1. The average benefit of an activity is the
   A. total benefit of the activity divided by the number of units.
   B. number of units divided by the total benefit of the activity.
   C. number of units times the total benefit of the activity.
   D. extra benefit for one additional unit of the activity.

   **Fundraisers for What'sAMatterU**

<table>
<thead>
<tr>
<th>Fund Raising Employees</th>
<th>Total Donations</th>
<th>Average Donations</th>
<th>Total Labor Costs</th>
<th>Average Labor Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$30,000</td>
<td></td>
<td>$8,000</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>$42,426</td>
<td></td>
<td>$17,000</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>$17,321</td>
<td></td>
<td>$27,000</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>$60,000</td>
<td>$13,416</td>
<td>$50,000</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Refer to the figure above. The President of What'sAMatterU decides to hire fundraisers as long as the average benefit exceeds the average cost, resulting in ________ employees being hired and a net benefit (total donations minus total labor costs) of ________.
   A. 5; $17,080
   B. 5; $67,080
   C. 4; $60,000
   D. 4; $22,000

3. Refer to the figure above. The Chairman of the Economics Department at What'sAMatterU says that fundraisers should be hired as long as their marginal donations exceed their marginal labor costs. Following this criterion, _____ ______ employees are hired and net benefits are ________.
   A. 1; $22,000
   B. 2; $25,426
   C. 3; $25,426
   D. 2; $3,476

   **Units of Activity**

<table>
<thead>
<tr>
<th>Units of Activity</th>
<th>Total Cost</th>
<th>Total Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$ 30</td>
<td>$100</td>
</tr>
<tr>
<td>2</td>
<td>$ 40</td>
<td>$160</td>
</tr>
<tr>
<td>3</td>
<td>$ 60</td>
<td>$180</td>
</tr>
<tr>
<td>4</td>
<td>$100</td>
<td>$200</td>
</tr>
<tr>
<td>5</td>
<td>$150</td>
<td>$205</td>
</tr>
<tr>
<td>6</td>
<td>$175</td>
<td>$210</td>
</tr>
</tbody>
</table>
4. Refer to the figure above. The average cost of 4 units of activity is
A. $20
B. $25
C. $30
D. $40

5. Refer to the figure above. According to the cost-benefit principle, the level of activity that provides the largest net benefit is
A. 1
B. 3
C. 4
D. 6

6. Microeconomics is distinguished from macroeconomics in that microeconomics focuses on
A. the performance of the national economy.
B. the overall price level.
C. choices made by individuals or groups in the context of individual markets.
D. how to improve the performance of the national economy.

7. Which of the following questions would not be part of macroeconomics?
A. What caused the great depression?
B. At what rate does the US economy typically grow?
C. Did the sharp increase in gasoline prices alter SUV sales?
D. How does government spending affect the economy?

You own a pizza shop called "Pizza'R Us". Currently you are paying your cooks an hourly wage of $20. You sell a medium pizza for $10 a pie. By hiring more cooks, you can increase your pizza production as shown in the following table.

<table>
<thead>
<tr>
<th>Number of cooks</th>
<th>Total production of pizzas each hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>10</td>
</tr>
</tbody>
</table>

8. What is the average benefit per pizza if you hire 2 cooks?
A. $4
B. $6
C. $8
D. $10
9. An economic naturalist is described as someone who

A. uses economic arguments to protect forests and wetlands from development.
B. has a natural talent for drawing graphs.
C. applies economic insights to everyday life.
D. studies the process of natural selection in a marginal cost and marginal benefit framework.

10. Sally earned $25,000 per year before she became a mother. After she became a mother, she told her employer that she would not be willing to work for anything less than $50,000. Her decision is based on

A. the high cost of raising a child.
B. her desire to save for her child's college expenses.
C. her increased value to her employer.
D. the value she places on spending time with her child.

Matt has decided to purchase his textbooks for the semester. His options are to purchase the books via the Internet with next day delivery to his home at a cost of $175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of $170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of $16.

11. According to the cost-benefit principle:

A. it would not be rational for Matt to drive to campus to purchase the books because the $5 saving is only two percent of the cost of the books, and that is much less than the 25 percent he saved on the concert ticket.
B. it would be rational for Matt to drive to campus because it costs less to buy the books there than via the Internet.
C. it would be rational for Matt to drive to campus because the $5 saving is more than he saved by driving there to buy the concert ticket.
D. it would not be rational for Matt to drive to campus to purchase the books because the cost of gas and his time must certainly be more than the $5 he would save.

IBM employs Pam to assemble personal computers. Pam can assemble 1 computer if she works 1 hour, 4 computers in 2 hours, 8 computers in 3 hours, 10 computers in 4 hours, and 11 computers in 5 hours. Each computer consists of a motherboard that costs $200, a hard drive that costs $100, a case that costs $20, a monitor that costs $200, a keyboard at $60 and a mouse that costs $20. The cost of employing Pam is $40 per hour.

12. What is the marginal cost of producing the computers Pam assembles during her 4th hour of work?

A. $1,200
B. $1,240
C. $2,400
D. $2,440

13. Whether studying the size of the U.S. economy or the number of children a couple will choose to have, the unifying concept is that wants are

A. limited, resources are limited, and thus tradeoffs must be made.
B. unlimited, resources are limited, and thus tradeoffs must be made.
C. unlimited, resources are limited to some but not to others and thus some people must make tradeoffs.
D. unlimited, resources are limited, and thus government needs to do more.
14. What is the average labor cost per pizza if you hire 4 cooks?
A. $6  
B. $8  
C. $10  
D. $12

15. IBM sells each computer for $640. How many hours should IBM employ Pam to maximize its benefit from her employment?
A. 2 hours  
B. 3 hours  
C. 4 hours  
D. 5 hours

16. The marginal benefit of an activity is the
A. same as the total benefits of the activity.  
B. total benefit divided by the level of the activity.  
C. extra benefit associated with an extra unit of the activity.  
D. total benefit associated with an extra unit of the activity.

17. Refer to the figure above. The marginal cost of the 3rd unit of activity is
A. $30  
B. $25  
C. $20  
D. $10

18. Economics is best defined as the study of
A. prices and quantities.  
B. inflation and interest rates.  
C. how people make choices under the conditions of scarcity and the results of the choices.  
D. wages and incomes.

<table>
<thead>
<tr>
<th>Units of Activity</th>
<th>Total Cost</th>
<th>Total Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$3</td>
<td>$10</td>
</tr>
<tr>
<td>2</td>
<td>$4</td>
<td>$14</td>
</tr>
<tr>
<td>3</td>
<td>$6</td>
<td>$16</td>
</tr>
<tr>
<td>4</td>
<td>$10</td>
<td>$20</td>
</tr>
<tr>
<td>5</td>
<td>$15</td>
<td>$24</td>
</tr>
<tr>
<td>6</td>
<td>$21</td>
<td>$28</td>
</tr>
<tr>
<td>7</td>
<td>$28</td>
<td>$29</td>
</tr>
</tbody>
</table>

19. Refer to the figure above. The average cost of 5 units of activity is
A. $1  
B. $2  
C. $3  
D. $4
Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are $600, but you have a frequent-flyer coupon worth $500 that you could use to pay part of the airfare. All other costs for the vacation are exactly $900. The most you would be willing to pay for the trip is $1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are $450.

20. What is the opportunity cost of using the coupon for the Miami trip?

A. $100 
B. $450 
C. $500 
D. $550 

21. Chris has a one-hour break between classes every Wednesday. Chris can either stay at the library and study or go to the gym and work out. This is

A. not an economic problem, because neither one costs money. 
B. not an economic problem, because it's an hour that is wasted no matter what Chris does. 
C. an economic problem because the tuition Chris pays covers both the gym and the library. 
D. an economic problem, because the one-hour time limit means Chris must make a choice. 

22. The marginal cost of an activity is the

A. change in the cost of the activity that results from an extra unit of the activity. 
B. same as the total cost of the activity. 
C. ratio of total cost to the level of the activity. 
D. change in the level of the activity divided by the change in the cost of the activity. 

23. Catherine and Nancy both own homes with similar size lawns. Catherine mows her own lawn while Nancy hires someone to mow hers. Assume both women are rational decision makers. Which is the best explanation of the different decisions they make?

