topic: Scarcity

Skill: Recognition

AACSB: Reflective Thinking

- 12) Scarcity arises from
- A) inefficient production.
 - B) exploration.
 - C) limited resources and limitless wants.
 - D) limited wants and limitless resources.

Answer: C

Topic: Scarcity

Skill: Recognition

AACSB: Reflective Thinking

- 13) When an economist talks of scarcity, the economist is referring to the
- A) ability of society to employ all of its resources.
 - B) ability of society to consume all that it produces.
 - C) inability of society to satisfy all human wants because of limited resources.
 - D) ability of society to continually make technological breakthroughs and increase production.

Answer: C

Topic: Scarcity

Skill: Recognition

AACSB: Reflective Thinking

- 14) Scarcity is experienced by
- A) only the wealthy.
 - B) only the poor.
 - C) only producers.
 - D) everyone.

Answer: D

Topic: Scarcity

Skill: Recognition

AACSB: Ethical Reasoning

- 15) Fundamental economic problems basically arise from
- A) the fact that society has more than it needs.
 - B) turmoil in the stock market.
 - C) the unequal distribution of income.
 - D) our wants exceeding our scarce resources.

Answer: D

Topic: Scarcity

Skill: Recognition

AACSB: Reflective Thinking

- 16) Scarcity exists because
- A) society and people are greedy and wasteful.
 - B) our wants exceed the resources available to satisfy them.
 - C) of the inefficient choices we make.
 - D) poor people need more food and other goods.

Answer: B

Topic: Scarcity

Skill: Recognition

AACSB: Reflective Thinking

- 17) Scarcity can be eliminated through
- A) the use of market mechanisms.
 - B) exploration that helps us find new resources.
 - C) wise use of our resources.
 - D) None of the above because scarcity cannot be eliminated.

Answer: D

Topic: Scarcity

Skill: Recognition

AACSB: Reflective Thinking

- 18) As an economic concept, scarcity applies to
- A) both money and time.
 - B) money but not time.
 - C) time but not money.
 - D) neither time nor money.

Answer: A

Topic: Scarcity

Skill: Conceptual

AACSB: Reflective Thinking

- 19) Scarcity is common to all economic systems because resources are
- A) unlimited due to constant technological advances.
 - B) limited and so are human desires and wants.
 - C) unlimited and so are human desires and wants.
 - D) limited, but human desires and wants are unlimited.

Answer: D

Topic: Scarcity

Skill: Conceptual

AACSB: Reflective Thinking

- 20) People must make choices because
- A) most people enjoy shopping.
 - B) of scarcity.
 - C) there are many goods available.
 - D) None of the above answers is correct.

Answer: B

Topic: Scarcity

Skill: Conceptual

AACSB: Reflective Thinking

- 21) The problem of "scarcity" applies
- A) only in industrially developed countries because resources are scarce in these countries.
 - B) only in underdeveloped countries because there are few productive resources in these countries.
 - C) only in economic systems that are just beginning to develop because specialized resources are scarce.
 - D) to all economic systems, regardless of their level of development.

Answer: D

Topic: Scarcity

Skill: Conceptual

AACSB: Reflective Thinking

- 22) When a wealthy businessman is unable to buy tickets to the Super Bowl, he or she experiences _____.
- A) economics
 - B) scarcity
 - C) opportunity costs
 - D) the fallacy of composition

Answer: B

Topic: Scarcity

Skill: Conceptual

AACSB: Reflective Thinking

- 23) In every economic system, choices must be made because resources are _____ and our wants are _____.
- A) unlimited; limited
 - B) limited; unlimited
 - C) unlimited; unlimited
 - D) limited; limited

Answer: B

Topic: Scarcity

Skill: Conceptual

AACSB: Reflective Thinking

- 24) The fundamental questions in economics result from
- A) an excess of production over the wants of society.
 - B) technological progress.
 - C) distribution of income.
 - D) scarcity of resources relative to the wants of society.

Answer: D

Topic: *Definition of Economics*

Skill: *Recognition*

AACSB: *Ethical Reasoning*

- 25) Economics is best defined as
- A) how people make money and profits in the stock market.
 - B) making choices from an unlimited supply of goods and services.
 - C) making choices with unlimited wants but facing a scarcity of resources.
 - D) controlling a budget for a household.