A. The opportunity cost of Nancy's time is higher than her cost to hire someone to mow the lawn. 
B. Nancy can get her lawn mowed for less than Catherine. 
C. Nancy doesn't own a lawnmower. 
D. Nancy earns more than Catherine does. 

24. Refer to the figure above. The marginal benefit of the 6th unit of activity is

A. $1 
B. $2 
C. $4 
D. $10 

25. Refer to the figure above. Total donations raised by three employees is

A. $43,899. 
B. $45,000. 
C. $48,911. 
D. $51,963.
26. The extra cost that results from an extra unit of an activity is the
A. marginal benefit.
B. marginal cost.
C. reservation cost.
D. same as the opportunity cost.

27. Refer to the figure above. The marginal cost of the 4th unit of activity is
A. $1
B. $2
C. $3
D. $4

28. The use of economic models, like the cost-benefit principle, means economists believe that
A. this is exactly how people choose between alternatives.
B. this is a reasonable abstraction of how people choose between alternatives.
C. those who explicitly make decisions this way are smarter.
D. with enough education, all people will start to explicitly make decisions this way.

29. If you do not use the frequent-flyer coupon to fly, should you go to Miami?
A. Yes, your benefit is more than your cost.
B. No, your benefit is less than your cost.
C. Yes, your benefit is equal to your cost.
D. No, because there are no benefits in the trip.

Sean studied 5 hours for his first Economics test and he scored 85; 6 hours for his second Economics test and scored 90; and 7 hours for his third Economics test and scored 95. He also studied 5 hours for his first Math test and he scored 68; 6 hours for his second Math test and scored 78; and 7 hours for his third Math test and scored 88.

30. The average benefit per hour studied for the Economics tests was ________ and the average benefit per hour studied for the Math tests was _______.
A. 15; 13
B. 5; 10
C. 13; 15
D. 10; 5

31. Studying government policies towards building new roads and highways is
A. microeconomics
B. macroeconomics
C. government economics
D. marginal economics
32. When a person decides to pursue an activity as long as the extra benefits are at least equal to the extra costs, that person is

A. violating the cost-benefit principle.
B. following the scarcity principle.
C. following the cost-benefit principle.
D. pursuing the activity too long.

Larry was accepted at three different graduate schools, and must choose one. Elite U costs $50,000 per year and did not offer Larry any financial aid. Larry values attending Elite U at $60,000 per year. State College costs $30,000 per year, and offered Larry an annual $10,000 scholarship. Larry values attending State College at $40,000 per year. NoName U costs $20,000 per year, and offered Larry a full $20,000 annual scholarship. Larry values attending NoName at $15,000 per year.

33. The opportunity cost of attending State College is

A. $30,000
B. $20,000
C. $15,000
D. $10,000

34. In general, individuals and nations should specialize in producing those goods for which they have a(n)

A. absolute advantage.
B. comparative advantage.
C. absolutely comparative advantage.
D. absolute and comparative advantage.

35. Between USA and Nepal, Nepal invests less in new factories and equipments. This will likely cause

A. Nepal's production possibilities curve to shift outward faster than USA.
B. USA's production possibilities curve to shift inward faster than Nepal.
C. USA's production possibilities curve to shift outward faster than Nepal.
D. Nepal's production possibilities curve to shift inward faster than USA.

36. When firms engage in outsourcing, ________ benefit(s) and _______ are harmed.

A. the firms; consumers
B. consumers; the firms
C. consumers; the firm's domestic employees
D. the firms; the firms' foreign employees

37. An inefficient point is

A. necessarily an attainable point.
B. not necessarily attainable.
C. necessarily an unattainable point.
D. possibly an unattainable point.
38. You have noticed that your next-door neighbor, Mary, always works in the garden and her husband, Joe, always walks the dog. Based on this observation, you conclude that

A. Mary has an absolute advantage in gardening.
B. Joe has a comparative advantage in walking the dog.
C. Mary does not understand the principle of low-hanging-fruit.
D. Joe experiences increasing opportunity costs when he gardens, but not when he walks the dog.

39. Refer to the figure above. Sven could move from the bold PPC to the dashed PPC by

A. finding a job that paid a higher wage.
B. studying fewer hours but more effectively per hour.
C. devoting fewer hours to sleeping.
D. spending more time on the activity for which he has a comparative advantage.

40. Refer to the figure above. The diagram shows Sven's Production Possibilities for one day. For Sven, the opportunity cost of spending one more hour studying

A. is diminishing with each additional hour.
B. is increasing with each additional hour.
C. is exactly one hour of paid work.
D. is the marginal benefit from studying.
You are the Minister of Trade for a small island country in the South Pacific with the following annual production possibilities curve:

![Production Possibilities Curve](image)

You are negotiating a deal with a neighboring island that has the following annual PPC:

![Production Possibilities Curve](image)

41. As soon as you see the other island's PPC, you realize

A. there will be no trade because the other island has the same comparative advantage as yours.
B. there will be no trade because there is no difference in your ability to harvest coconuts.
C. there will be no trade because the other island has an absolute advantage.
D. your island will have to specialize in coconuts if it wants to gain from trade.

Earth Movers and Shakers operates 3 iron ore mines. This table shows their daily production rates given the number of miners at each mine. All of the miners work for the same wage.

<table>
<thead>
<tr>
<th>Mine</th>
<th>Tons</th>
<th>Number of Miners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mother Lode</td>
<td>100</td>
<td>25</td>
</tr>
<tr>
<td>Scraping Bottom</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Middle Drift</td>
<td>75</td>
<td>15</td>
</tr>
</tbody>
</table>

42. By taking the first tons from ______, Movers and Shakers is producing consistent with the _____ Principle.

A. Mother Lode; Low Hanging Fruit
B. Middle Drift; Compromise
C. Middle Drift: Low Hanging Fruit
D. Scraping Bottom; Cost Minimizing

43. Which of the following statements is always true?

A. Absolute advantage implies comparative advantage.
B. Comparative advantage does not require absolute advantage.
C. Absolute advantage requires comparative advantage.
D. Comparative advantage requires absolute advantage.
44. Refer to the figure above. Moving from Point D to Point C reduces cattle herding by

A. more than the increase in movies made.
B. less than the increase in movies made.
C. the same amount as the increase in movies made.
D. more than the decrease in movies made.

45. Economic growth can result from a(n)

A. increase in the amount of productive resources.
B. increase in number of the minimum wage jobs.
C. increase in the amount of consumer goods produced.
D. decrease in the number of workers available.

46. The opportunity cost of moving one miner from Scraping Bottom to Middle Drift is

A. less than 0.
B. 3 Tons.
C. 4 Tons.
D. 5 Tons.

<table>
<thead>
<tr>
<th></th>
<th>Pizzas made per hour</th>
<th>Pizzas delivered per hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corey</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>Pat</td>
<td>10</td>
<td>15</td>
</tr>
</tbody>
</table>

47. Refer to the figure above. Corey's opportunity cost of delivering an extra pizza is producing ______ pizzas.

A. 6
B. 12
C. 2
D. 1/2

Pat has 4 hours to spend either studying for a test or playing a new video game. If Pat spends all of that time studying, Pat can score a 92 on the test. If Pat plays for 1 hour, Pat's test score falls 5 points. For playing a second hour, Pat's score falls by 7 points. Playing for a third hour will lower Pat's score by another 10 points.
48. The opportunity cost of playing video games

A. decreases the longer Pat plays.
B. increases the longer Pat plays.
C. is greater than the value of earning a higher grade on the test.
D. is equal to the value of earning a higher grade on the test.

49. Having a comparative advantage in a particular task means that

A. you are better at it than other people.
B. you give up more to accomplish that task than do others.
C. you give up less to accomplish that task than do others.
D. you have specialized in that task, while others have not.

50. Refer to the figure above. If this economy were currently operating at Point D, in order to make more movies,

A. the first cattle herders to switch to movie making would be the cattle herders with the greatest comparative advantage in cattle herding.
B. the first cattle herders to switch to movie making would be the cattle herders with the smallest comparative advantage in cattle herding.
C. no cattle herders would have to switch because the economy is already efficient.
D. no cattle herders would have to switch because they are specialized in cattle herding, not movie making.

51. If a linear, two-good production possibilities graph has a slope steeper than -1,

A. you would have to give up more than one unit of the good measured on the horizontal axis to gain an additional unit of the good measured on the vertical axis.
B. you would have to give up less than one unit of the good measured on the horizontal axis to gain an additional unit of the good measured on the vertical axis.
C. by specializing in the good measured on the horizontal axis you would be able to make more total units than you would if you specialized in the good measured on the vertical axis.
D. you have a comparative advantage in the good measured on the vertical axis.

52. The PPC shown in this graph is characteristic of production that displays

A. constant opportunity costs as production of a good increases.
B. decreasing opportunity costs as production of a good increases.
C. increasing opportunity costs as production of a good increases.
D. inefficient production because it is downward sloping.

Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

<table>
<thead>
<tr>
<th>Good</th>
<th>Smith</th>
<th>Jones</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computers</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Calculators</td>
<td>100</td>
<td>120</td>
</tr>
</tbody>
</table>

53. For any efficient point with more than 10 computers and fewer than 120 calculators, Smith will __________ and Jones will __________.

A. only produce computers; only produce calculators
B. only produce computers; split his time between computers and calculators
C. split his time between computers and calculators; only produce computers
D. only produce calculators; only produce computers
54. Which of the following statements is NOT true about specialization?

A. Total economic output is larger.
B. Worker skills are better matched with tasks.
C. Specialization focuses experience and increases the comparative advantage.
D. The variety of tasks associated with a particular job grows over time.

55. Refer to the figure above. Of the labeled points, ______________ are attainable.

A. only t and u
B. only x, y, and z
C. only w, x, y, z, and v
D. only w, x, y, z, v, and t
56. Refer to the figure above. If this restaurant makes 75 salads in one hour, approximately how many pizzas can it also make in that same hour, assuming efficient production?

A. 0  
B. 10  
C. 20  
D. 30

57. If Jane can produce 3 pairs of shoes hourly, while Bob can produce 2, then one can infer that the __________ advantage belongs to __________.

A. absolute; Jane  
B. comparative; Jane  
C. comparative; Bob  
D. comparative and absolute; Jane

58. The United States generally has a comparative advantage in the development of technology because of

A. larger amounts of natural resources.  
B. a high concentration of the best research universities. 
C. tax incentives.  
D. the existence of patent law, which no other country provides.

59. In a two-person, two-good economy, the benefits of labor specialization will be larger when

A. one person has an absolute advantage in both goods.  
B. neither person has an absolute advantage.  
C. the difference in their respective opportunity costs are small for both goods.  
D. there is a large difference in their opportunity costs.

60. Earth Movers and Shakers needs to fill an order for 100 Tons of ore in a single day, and has no other orders to fill that day. It should

A. take it all from Mother Lode.  
B. take 75 tons from Middle Drift and 25 tons from Mother Lode.  
C. take 75 tons from Middle Drift and 25 tons from Scraping Bottom.  
D. take 30 tons from Scraping Bottom and 70 tons from Mother Lode.

61. Refer to the figure above. Point y ___________________________ Point v.

A. is more efficient than  
B. is less efficient than  
C. is equally efficient as  
D. is more attainable than
62. Refer to the figure above. It is efficient for this farmer to

A. grow 500 bushels of wheat and 500 bushels of corn.
B. grow 250 bushels of wheat and 500 bushels of corn.
C. grow 500 bushels of wheat and 250 bushels of corn.
D. grow 1000 bushels of wheat and 500 bushels of corn.

63. For any efficient point with fewer than 10 computers and more than 120 calculators, Smith will __________ and Jones will __________.

A. split his time between the two; only produce calculators
B. split his time between the two; split his time between the two
C. only produce calculators; only produce computers
D. only produce computers; only produce calculators

64. It was expected that consumers in _____ would benefit from reduced prices of goods that will be freely traded under the NAFTA.

A. Canada
B. The USA
C. China
D. Mexico

65. Application of the Principle of Comparative Advantage leads to

A. greater specialization of labor and other factors of production.
B. lesser specialization of labor and other factors of production.
C. societies without any specialization of labor.
D. lower total output.

Dent'nScratch Used Cars and Trucks employs 3 salesmen. Data for their sales last month are shown in this table:

<table>
<thead>
<tr>
<th></th>
<th>Cars Sold</th>
<th>Trucks Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Larry</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Joe</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Ralph</td>
<td>3</td>
<td>12</td>
</tr>
</tbody>
</table>
66. ______ should specialize in truck sales and ______ should specialize in car sales.

A. Joe; Ralph  
B. Ralph; Larry  
C. Larry; Ralph  
D. Larry; Joe

67. Jessica's marginal cost for producing a pitcher of lemonade is $0.25. Therefore, $0.25 can also be called her

A. marginal revenue.  
B. equilibrium price.  
C. reservation price.  
D. producers surplus.

68. You have noticed that there is a persistent shortage of teachers in an inner-city school district in your state. Based on this observation, you suspect that

A. the wage for teachers at those schools is higher than at other schools in the state.  
B. the wage for teachers at those schools is lower than the equilibrium wage.  
C. there is an excess supply of teachers.  
D. the reservation price among teachers is lower than for other professions.

69. When two people agree to a price in a negotiation, we can assume that

A. each one will receive equal benefits from the transaction.  
B. the seller will receive more benefit from the transaction than the buyer.  
C. only one of the parties will benefit, but there is not enough information to determine which one it will be.  
D. both parties will benefit.

70. Refer to the figure above. What might cause Supply to shift from the Original Supply to the New Supply?

A. A storm in South America wipes out the entire coffee crop.  
B. New technology reduces the amount of coffee beans necessary to make a good-tasting pot of coffee.  
C. A news report that coffee consumption greatly increases productivity.  
D. An increase in the price of tea.
71. Refer to the figure above. At a price of $9, the market will experience ____________ in the amount of ________ units.

A. excess demand, 5 units  
B. excess supply, 6 units  
C. equilibrium, 4 units  
D. excess supply, 5 units

72. If price is above the equilibrium value, then

A. producers will hope that buyers want more in the future.  
B. buyers are unhappy because they are unable to find the good for sale.  
C. producers find their inventories growing and will start to cut price.  
D. government must enforce a price control.

73. Sellers tend to offer ______ for sale as price increases, and so the supply curve is ______ sloping.

A. goods; not  
B. more; downward  
C. less; upward  
D. more; upward

74. Gertie saw a pair of jeans that she was willing to buy for $35. The price tag, though, said they were $29.99. Therefore,

A. Gertie should not buy the jeans because they will be of lower quality than she expected.  
B. Gertie should not buy the jeans because the price is not equal to her reservation price.  
C. Gertie should buy the jeans because the price is less than her reservation price.  
D. Gertie should buy the jeans because the price is more than her reservation price.
75. In the market for coffee, for some consumers

A. tea is a substitute.
B. non-dairy creamer is a substitute.
C. cola beverages are complements.
D. coffee mugs are substitutes.

76. If pizzas are a normal good, then a decrease in the price of pizza will cause a(n)

A. increase in demand.
B. increase in quantity demanded.
C. decrease in quantity demanded.
D. decrease in the number of consumers.

77. If both supply and demand increase simultaneously, the new equilibrium price is ___________ and the new equilibrium quantity is _________________.

A. lower; lower
B. lower; indeterminate
C. indeterminate; higher
D. higher; indeterminate

78. Shelly purchases a leather purse for $400. One can infer that

A. she paid too much.
B. her reservation price was at least $400.
C. her reservation price was exactly $400.
D. her reservation price was less than $400.
79. Refer to the figure above. Assume the market is originally at point W. Movement to point Z is a combination of

A. an increase in quantity supplied and an increase in demand.
B. an increase in supply and an increase in demand.
C. an increase in supply and an increase in quantity demanded.
D. a decrease in supply and an increase in quantity demanded.

80. The situation described in the book as "Smart for One, Dumb for All" occurs when

A. individuals, when acting rationally, benefit society as a whole.
B. individuals make better decisions when acting alone than when in groups.
C. individuals, when acting rationally, fail to take advantage of all opportunities for social benefit.
D. a market is in equilibrium.

81. Assume both the demand and the supply of beef decrease. Which of the following outcomes is certain to occur?

A. The equilibrium price of beef will rise.
B. The equilibrium quantity of beef will rise.
C. The equilibrium price of beef will fall.
D. The equilibrium quantity of beef will fall.