Answer: C

Topic: *Definition of Economics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 26) The study of economics
- A) focuses mainly on individual consumers.
 - B) arises from the fact that our wants exceed available resources.
 - C) recognizes that scarcity does not affect rich nations.
 - D) deals mainly with microeconomics.

Answer: B

Topic: *Definition of Economics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 27) Economics is best defined as the science of choice and how people cope with
- A) differences in wants.
 - B) differences in needs.
 - C) scarcity.
 - D) different economic systems.

Answer: C

Topic: *Definition of Economics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 28) Which of the following best defines the subject of economics?
- A) the science that studies unemployment, inflation, and economic stability
 - B) the art of making money
 - C) the study of choices that businesses make to maximize profit
 - D) the study of choices made to cope with scarcity

Answer: D

Topic: *Definition of Economics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 29) Economics is the study of
- A) the distribution of surplus goods to those in need.
 - B) affluence in a morally bankrupt world.
 - C) the choices we make because of scarcity.
 - D) ways to reduce wants to eliminate the problem of scarcity.

Answer: C

Topic: *Definition of Economics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 30) Which of the following is a macroeconomic topic?
- A) the reasons for a rise in the price of orange juice
 - B) the reasons for the rise in average prices
 - C) why plumbers earn more than janitors
 - D) whether the army should buy more tanks or more rockets

Answer: B

Topic: *Microeconomics and Macroeconomics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 31) The study of the choices made by individuals is part of the definition of
- A) microeconomics.
 - B) positive economics.
 - C) macroeconomics.
 - D) normative economics.

Answer: A

Topic: *Microeconomics and Macroeconomics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 32) In part, microeconomics is concerned with
- A) how a business firm decides upon the amount it produces and the price it sets.
 - B) changes in the economy's total output of goods and services over long periods of time.
 - C) factors that explain changes in the unemployment rate over time.
 - D) the Federal Reserve's policy decisions.

Answer: A

Topic: *Microeconomics and Macroeconomics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 33) The study of the decisions of individual units in the economy is known as
- A) macroeconomics.
 - B) microeconomics.
 - C) the study of incentives.
 - D) *ceteris paribus* study.

Answer: B

Topic: *Microeconomics and Macroeconomics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 34) Which of the following is an example of a microeconomic decision?
- A) an individual deciding how to allocate the time he or she has for work and leisure
 - B) a small shoe factory deciding how much leather to purchase for the next quarter's production need
 - C) a multinational company deciding where to relocate its world headquarter
 - D) All of the above answers are correct.

Answer: D

Topic: *Microeconomics and Macroeconomics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 35) Which term *best* describes the study of the decisions of people and businesses and the interaction of these decisions?
- A) marginal study
 - B) macroeconomics
 - C) microeconomics
 - D) scarcity science

Answer: C

Topic: *Microeconomics and Macroeconomics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 36) Which of the following questions is a topic that would be studied by microeconomics?
- A) Why did production and the number of jobs shrink in 2008?
 - B) Will the current budget deficit affect the well-being of the next generation?
 - C) How will a lower price of digital cameras affect the quantity of cameras sold?
 - D) What is the current unemployment rate in the United States?

Answer: D

Topic: *Microeconomics and Macroeconomics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 37) An example of a question that might be explored in microeconomics is to determine
- A) the number of workers employed by Intel.
 - B) savings by the household sector.
 - C) why the U.S. economy has grown more rapidly than the Japanese economy.
 - D) the total employment within the U.S. economy.

Answer: A

Topic: *Microeconomics and Macroeconomics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 38) One topic of study for a microeconomist would be the
- A) factors that lead to inflation.
 - B) factors that affect aggregate unemployment.
 - C) effects an increase in the price of gasoline has on an individual.
 - D) effects of an increase in government spending on the nation's production.

Answer: C

Topic: *Microeconomics and Macroeconomics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 39) In part, microeconomics is concerned with the study of
- A) unemployment and economic growth.
 - B) the Federal Reserve's policies.
 - C) the effect government regulation has on the price of a product.
 - D) national output of goods and services.

Answer: C

Topic: Microeconomics and Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 40) The branch of economics that deals with the analysis of the whole economy is called
- A) macroeconomics.
 - B) marginal analysis.
 - C) microeconomics.
 - D) metroanalysis.

Answer: A

Topic: Microeconomics and Macroeconomics

Skill: Recognition

AACSB: Reflective Thinking

- 41) Macroeconomics is concerned with
- A) individual consumers.
 - B) government decision making concerning farm price supports.
 - C) economy-wide variables.
 - D) the effects on Ford Motor of a strike by the United Auto Workers.

Answer: C

Topic: Microeconomics and Macroeconomics

Skill: Recognition

AACSB: Reflective Thinking

- 42) Macroeconomics differs from microeconomics in that:
- A) macroeconomics studies the decisions of individuals.
 - B) microeconomics looks at the economy as a whole.
 - C) macroeconomics studies the behavior of government while microeconomics looks at private corporations.
 - D) macroeconomics focuses on the national economy and the global economy.

Answer: D

Topic: Microeconomics and Macroeconomics

Skill: Recognition

AACSB: Reflective Thinking

- 43) Which of the following is a macroeconomic decision or concept?
- A) the price of oil
 - B) how many television sets to produce
 - C) the unemployment rate for the entire economy
 - D) the unemployment rate for each firm

Answer: C

Topic: Microeconomics and Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 44) Which of the following questions is a macroeconomic issue?
- A) How many more pounds of cookies will a consumer purchase if the price of cookies decreases?
 - B) What effect would a cure for Mad Cow Disease have on the market for beef?
 - C) What is the future growth prospect for an economy?
 - D) How many workers should the owner of a business hire?

Answer: C

Topic: *Microeconomics and Macroeconomics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 45) Which of the following is a microeconomic topic?
- A) The reasons why Kathy buys less orange juice.
 - B) The reasons for a decline in average prices.
 - C) The reasons why total employment decreases.
 - D) The effect of the government budget deficit on inflation.

Answer: A

Topic: *Microeconomics and Macroeconomics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 46) Microeconomics focuses on all of the following EXCEPT the
- A) purchasing decisions made by an individual consumer.
 - B) effect on inflation of increasing the money supply.
 - C) hiring decisions made by a business.
 - D) effect on cigarette sales of an increase in the tax on cigarettes.

Answer: B

Topic: *Microeconomics and Macroeconomics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 47) In broad terms the difference between microeconomics and macroeconomics is that
- A) they use different sets of tools and ideas.
 - B) microeconomics studies decisions of individual people and firms and macroeconomics studies the entire national economy.
 - C) macroeconomics studies the effects of government regulation and taxes on the price of individual goods and services whereas microeconomics does not.
 - D) microeconomics studies the effects of government taxes on the national unemployment rate.

Answer: B

Topic: *Microeconomics and Macroeconomics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 48) Studying the determination of prices in individual markets is primarily a concern of
- A) positive economics.
 - B) negative economics.
 - C) macroeconomics.
 - D) microeconomics.

Answer: D

Topic: Microeconomics and Macroeconomics

Skill: Recognition

AACSB: Reflective Thinking

- 49) The analysis of the behavior of individual decision-making units is the definition of
- A) microeconomics.
 - B) positive economics.
 - C) macroeconomics.
 - D) normative economics.

Answer: A

Topic: Microeconomics and Macroeconomics

Skill: Recognition

AACSB: Reflective Thinking

- 50) Which of the following is a microeconomic topic?
- A) How a trade agreement between the United States and Mexico affects both nations' unemployment rates.
 - B) Comparing inflation rates across countries.
 - C) How rent ceilings impact the supply of apartments.
 - D) How a tax rate increase will impact total production.

Answer: C

Topic: Microeconomics and Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 51) Which of the following questions is NOT a microeconomic question?
- A) Can the Federal Reserve keep income growing by cutting interest rates?
 - B) How would a tax on e-commerce affect eBay?
 - C) What is Britney's opportunity cost of having another baby?
 - D) Does the United States have a comparative advantage in information technology services?

Answer: A

Topic: Microeconomics and Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 52) Which of the following is a macroeconomic issue?
- A) How a rise in the price of sugar affects the market for sodas.
 - B) How federal government budget deficits affect interest rates.
 - C) What determines the amount a firm will produce.
 - D) The cause of a decline in the price of peanut butter.

Answer: B

Topic: Microeconomics and Macroeconomics

Skill: Conceptual

AACSB: Reflective Thinking

- 53) Which of the following is a macroeconomic issue?
- A) The purchasing decisions that an individual consumer makes.
 - B) The effect of increasing the money supply on inflation.
 - C) The hiring decisions that a business makes.
 - D) The effect of an increase in the tax on cigarettes on cigarette sales.