82. Relative to column C, it appears that column D represents______.  

<table>
<thead>
<tr>
<th>Price/Unit</th>
<th>Column C Units/year</th>
<th>Column D Units/year</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20</td>
<td>50</td>
<td>40</td>
</tr>
<tr>
<td>$30</td>
<td>60</td>
<td>50</td>
</tr>
<tr>
<td>$40</td>
<td>70</td>
<td>60</td>
</tr>
<tr>
<td>$50</td>
<td>80</td>
<td>70</td>
</tr>
<tr>
<td>$60</td>
<td>90</td>
<td>80</td>
</tr>
</tbody>
</table>

A. an increase in quantity supplied.
B. an increase in demand.
C. a decrease in quantity demanded.
D. a change in supply.

83. Refer to the figure above. Assume the market is originally at point W. Movement to point Y is a combination of

A. an increase in quantity supplied and an increase in demand.
B. an increase in supply and an increase in demand.
C. an increase in supply and an increase in quantity demanded.
D. a decrease in supply and an increase in quantity demanded.

84. The demand curve illustrates the fact that consumers

A. tend to purchase more of a good as its price rises.
B. purchase name brand products more frequently than generic products.
C. tend to purchase more of a good as its price falls.
D. purchase more of a good as their incomes rise.
85. Assume consumers eat either rice or pasta for dinner every night. If the price of rice increases, in the pasta market one would expect to see

A. increase in the quantity of pasta demanded.
B. increase in the demand for pasta.
C. decrease in the quantity of pasta demanded.
D. decrease in the demand for pasta.

86. Refer to the figure above. Assume demand remains unchanged at D1. If supply shifts from S2 to S1, then the equilibrium price will ________ and the equilibrium quantity will ________.

A. rise; fall
B. rise; rise
C. fall; fall
D. fall; rise

87. Suppose that both the equilibrium price and quantity of ketchup fall. The most consistent explanation for these observations is

A. a decrease in demand for ketchup with no change in supply.
B. an increase in demand for ketchup with no change in supply.
C. an increase in demand for ketchup and a decrease in the supply of ketchup.
D. an increase in the supply of ketchup with no change in demand.

88. An outcome is socially optimal if it

A. follows from a market equilibrium.
B. follows from collective action.
C. leaves no money on the table.
D. maximizes total economic surplus.
89. If a market is in equilibrium and demand increases while supply decreases, the change in the equilibrium price is _______ and the change in the equilibrium quantity is _______.

A. positive; positive  
B. positive; negative  
C. positive; indeterminate  
D. indeterminate; positive

90. Suppose one knows two facts: first, the market for prescription drugs experiences chronic shortages and second, government sets the price for prescription drugs. One can conclude that the

A. government has set the price too high.  
B. government has set the price above the equilibrium price.  
C. buyers are hoarding prescription drugs.  
D. government has set the price below the equilibrium price.

91. Assume both the demand and the supply of bagels increase. Which of the following outcomes is certain to occur?

A. The equilibrium price of bagels will rise.  
B. The equilibrium quantity of bagels will rise.  
C. The equilibrium price of bagels will fall.  
D. The equilibrium quantity of bagels will fall.

92. For two goods, \( X \) and \( Y \), to be classified as substitutes, it must be the case that

A. \( X \) and \( Y \) are identical.  
B. consumers tend to purchase both items.  
C. when the price of \( X \) rises, the demand for \( Y \) decreases.  
D. when the price of \( X \) rises, the demand for \( Y \) increases.

93. Suppose one observes that when the price of peanut butter increases, the demand for jelly increases. One must conclude that

A. peanut butter and jelly are complements.  
B. peanut butter and jelly are substitutes.  
C. peanut butter and jelly are normal goods.  
D. peanut butter and jelly are inferior goods.

94. A market in disequilibrium would feature

A. a stable price.  
B. consumers able to purchase all they wish at the market price.  
C. a stable quantity.  
D. either excess supply or excess demand.
95. Refer to the figure above. Suppose that only demand has suddenly shifted to the left. To restore equilibrium, this market will have an immediate

A. excess demand, which will cause prices to rise to a new equilibrium.
B. excess supply, which will cause prices to rise to a new equilibrium.
C. excess demand, which will cause prices to fall to a new equilibrium.
D. excess supply, will cause prices to fall to a new equilibrium.

96. In a market where government has set the price below the equilibrium price, one might expect

A. quantity demanded to equal quantity supplied.
B. excess supply.
C. a black market to develop as individuals try to take advantage of unexploited opportunities.
D. quantity supplied to surpass quantity demanded.

97. A shortage occurs when

A. demand is greater than supply.
B. the equilibrium price is too high.
C. quantity demanded exceeds quantity supplied.
D. quantity supplied exceeds quantity demanded.

98. Refer to the figure above. You notice that your grocery store always has day-old bakery products at a reduced price. Why might that be?

A. At the original price, the quantity demanded was greater than the quantity supplied.
B. At the original price, there was a shortage of bakery products.
C. The original price was an equilibrium price because it was established in a free market.
D. At the original price, quantity supplied was greater than quantity demanded.

99. When a market is not in equilibrium

A. government intervention is required to achieve equilibrium.
B. firms will increase contributions to political action committees.
C. the economic motives of sellers and buyers will move the market to its equilibrium.
D. it will simply stay in a state of disequilibrium.
1. The average benefit of an activity is the

A. total benefit of the activity divided by the number of units.
B. number of units divided by the total benefit of the activity.
C. number of units times the total benefit of the activity.
D. extra benefit for one additional unit of the activity.

2. Refer to the figure above. The President of What'sAMatterU decides to hire fundraisers as long as the average benefit exceeds the average cost, resulting in ________ employees being hired and a net benefit (total donations minus total labor costs) of ________.

A. 5; $17,080
B. 5; $67,080
C. 4; $60,000
D. 4; $22,000

3. Refer to the figure above. The Chairman of the Economics Department at What'sAMatterU says that fundraisers should be hired as long as their marginal donations exceed their marginal labor costs. Following this criterion, _____ employees are hired and net benefits are ________.

A. 1; $22,000
B. 2; $25,426
C. 3; $25,426
D. 2; $3,476
4. Refer to the figure above. The average cost of 4 units of activity is

A. $20  
B. $25  
C. $30  
D. $40

5. Refer to the figure above. According to the cost-benefit principle, the level of activity that provides the largest net benefit is

A. 1  
B. 3  
C. 4  
D. 6

6. Microeconomics is distinguished from macroeconomics in that microeconomics focuses on

A. the performance of the national economy.  
B. the overall price level.  
C. choices made by individuals or groups in the context of individual markets.  
D. how to improve the performance of the national economy.
7. Which of the following questions would not be part of macroeconomics?

A. What caused the great depression?
B. At what rate does the US economy typically grow?
**C. Did the sharp increase in gasoline prices alter SUV sales?**
D. How does government spending affect the economy?

8. What is the average benefit per pizza if you hire 2 cooks?

A. $4
B. $6
C. $8
**D. $10**

9. An economic naturalist is described as someone who

A. uses economic arguments to protect forests and wetlands from development.
B. has a natural talent for drawing graphs.
C. **applies economic insights to everyday life.**
D. studies the process of natural selection in a marginal cost and marginal benefit framework.
10. Sally earned $25,000 per year before she became a mother. After she became a mother, she told her employer that she would not be willing to work for anything less than $50,000. Her decision is based on

A. the high cost of raising a child.
B. her desire to save for her child’s college expenses.
C. her increased value to her employer.
D. the value she places on spending time with her child.

Matt has decided to purchase his textbooks for the semester. His options are to purchase the books via the Internet with next day delivery to his home at a cost of $175, or to drive to campus tomorrow to buy the books at the university bookstore at a cost of $170. Last week he drove to campus to buy a concert ticket because they offered 25 percent off the regular price of $16.

11. According to the cost-benefit principle:

A. it would not be rational for Matt to drive to campus to purchase the books because the $5 saving is only two percent of the cost of the books, and that is much less than the 25 percent he saved on the concert ticket.
B. it would be rational for Matt to drive to campus because it costs less to buy the books there than via the Internet.
C. it would be rational for Matt to drive to campus because the $5 saving is more than he saved by driving there to buy the concert ticket.
D. it would not be rational for Matt to drive to campus to purchase the books because the cost of gas and his time must certainly be more than the $5 he would save.