Answer: B

Topic: *Microeconomics and Macroeconomics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 54) Macroeconomic topics include
- A) total, nationwide employment.
 - B) studying what factors influence the price and quantity of automobiles.
 - C) studying the determination of wages and production costs in the software industry.
 - D) the impact of government regulation of markets.

Answer: A

Topic: *Microeconomics and Macroeconomics*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 55) Macroeconomics is the branch of economics that studies
- A) prices of individual goods.
 - B) the way individual markets work.
 - C) the economy as a whole.
 - D) important, as opposed to trivial, issues.

Answer: C

Topic: *Microeconomics and Macroeconomics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 56) The fact that wants cannot be fully satisfied with available resources reflects the definition of
- A) the what tradeoff.
 - B) scarcity.
 - C) the big tradeoff.
 - D) for whom to produce.

Answer: B

Topic: *Study Guide Question, Definition of Economics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 57) Studying the effects choices have on the individual markets within the economy is part of
- A) scarcity.
 - B) microeconomics.
 - C) macroeconomics.
 - D) incentives.

Answer: B

Topic: *Study Guide Question, Macroeconomics*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 58) Economics can be defined as the social science that explains the _____.
- A) choices made by politicians
 - B) choices we make when we trade in markets
 - C) choices that we make as we cope with scarcity
 - D) choices made by households

Answer: C

Topic: MyEconLab Questions

Skill: Conceptual

AACSB: Reflective Thinking

- 59) Scarcity is a situation in which _____.
- A) some people are poor and others are rich
 - B) something is being wasted
 - C) we are unable to satisfy all our wants
 - D) long lines form at gas stations

Answer: C

Topic: MyEconLab Questions

Skill: Conceptual

AACSB: Reflective Thinking

- 60) Microeconomics is the study of _____.
- A) the choices that individuals and businesses make
 - B) all aspects of scarcity
 - C) the global economy
 - D) the national economy

Answer: A

Topic: MyEconLab Questions

Skill: Conceptual

AACSB: Reflective Thinking

2 Two Big Economic Questions

- 1) When an economy produces more houses and fewer typewriters, it is answering the _____ question.
- A) "what"
 - B) "how"
 - C) "where"
 - D) "for whom"

Answer: A

Topic: What Goods and Services Are Produced?

Skill: Conceptual

AACSB: Reflective Thinking

2) When firms in an economy start producing more computers and fewer televisions, they are answering the _____ question.

- A) "when"
- B) "for whom"
- C) "what"
- D) "where"

Answer: C

Topic: *What Goods and Services Are Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

3) _____ all the objects that we value and are willing to pay for.

- A) Resources are
- B) Goods and services are
- C) Wants are
- D) Capital is

Answer: B

Topic: *What Goods and Services Are Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

4) If Taco Bell decides to produce more tacos and fewer burritos, Taco Bell is answering the _____ question.

- A) "what"
- B) "why"
- C) "when"
- D) "scarcity"

Answer: C

Topic: *What Goods and Services Are Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

5) When a farmer decides to raise hogs instead of cattle, the farmer is answering the _____ question.

- A) "what"
- B) "for whom"
- C) "how"
- D) "why"

Answer: A

Topic: *What Goods and Services Are Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

6) When a farmer decides to grow sugar cane instead of radishes, the farmer is answering the _____ question.

- A) "what"
- B) "when"
- C) "for whom"
- D) "why"

Answer: A

Topic: *What Goods and Services Are Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

7) When a country decides to produce fewer bombers and more public housing projects, it is answering the _____ question.

- A) "how"
- B) "what"
- C) "defense"
- D) "for whom"

Answer: B

Topic: *What Goods and Services Are Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

8) When a firm decides to produce more electric cars and fewer gas guzzlers, it is most directly answering the _____ question.

- A) "how"
- B) "scarcity"
- C) "what"
- D) "for whom"

Answer: C

Topic: *What Goods and Services Are Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

9) When a textile firm decides to produce more cotton fabric and less synthetic fabric, it is most directly answering the _____ question.

- A) "how"
- B) "for whom"
- C) "why"
- D) "what"

Answer: D

Topic: *What Goods and Services Are Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

10) U.S. producers decide to produce more compact cars and fewer SUVs as the price of gasoline rises. Producers are answering the _____ question.

- A) "what"
- B) "how"
- C) "when"
- D) "how many"

Answer: A

Topic: *What Goods and Services Are Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

11) The question "Should CDs or DVDs be produced?" is an example of the

- A) "what" question.
- B) "how" question.
- C) "where" question.
- D) "for whom" question.

Answer: A

Topic: *What Goods and Services Are Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

12) Which of the following statements is correct?

- A) The United States produces more goods than services.
- B) The United States produces more services than goods.
- C) The percentage of people producing goods in the United States has steadily increased over the last 60 years.
- D) The United States produces an equal amount of goods and services.

Answer: B

Topic: *Trends in Production*

Skill: *Recognition*

AACSB: *Reflective Thinking*

13) In the United States, the percentage of people employed in _____ over the last 60 years.

- A) farming has increased
- B) manufacturing has increased
- C) construction has increased
- D) services has decreased

Answer: A

Topic: *Trends in Production*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 14) In the U.S. economy, which of the following statements is true?
- A) More goods are produced than services.
 - B) More services are produced than goods.
 - C) Production is divided evenly between goods and services.
 - D) The economy is too complex to determine the proportion of production that is devoted to producing services.

Answer: B

Topic: Trends in Production

Skill: Recognition

AACSB: Reflective Thinking

- 15) Over the last 60 years, as a proportion of total production, the U.S. economy has produced more
- A) goods.
 - B) agricultural products.
 - C) services.
 - D) goods and services.

Answer: C

Topic: Trends in Production

Skill: Recognition

AACSB: Reflective Thinking

- 16) In the U.S. economy, a recent trend has been that
- A) employment in agriculture has been increasing.
 - B) employment in mining, construction, and manufacturing has been increasing.
 - C) employment in the service industry has been increasing.
 - D) employment in both agriculture and the service industry has been decreasing.

Answer: C

Topic: Trends in Production

Skill: Recognition

AACSB: Reflective Thinking

- 17) The largest part of what the United States produces today is _____ such as _____.
- A) goods; food and electronic equipment
 - B) goods; education and entertainment
 - C) services; trade and health care
 - D) services; textbooks and computers

Answer: C

Topic: Trends in Production

Skill: Recognition

AACSB: Reflective Thinking

18) When China builds a dam using few machines and a great deal of labor, it is answering the _____ question.

- A) "what"
- B) "how"
- C) "where"
- D) "for whom"

Answer: B

Topic: *How Are Goods and Services Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

19) When a textile company keeps track of its inventory using a computer and its competitor uses a spreadsheet and pencil, they are both answering the _____ question.

- A) "what"
- B) "how"
- C) "for whom"
- D) "where"

Answer: B

Topic: *How Are Goods and Services Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

20) Whether a company produces fishing rods mostly by hand or using high-tech machinery is a question of

- A) for whom will goods be produced.
- B) why will the goods be produced.
- C) where will the goods be produced.
- D) how will the goods be produced.

Answer: D

Topic: *How Are Goods Produced?*

Skill: *Recognition*

AACSB: *Reflective Thinking*

21) When a California farmer decides to harvest lettuce by the use of machines instead of by migrant workers, the farmer is answering the _____ question.

- A) "how"
- B) "for whom"
- C) "scarcity"
- D) "what"

Answer: A

Topic: *How Are Goods Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

22) When a farmer decides to harvest oranges by huge machines instead of by migrant workers, the farmer is answering the _____ question.

- A) "how"
- B) "scarcity"
- C) "why"
- D) "what"

Answer: A

Topic: *How Are Goods and Services Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

23) When a lawyer decides to type a brief on a computer rather than use a typewriter, the lawyer is answering the _____ question.

- A) "how"
- B) "scarcity"
- C) "why"
- D) "what"

Answer: A

Topic: *How Are Goods and Services Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

24) When a firm decides to produce computers using robots instead of people, it is answering the _____ question.

- A) "scarcity"
- B) "how"
- C) "what"
- D) "why"

Answer: B

Topic: *How Are Goods and Services Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

25) To meet increased demand for its good, a firm decides to hire a few high-skilled workers rather than hire many low-skilled workers. The firm is answering the _____ question.