IBM employs Pam to assemble personal computers. Pam can assemble 1 computer if she works 1 hour, 4 computers in 2 hours, 8 computers in 3 hours, 10 computers in 4 hours, and 11 computers in 5 hours. Each computer consists of a motherboard that costs $200, a hard drive that costs $100, a case that costs $20, a monitor that costs $200, a keyboard at $60 and a mouse that costs $20. The cost of employing Pam is $40 per hour.

12. What is the marginal cost of producing the computers Pam assembles during her 4th hour of work?

A. $1,200
B. $1,240
C. $2,400
D. $2,440
13. Whether studying the size of the U.S. economy or the number of children a couple will choose to have, the unifying concept is that wants are

A. limited, resources are limited, and thus tradeoffs must be made.  
B. unlimited, resources are limited, and thus tradeoffs must be made.  
C. unlimited, resources are limited to some but not to others and thus some people must make tradeoffs.  
D. unlimited, resources are limited, and thus government needs to do more.

AACSB: Analytical Skills  
Bloom's: Application  
Frank - Chapter 001 #14  
Learning Objective: 1-1  
Section: Economics: Studying Choice in a World of Scarcity

14. What is the average labor cost per pizza if you hire 4 cooks?

A. $6  
B. $8  
C. $10  
D. $12

AACSB: Analytical Skills  
Bloom's: Analysis  
Frank - Chapter 001 #121  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls

15. IBM sells each computer for $640. How many hours should IBM employ Pam to maximize its benefit from her employment?

A. 2 hours  
B. 3 hours  
C. 4 hours  
D. 5 hours

AACSB: Analytical Skills  
Bloom's: Analysis  
Frank - Chapter 001 #100  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls

16. The marginal benefit of an activity is the

A. same as the total benefits of the activity.  
B. total benefit divided by the level of the activity.  
C. extra benefit associated with an extra unit of the activity.  
D. total benefit associated with an extra unit of the activity.

AACSB: Analytical Skills  
Bloom's: Knowledge  
Frank - Chapter 001 #64  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls
17. Refer to the figure above. The marginal cost of the 3rd unit of activity is

A. $30  
B. $25  
C. $20  
D. $10

18. Economics is best defined as the study of

A. prices and quantities.  
B. inflation and interest rates.  
C. how people make choices under the conditions of scarcity and the results of the choices.  
D. wages and incomes.

<table>
<thead>
<tr>
<th>Units of Activity</th>
<th>Total Cost</th>
<th>Total Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$3</td>
<td>$10</td>
</tr>
<tr>
<td>2</td>
<td>$4</td>
<td>$14</td>
</tr>
<tr>
<td>3</td>
<td>$6</td>
<td>$16</td>
</tr>
<tr>
<td>4</td>
<td>$10</td>
<td>$20</td>
</tr>
<tr>
<td>5</td>
<td>$15</td>
<td>$24</td>
</tr>
<tr>
<td>6</td>
<td>$21</td>
<td>$28</td>
</tr>
<tr>
<td>7</td>
<td>$28</td>
<td>$29</td>
</tr>
</tbody>
</table>

19. Refer to the figure above. The average cost of 5 units of activity is

A. $1  
B. $2  
C. $3  
D. $4

Your classmates from the University of Chicago are planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are $600, but you have a frequent-flyer coupon worth $500 that you could use to pay part of the airfare. All other costs for the vacation are exactly $900. The most you would be willing to pay for the trip is $1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation, which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are $450.
20. What is the opportunity cost of using the coupon for the Miami trip?

A. $100  
B. $450  
C. $500  
D. $550

21. Chris has a one-hour break between classes every Wednesday. Chris can either stay at the library and study or go to the gym and work out. This is

A. not an economic problem, because neither one costs money.  
B. not an economic problem, because it's an hour that is wasted no matter what Chris does.  
C. an economic problem because the tuition Chris pays covers both the gym and the library.  
D. an economic problem, because the one-hour time limit means Chris must make a choice.

22. The marginal cost of an activity is the

A. change in the cost of the activity that results from an extra unit of the activity.  
B. same as the total cost of the activity.  
C. ratio of total cost to the level of the activity.  
D. change in the level of the activity divided by the change in the cost of the activity.

23. Catherine and Nancy both own homes with similar size lawns. Catherine mows her own lawn while Nancy hires someone to mow hers. Assume both women are rational decision makers. Which is the best explanation of the different decisions they make?

A. The opportunity cost of Nancy's time is higher than her cost to hire someone to mow the lawn.  
B. Nancy can get her lawn mowed for less than Catherine.  
C. Nancy doesn't own a lawnmower.  
D. Nancy earns more than Catherine does.
24. Refer to the figure above. The marginal benefit of the 6th unit of activity is

A. $1  
B. $2  
C. $4  
D. $10

AACSB: Analytical Skills  
Bloom's: Analysis

Frank - Chapter 001 #85  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls

25. Refer to the figure above. Total donations raised by three employees is

A. $43,899.  
B. $45,000.  
C. $48,911.  
D. $51,963.

AACSB: Analytical Skills  
Bloom's: Application

Frank - Chapter 001 #87  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls

26. The extra cost that results from an extra unit of an activity is the

A. marginal benefit.  
B. marginal cost.  
C. reservation cost.  
D. same as the opportunity cost.

AACSB: Analytical Skills  
Bloom's: Knowledge

Frank - Chapter 001 #69  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls

27. Refer to the figure above. The marginal cost of the 4th unit of activity is

A. $1  
B. $2  
C. $3  
D. $4

AACSB: Analytical Skills  
Bloom's: Analysis

Frank - Chapter 001 #83  
Learning Objective: 1-6  
Section: Three Important Decision Pitfalls
28. The use of economic models, like the cost-benefit principle, means economists believe that

A. this is exactly how people choose between alternatives.
B. this is a reasonable abstraction of how people choose between alternatives.
C. those who explicitly make decisions this way are smarter.
D. with enough education, all people will start to explicitly make decisions this way.

29. If you do not use the frequent-flyer coupon to fly, should you go to Miami?

A. Yes, your benefit is more than your cost.
B. No, your benefit is less than your cost.
C. Yes, your benefit is equal to your cost.
D. No, because there are no benefits in the trip.

Sean studied 5 hours for his first Economics test and he scored 85; 6 hours for his second Economics test and scored 90; and 7 hours for his third Economics test and scored 95. He also studied 5 hours for his first Math test and he scored 68; 6 hours for his second Math test and scored 78; and 7 hours for his third Math test and scored 88.

30. The average benefit per hour studied for the Economics tests was ________ and the average benefit per hour studied for the Math tests was ________.

A. 15; 13
B. 5; 10
C. 13; 15
D. 10; 5

31. Studying government policies towards building new roads and highways is

A. microeconomics
B. macroeconomics
C. government economics
D. marginal economics
32. When a person decides to pursue an activity as long as the extra benefits are at least equal to the extra costs, that person is

A. violating the cost-benefit principle.
B. following the scarcity principle.
C. following the cost-benefit principle.
D. pursuing the activity too long.

Larry was accepted at three different graduate schools, and must choose one. Elite U costs $50,000 per year and did not offer Larry any financial aid. Larry values attending Elite U at $60,000 per year. State College costs $30,000 per year, and offered Larry an annual $10,000 scholarship. Larry values attending State College at $40,000 per year. NoName U costs $20,000 per year, and offered Larry a full $20,000 annual scholarship. Larry values attending NoName at $15,000 per year.

33. The opportunity cost of attending State College is

A. $30,000
B. $20,000
C. $15,000
D. $10,000

34. In general, individuals and nations should specialize in producing those goods for which they have a(n)

A. absolute advantage.
B. comparative advantage.
C. absolutely comparative advantage.
D. absolute and comparative advantage.

35. Between USA and Nepal, Nepal invests less in new factories and equipments. This will likely cause

A. Nepal's production possibilities curve to shift outward faster than USA.
B. USA's production possibilities curve to shift inward faster than Nepal.
C. USA's production possibilities curve to shift outward faster than Nepal.
D. Nepal's production possibilities curve to shift inward faster than USA.
36. When firms engage in outsourcing, _______ benefit(s) and ______ are harmed.

A. the firms; consumers
B. consumers; the firms
C. consumers; the firm’s domestic employees
D. the firms; the firms’ foreign employees

37. An inefficient point is

A. necessarily an attainable point.
B. not necessarily attainable.
C. necessarily an unattainable point.
D. possibly an unattainable point.

38. You have noticed that your next-door neighbor, Mary, always works in the garden and her husband, Joe, always walks the dog. Based on this observation, you conclude that

A. Mary has an absolute advantage in gardening.
B. Joe has a comparative advantage in walking the dog.
C. Mary does not understand the principle of low-hanging-fruit.
D. Joe experiences increasing opportunity costs when he gardens, but not when he walks the dog.
39. Refer to the figure above. Sven could move from the bold PPC to the dashed PPC by

A. finding a job that paid a higher wage.
B. studying fewer hours but more effectively per hour.  
C. devoting fewer hours to sleeping.
D. spending more time on the activity for which he has a comparative advantage.

40. Refer to the figure above. The diagram shows Sven's Production Possibilities for one day. For Sven, the opportunity cost of spending one more hour studying

A. is diminishing with each additional hour.
B. is increasing with each additional hour.  
C. is exactly one hour of paid work.
D. is the marginal benefit from studying.

You are the Minister of Trade for a small island country in the South Pacific with the following annual production possibilities curve:

You are negotiating a deal with a neighboring island that has the following annual PPC:
41. As soon as you see the other island's PPC, you realize

A. there will be no trade because the other island has the same comparative advantage as yours.
B. there will be no trade because there is no difference in your ability to harvest coconuts.
C. there will be no trade because the other island has an absolute advantage.
D. your island will have to specialize in coconuts if it wants to gain from trade.

Earth Movers and Shakers operates 3 iron ore mines. This table shows their daily production rates given the number of miners at each mine. All of the miners work for the same wage.

<table>
<thead>
<tr>
<th>Mine</th>
<th>Tons</th>
<th>Number of Miners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mother Lode</td>
<td>100</td>
<td>25</td>
</tr>
<tr>
<td>Scraping Bottom</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Middle Drift</td>
<td>75</td>
<td>15</td>
</tr>
</tbody>
</table>

42. By taking the first tons from ______, Movers and Shakers is producing consistent with the _____ Principle.

A. Mother Lode; Low Hanging Fruit
B. Middle Drift; Compromise
C. Middle Drift; Low Hanging Fruit
D. Scraping Bottom; Cost Minimizing

43. Which of the following statements is always true?

A. Absolute advantage implies comparative advantage.
B. Comparative advantage does not require absolute advantage.
C. Absolute advantage requires comparative advantage.
D. Comparative advantage requires absolute advantage.
44. Refer to the figure above. Moving from Point D to Point C reduces cattle herding by

A. more than the increase in movies made.
B. less than the increase in movies made.
C. the same amount as the increase in movies made.
D. more than the decrease in movies made.

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 002 #124
Learning Objective: 2-2
Section: Comparative Advantage and Production Possibilities

45. Economic growth can result from a(n)

A. increase in the amount of productive resources.
B. increase in number of the minimum wage jobs.
C. increase in the amount of consumer goods produced.
D. decrease in the number of workers available.

AACSB: Analytical Skills
Bloom's: Knowledge
Frank - Chapter 002 #108
Learning Objective: 2-3
Section: Factors That Shift the Economy's Production Possibilities Curve

46. The opportunity cost of moving one miner from Scraping Bottom to Middle Drift is

A. less than 0.
B. 3 Tons.
C. 4 Tons.
D. 5 Tons.

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 002 #88
Learning Objective: 2-2
Section: Comparative Advantage and Production Possibilities

<table>
<thead>
<tr>
<th></th>
<th>Pizzas made per hour</th>
<th>Pizzas delivered per hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corey</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>Pat</td>
<td>10</td>
<td>15</td>
</tr>
</tbody>
</table>
47. Refer to the figure above. Corey's opportunity cost of delivering an extra pizza is producing ______ pizzas.

A. 6  
B. 12  
C. 2  
D. 1/2

AACSB: Analytical Skills  
Bloom's: Application  
Frank - Chapter 002 #13  
Learning Objective: 2-1  
Section: Exchange and Opportunity Cost

Pat has 4 hours to spend either studying for a test or playing a new video game. If Pat spends all of that time studying, Pat can score a 92 on the test. If Pat plays for 1 hour, Pat's test score falls 5 points. For playing a second hour, Pat's score falls by 7 points. Playing for a third hour will lower Pat's score by another 10 points.

Frank - Chapter 002

48. The opportunity cost of playing video games

A. decreases the longer Pat plays.  
B. increases the longer Pat plays.  
C. is greater than the value of earning a higher grade on the test.  
D. is equal to the value of earning a higher grade on the test.

AACSB: Analytical Skills  
Bloom's: Application  
Frank - Chapter 002 #69  
Learning Objective: 2-2  
Section: Comparative Advantage and Production Possibilities

49. Having a comparative advantage in a particular task means that

A. you are better at it than other people.  
B. you give up more to accomplish that task than do others.  
C. you give up less to accomplish that task than do others.  
D. you have specialized in that task, while others have not.

AACSB: Analytical Skills  
Bloom's: Knowledge  
Frank - Chapter 002 #5  
Learning Objective: 2-1  
Section: Exchange and Opportunity Cost

50. Refer to the figure above. If this economy were currently operating at Point D, in order to make more movies,

A. the first cattle herders to switch to movie making would be the cattle herders with the greatest comparative advantage in cattle herding.  
B. the first cattle herders to switch to movie making would be the cattle herders with the smallest comparative advantage in cattle herding.  
C. no cattle herders would have to switch because the economy is already efficient.  
D. no cattle herders would have to switch because they are specialized in cattle herding, not movie making.

AACSB: Analytical Skills  
Bloom's: Application  
Frank - Chapter 002 #125  
Learning Objective: 2-2  
Section: Comparative Advantage and Production Possibilities
51. If a linear, two-good production possibilities graph has a slope steeper than -1,

A. you would have to give up more than one unit of the good measured on the horizontal axis to gain an additional unit of the good measured on the vertical axis.
B. you would have to give up less than one unit of the good measured on the horizontal axis to gain an additional unit of the good measured on the vertical axis.
C. by specializing in the good measured on the horizontal axis you would be able to make more total units than you would if you specialized in the good measured on the vertical axis.
D. you have a comparative advantage in the good measured on the vertical axis.

AACSB: Reflective Thinking Skills
Bloom's: Analysis
Frank - Chapter 002 #65
Learning Objective: 2-3
Section: Comparative Advantage and Production Possibilities

52. The PPC shown in this graph is characteristic of production that displays

A. constant opportunity costs as production of a good increases.
B. decreasing opportunity costs as production of a good increases.
C. increasing opportunity costs as production of a good increases.
D. inefficient production because it is downward sloping.

AACSB: Analytical Skills
Bloom's: Understanding
Frank - Chapter 002 #99
Learning Objective: 2-2
Section: Comparative Advantage and Production Possibilities

Smith and Jones comprise a two-person economy. Their hourly rates of production are shown below.

<table>
<thead>
<tr>
<th>Good</th>
<th>Smith</th>
<th>Jones</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computers</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Calculators</td>
<td>100</td>
<td>120</td>
</tr>
</tbody>
</table>

Frank - Chapter 002

53. For any efficient point with more than 10 computers and fewer than 120 calculators, Smith will _________ and Jones will _________.

A. only produce computers; only produce calculators
B. only produce computers; split his time between computers and calculators
C. split his time between computers and calculators; only produce computers
D. only produce calculators; only produce computers

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 002 #84
Learning Objective: 2-4
Section: Comparative Advantage and International Trade
54. Which of the following statements is NOT true about specialization?

A. Total economic output is larger.
B. Worker skills are better matched with tasks.
C. Specialization focuses experience and increases the comparative advantage.
D. The variety of tasks associated with a particular job grows over time.

55. Refer to the figure above. Of the labeled points, ______________ are attainable.

A. only t and u
B. only x, y, and z
C. only w, x, y, z, and v
D. only w, x, y, z, v, and t
56. Refer to the figure above. If this restaurant makes 75 salads in one hour, approximately how many pizzas can it also make in that same hour, assuming efficient production?