- A) "how"
- B) "when"
- C) "what"
- D) "scarcity"

Answer: A

Topic: *How Are Goods and Services Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

26) An art museum decides to offer tours by having visitors listen to cassette tapes rather than have tour guides. The museum is answering the _____ question.

- A) "scarcity"
- B) "what"
- C) "why"
- D) "how"

Answer: D

Topic: *How Are Goods and Services Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

27) Human capital is

- A) all capital owned by individuals, but not by corporations or governments.
- B) all capital owned by individuals or corporations, but not by governments.
- C) machinery that meets or exceeds federal safety standards for use by humans.
- D) the skill and knowledge of workers.

Answer: D

Topic: *Human Capital*

Skill: *Recognition*

AACSB: *Reflective Thinking*

28) Entrepreneurs do all of the following EXCEPT

- A) organize labor, land, and capital.
- B) come up with new ideas about what and how to produce.
- C) bear risk from business decisions.
- D) own all the other resources used in the production process.

Answer: D

Topic: *Entrepreneurship*

Skill: *Recognition*

AACSB: *Reflective Thinking*

29) To answer the "for whom" question, we study

- A) the global economy.
- B) income differences.
- C) business cycles.
- D) technological change.

Answer: B

Topic: *For Whom Are Goods and Services Produced?*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

30) The fact that people with higher incomes get to consume more goods and services addresses the _____ question.

- A) "for whom"
- B) "when"
- C) "where"
- D) "how"

Answer: A

Topic: *For Whom Are Goods and Services Produced?*

Skill: *Conceptual*

AACSB: *Ethical Reasoning*

- 31) Which of the following is NOT a factor of production?
- A) the water used to cool a nuclear power plant.
 - B) the effort of farmers raising cattle.
 - C) the wages paid to workers.
 - D) the management skill of a small business owner.

Answer: C

Topic: Factors of Production

Skill: Conceptual

AACSB: Reflective Thinking

- 32) Which of the following are considered factors of production used to produce goods and services?
- I. Land
 - II. Labor
 - III. Capital
 - IV. Entrepreneurship
- A) I and II only
 - B) I and III only
 - C) I, II and III only
 - D) I, II, III and IV

Answer: D

Topic: Factors of Production

Skill: Recognition

AACSB: Reflective Thinking

- 33) Factors of production include all of the following EXCEPT
- A) labor.
 - B) land.
 - C) capital.
 - D) None of the above answers are correct because all are factors of production.

Answer: D

Topic: Factors of Production

Skill: Recognition

AACSB: Reflective Thinking

- 34) What are the four categories into which factors of production are grouped?
- A) profit, wages, rent, and interest
 - B) land, labor, capital, and entrepreneurship
 - C) capital, human capital, land, and labor
 - D) entrepreneurship, profit, labor, and wages

Answer: B

Topic: Factors of Production

Skill: Recognition

AACSB: Reflective Thinking

- 35) Factors of production include all of the following EXCEPT _____.
- A) machines made in past years
 - B) money
 - C) entrepreneurship
 - D) an wheat field that is not irrigated

Answer: B

Topic: *Factors of Production*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 36) The income earned by the people who sell the services of the factor of production _____ is called _____.
- A) capital; rent
 - B) entrepreneurship; wages
 - C) land; profit
 - D) entrepreneurship; profit

Answer: D

Topic: *Factors of Production*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 37) Factors of production are grouped into four categories:
- A) land, labor, capital, entrepreneurship
 - B) land, labor, capital, money
 - C) land, capital, money, entrepreneurship
 - D) labor, capital, money, entrepreneurship

Answer: A

Topic: *Factors of Production*

Skill: *Recognition*

AACSB: *Reflective Thinking*

- 38) Which of the following is NOT a factor of production?
- A) vans used by a bakery company for deliveries
 - B) a person developing a production schedule for a new product
 - C) 175 shares of Microsoft stock
 - D) wilderness areas that have yet to be developed

Answer: C

Topic: *Factors of Production*

Skill: *Conceptual*

AACSB: *Reflective Thinking*

- 39) Which of the following is correct? Factors of production are
- A) land, labor, the price system, and capital.
 - B) the inputs used to produce goods and services.
 - C) the fundamental source of abundance.
 - D) only land and labor.

Answer: B

Topic: *Factors of Production*

Skill: *Recognition*

AACSB: *Reflective Thinking*