A. 0
B. 10
C. 20
D. 30

57. If Jane can produce 3 pairs of shoes hourly, while Bob can produce 2, then one can infer that the ________ advantage belongs to ________.

A. absolute; Jane
B. comparative; Jane
C. comparative; Bob
D. comparative and absolute; Jane
58. The United States generally has a comparative advantage in the development of technology because of

A. larger amounts of natural resources.
B. a high concentration of the best research universities.
C. tax incentives.
D. the existence of patent law, which no other country provides.

59. In a two-person, two-good economy, the benefits of labor specialization will be larger when

A. one person has an absolute advantage in both goods.
B. neither person has an absolute advantage.
C. the difference in their respective opportunity costs are small for both goods.
D. there is a large difference in their opportunity costs.

60. Earth Movers and Shakers needs to fill an order for 100 Tons of ore in a single day, and has no other orders to fill that day. It should

A. take it all from Mother Lode.
B. take 75 tons from Middle Drift and 25 tons from Mother Lode.
C. take 75 tons from Middle Drift and 25 tons from Scraping Bottom.
D. take 30 tons from Scraping Bottom and 70 tons from Mother Lode.

61. Refer to the figure above. Point y ___________________________ Point v.

A. is more efficient than
B. is less efficient than
C. is equally efficient as
D. is more attainable than
62. Refer to the figure above. It is efficient for this farmer to

A. grow 500 bushels of wheat and 500 bushels of corn.
B. grow 250 bushels of wheat and 500 bushels of corn.
C. grow 500 bushels of wheat and 250 bushels of corn.
D. grow 1000 bushels of wheat and 500 bushels of corn.

63. For any efficient point with fewer than 10 computers and more than 120 calculators, Smith will _________ and Jones will _________.

A. split his time between the two; only produce calculators
B. split his time between the two; split his time between the two
C. only produce calculators; only produce computers
D. only produce computers; only produce calculators

64. It was expected that consumers in _____ would benefit from reduced prices of goods that will be freely traded under the NAFTA.

A. Canada
B. The USA
C. China
D. Mexico
65. Application of the Principle of Comparative Advantage leads to

A. greater specialization of labor and other factors of production.
B. lesser specialization of labor and other factors of production.
C. societies without any specialization of labor.
D. lower total output.

AACSB: Analytical Skills
Bloom's: Understanding
Frank - Chapter 002 #27
Learning Objective: 2-1
Section: Exchange and Opportunity Cost

Dent'nScratch Used Cars and Trucks employs 3 salesmen. Data for their sales last month are shown in this table:

<table>
<thead>
<tr>
<th></th>
<th>Cars Sold</th>
<th>Trucks Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Larry</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Joe</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Ralph</td>
<td>3</td>
<td>12</td>
</tr>
</tbody>
</table>

66. ______ should specialize in truck sales and ______ should specialize in car sales.

A. Joe; Ralph
B. Ralph; Larry
C. Larry; Ralph
D. Larry; Joe

AACSB: Analytical Skills
Bloom's: Analysis
Frank - Chapter 002 #26
Learning Objective: 2-1
Section: Exchange and Opportunity Cost

67. Jessica's marginal cost for producing a pitcher of lemonade is $0.25. Therefore, $0.25 can also be called her

A. marginal revenue.
B. equilibrium price.
C. reservation price.
D. producers surplus.

AACSB: Analytical Skills
Bloom's: Understanding
Frank - Chapter 003 #22
Learning Objective: 3-2
Section: Buyers and Sellers in Markets
68. You have noticed that there is a persistent shortage of teachers in an inner-city school district in your state. Based on this observation, you suspect that

A. the wage for teachers at those schools is higher than at other schools in the state.  
B. the wage for teachers at those schools is lower than the equilibrium wage.  
C. there is an excess supply of teachers.  
D. the reservation price among teachers is lower than for other professions.

69. When two people agree to a price in a negotiation, we can assume that

A. each one will receive equal benefits from the transaction.  
B. the seller will receive more benefit from the transaction than the buyer.  
C. only one of the parties will benefit, but there is not enough information to determine which one it will be.  
D. both parties will benefit.

70. Refer to the figure above. What might cause Supply to shift from the Original Supply to the New Supply?

A. A storm in South America wipes out the entire coffee crop.  
B. New technology reduces the amount of coffee beans necessary to make a good-tasting pot of coffee.  
C. A news report that coffee consumption greatly increases productivity.  
D. An increase in the price of tea.
71. Refer to the figure above. At a price of $9, the market will experience ___________ in the amount of ________ units.

A. excess demand, 5 units  
B. excess supply, 6 units  
C. equilibrium, 4 units  
D. excess supply, 5 units

72. If price is above the equilibrium value, then

A. producers will hope that buyers want more in the future.  
B. buyers are unhappy because they are unable to find the good for sale.  
C. producers find their inventories growing and will start to cut price.  
D. government must enforce a price control.
73. Sellers tend to offer ______ for sale as price increases, and so the supply curve is ______ sloping.

A. goods; not  
B. more; downward  
C. less; upward  
D. more; upward

74. Gertie saw a pair of jeans that she was willing to buy for $35. The price tag, though, said they were $29.99. Therefore,

A. Gertie should not buy the jeans because they will be of lower quality than she expected.  
B. Gertie should not buy the jeans because the price is not equal to her reservation price.  
C. Gertie should buy the jeans because the price is less than her reservation price.  
D. Gertie should buy the jeans because the price is more than her reservation price.

75. In the market for coffee, for some consumers

A. tea is a substitute.  
B. non-dairy creamer is a substitute.  
C. cola beverages are complements.  
D. coffee mugs are substitutes.

76. If pizzas are a normal good, then a decrease in the price of pizza will cause a(n)

A. increase in demand.  
B. increase in quantity demanded.  
C. decrease in quantity demanded.  
D. decrease in the number of consumers.
77. If both supply and demand increase simultaneously, the new equilibrium price is ___________ and the new equilibrium quantity is _________________.

A. lower; lower  
B. lower; indeterminate  
C. indeterminate; higher  
D. higher; indeterminate

AACSB: Analytical Skills  
Bloom's: Analysis  
Frank - Chapter 003 #117  
Learning Objective: 3-4  
Section: Predicting and Explaining Changes in Prices and Quantities

78. Shelly purchases a leather purse for $400. One can infer that

A. she paid too much.  
B. her reservation price was at least $400.  
C. her reservation price was exactly $400.  
D. her reservation price was less than $400.

AACSB: Analytical Skills  
Bloom's: Application  
Frank - Chapter 003 #15  
Learning Objective: 3-1  
Section: Buyers and Sellers in Markets
79. Refer to the figure above. Assume the market is originally at point W. Movement to point Z is a combination of
A. an increase in quantity supplied and an increase in demand.
B. an increase in supply and an increase in demand.
C. an increase in supply and an increase in quantity demanded.
D. a decrease in supply and an increase in quantity demanded.

80. The situation described in the book as "Smart for One, Dumb for All" occurs when
A. individuals, when acting rationally, benefit society as a whole.
B. individuals make better decisions when acting alone than when in groups.
C. individuals, when acting rationally, fail to take advantage of all opportunities for social benefit.
D. a market is in equilibrium.

81. Assume both the demand and the supply of beef decrease. Which of the following outcomes is certain to occur?
A. The equilibrium price of beef will rise.
B. The equilibrium quantity of beef will rise.
C. The equilibrium price of beef will fall.
D. The equilibrium quantity of beef will fall.
82. Relative to column C, it appears that column D represents_____.

<table>
<thead>
<tr>
<th>Price/Unit</th>
<th>Column C Units/year</th>
<th>Column D Units/year</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20</td>
<td>50</td>
<td>40</td>
</tr>
<tr>
<td>$30</td>
<td>60</td>
<td>50</td>
</tr>
<tr>
<td>$40</td>
<td>70</td>
<td>60</td>
</tr>
<tr>
<td>$50</td>
<td>80</td>
<td>70</td>
</tr>
<tr>
<td>$60</td>
<td>90</td>
<td>80</td>
</tr>
</tbody>
</table>

A. an increase in quantity supplied.
B. an increase in demand.
C. a decrease in quantity demanded.
D. a change in supply.

83. Refer to the figure above. Assume the market is originally at point W. Movement to point Y is a combination of

A. an increase in quantity supplied and an increase in demand.
B. an increase in supply and an increase in demand.
C. an increase in supply and an increase in quantity demanded.
D. a decrease in supply and an increase in quantity demanded.

84. The demand curve illustrates the fact that consumers

A. tend to purchase more of a good as its price rises.
B. purchase name brand products more frequently than generic products.
C. tend to purchase more of a good as its price falls.
D. purchase more of a good as their incomes rise.
85. Assume consumers eat either rice or pasta for dinner every night. If the price of rice increases, in the pasta market one would expect to see

A. increase in the quantity of pasta demanded.
B. increase in the demand for pasta.
C. decrease in the quantity of pasta demanded.
D. decrease in the demand for pasta.

86. Refer to the figure above. Assume demand remains unchanged at D1. If supply shifts from S2 to S1, then the equilibrium price will _______ and the equilibrium quantity will ________.

A. rise; fall
B. rise; rise
C. fall; fall
D. fall; rise
87. Suppose that both the equilibrium price and quantity of ketchup fall. The most consistent explanation for these observations is

A. a decrease in demand for ketchup with no change in supply.
B. an increase in demand for ketchup with no change in supply.
C. an increase in demand for ketchup and a decrease in the supply of ketchup.
D. an increase in the supply of ketchup with no change in demand.

88. An outcome is socially optimal if it

A. follows from a market equilibrium.
B. follows from collective action.
C. leaves no money on the table.
D. maximizes total economic surplus.

89. If a market is in equilibrium and demand increases while supply decreases, the change in the equilibrium price is _______ and the change in the equilibrium quantity is _______.

A. positive; positive
B. positive; negative
C. positive; indeterminate
D. indeterminate; positive

90. Suppose one knows two facts: first, the market for prescription drugs experiences chronic shortages and second, government sets the price for prescription drugs. One can conclude that the

A. government has set the price too high.
B. government has set the price above the equilibrium price.
C. buyers are hoarding prescription drugs.
D. government has set the price below the equilibrium price.
91. Assume both the demand and the supply of bagels increase. Which of the following outcomes is certain to occur?

A. The equilibrium price of bagels will rise.
B. The equilibrium quantity of bagels will rise.
C. The equilibrium price of bagels will fall.
D. The equilibrium quantity of bagels will fall.

92. For two goods, X and Y, to be classified as substitutes, it must be the case that

A. X and Y are identical.
B. consumers tend to purchase both items.
C. when the price of X rises, the demand for Y decreases.
D. when the price of X rises, the demand for Y increases.

93. Suppose one observes that when the price of peanut butter increases, the demand for jelly increases. One must conclude that

A. peanut butter and jelly are complements.
B. peanut butter and jelly are substitutes.
C. peanut butter and jelly are normal goods.
D. peanut butter and jelly are inferior goods.

94. A market in disequilibrium would feature

A. a stable price.
B. consumers able to purchase all they wish at the market price.
C. a stable quantity.
D. either excess supply or excess demand.
95. Refer to the figure above. Suppose that only demand has suddenly shifted to the left. To restore equilibrium, this market will have an immediate

A. excess demand, which will cause prices to rise to a new equilibrium.
B. excess supply, which will cause prices to rise to a new equilibrium.
C. excess demand, which will cause prices to fall to a new equilibrium.
D. excess supply, will cause prices to fall to a new equilibrium.

96. In a market where government has set the price below the equilibrium price, one might expect

A. quantity demanded to equal quantity supplied.
B. excess supply.
C. a black market to develop as individuals try to take advantage of unexploited opportunities.
D. quantity supplied to surpass quantity demanded.

97. A shortage occurs when

A. demand is greater than supply.
B. the equilibrium price is too high.
C. quantity demanded exceeds quantity supplied.
D. quantity supplied exceeds quantity demanded.
98. Refer to the figure above. You notice that your grocery store always has day-old bakery products at a reduced price. Why might that be?

A. At the original price, the quantity demanded was greater than the quantity supplied.
B. At the original price, there was a shortage of bakery products.
C. The original price was an equilibrium price because it was established in a free market.
D. At the original price, quantity supplied was greater than quantity demanded.

99. When a market is not in equilibrium

A. government intervention is required to achieve equilibrium.
B. firms will increase contributions to political action committees.
C. the economic motives of sellers and buyers will move the market to its equilibrium.
D. it will simply stay in a state of disequilibrium.
<table>
<thead>
<tr>
<th>Category</th>
<th># of Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>AACSB: Analytical Skills</td>
<td>94</td>
</tr>
<tr>
<td>AACSB: Reflective Thinking Skills</td>
<td>5</td>
</tr>
<tr>
<td>Bloom's: Analysis</td>
<td>20</td>
</tr>
<tr>
<td>Bloom's: Application</td>
<td>42</td>
</tr>
<tr>
<td>Bloom's: Knowledge</td>
<td>15</td>
</tr>
<tr>
<td>Bloom's: Understanding</td>
<td>22</td>
</tr>
<tr>
<td>Frank - Chapter 001</td>
<td>42</td>
</tr>
<tr>
<td>Frank - Chapter 002</td>
<td>44</td>
</tr>
<tr>
<td>Frank - Chapter 003</td>
<td>38</td>
</tr>
<tr>
<td>Learning Objective: 1-1</td>
<td>3</td>
</tr>
<tr>
<td>Learning Objective: 1-2</td>
<td>4</td>
</tr>
<tr>
<td>Learning Objective: 1-3</td>
<td>4</td>
</tr>
<tr>
<td>Learning Objective: 1-4</td>
<td>1</td>
</tr>
<tr>
<td>Learning Objective: 1-5</td>
<td>3</td>
</tr>
<tr>
<td>Learning Objective: 1-6</td>
<td>18</td>
</tr>
<tr>
<td>Learning Objective: 2-1</td>
<td>8</td>
</tr>
<tr>
<td>Learning Objective: 2-2</td>
<td>13</td>
</tr>
<tr>
<td>Learning Objective: 2-3</td>
<td>6</td>
</tr>
<tr>
<td>Learning Objective: 2-4</td>
<td>5</td>
</tr>
<tr>
<td>Learning Objective: 2-5</td>
<td>1</td>
</tr>
<tr>
<td>Learning Objective: 3-1</td>
<td>3</td>
</tr>
<tr>
<td>Learning Objective: 3-2</td>
<td>2</td>
</tr>
<tr>
<td>Learning Objective: 3-3</td>
<td>9</td>
</tr>
<tr>
<td>Learning Objective: 3-4</td>
<td>16</td>
</tr>
<tr>
<td>Learning Objective: 3-5</td>
<td>2</td>
</tr>
<tr>
<td>Learning Objective: 3-6</td>
<td>1</td>
</tr>
<tr>
<td>Section: Applying the Cost-Benefit Principle</td>
<td>4</td>
</tr>
<tr>
<td>Section: Buyers and Sellers in Markets</td>
<td>5</td>
</tr>
<tr>
<td>Section: Comparative Advantage and International Trade</td>
<td>6</td>
</tr>
<tr>
<td>Section: Comparative Advantage and Production Possibilities</td>
<td>13</td>
</tr>
<tr>
<td>Section: Economic naturalism</td>
<td>1</td>
</tr>
<tr>
<td>Section: Economics: Micro and Macro</td>
<td>3</td>
</tr>
<tr>
<td>Section: Economics: Studying Choice in a World of Scarcity</td>
<td>3</td>
</tr>
<tr>
<td>Section: Efficiency and Equilibrium</td>
<td>3</td>
</tr>
<tr>
<td>Section: Exchange and Opportunity Cost</td>
<td>8</td>
</tr>
<tr>
<td>Section: Factors That Shift the Economy's Production Possibilities Curve</td>
<td>6</td>
</tr>
<tr>
<td>Section: Market Equilibrium</td>
<td>9</td>
</tr>
<tr>
<td>Section: Predicting and Explaining Changes in Prices and Quantities</td>
<td>16</td>
</tr>
<tr>
<td>Section: Three Important Decision Pitfalls</td>
<td>22</td>
</tr>
</tbody>
</table>